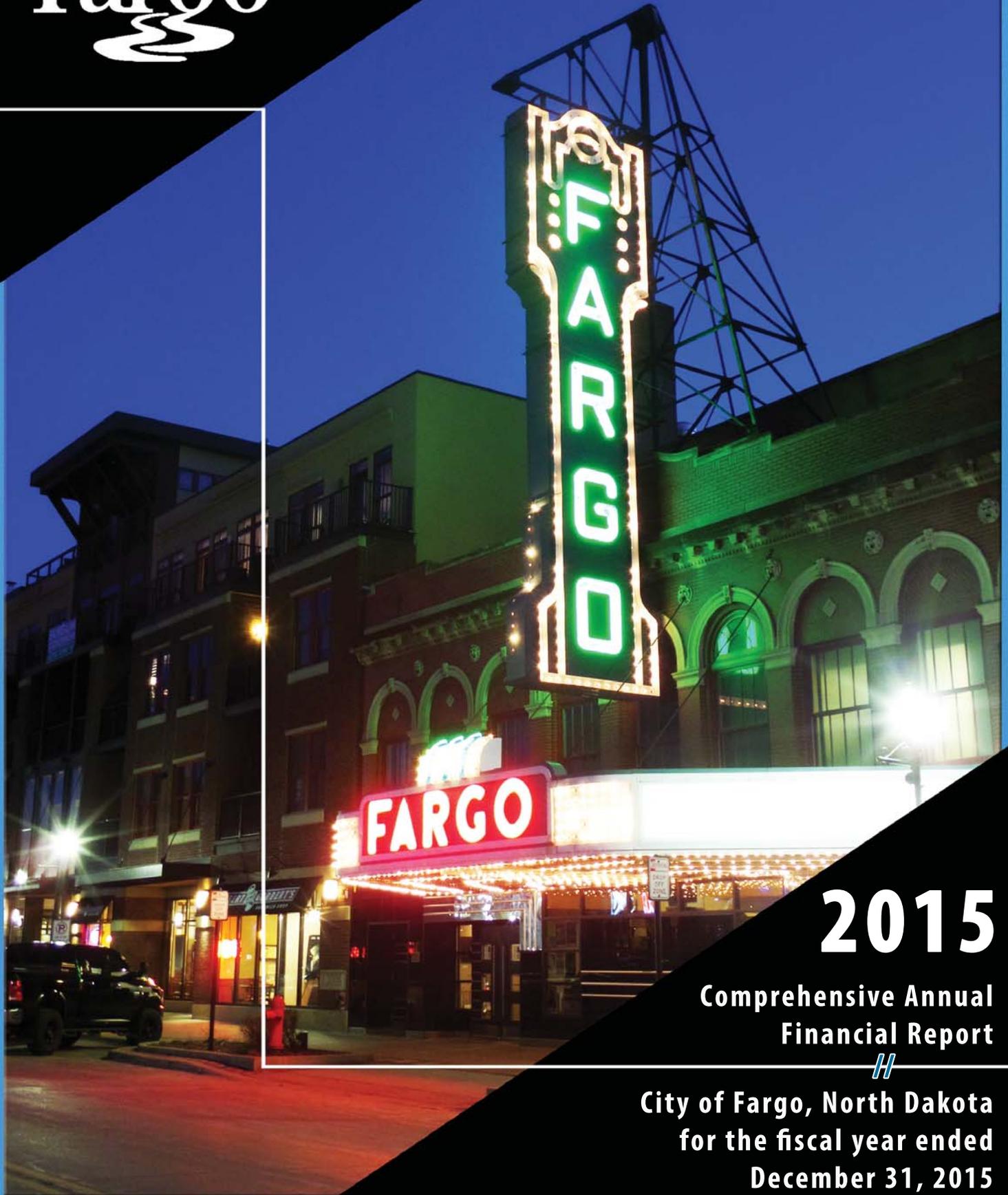


CITY OF  
**Fargo**



**2015**

**Comprehensive Annual  
Financial Report**



**City of Fargo, North Dakota  
for the fiscal year ended  
December 31, 2015**



**CITY OF FARGO  
NORTH DAKOTA**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FOR THE YEAR ENDED  
DECEMBER 31, 2015**

**PREPARED BY:  
FINANCE DEPARTMENT**

**CITY OF FARGO, NORTH DAKOTA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE YEAR ENDED DECEMBER 31, 2015**

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## Finance Office

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Fargo, North Dakota 58107-2083  
Phone: 701-241-1333  
Fax: 701-241-1526

**June 29, 2016**

To the Honorable Mayor, Members of the City Commission, and the Citizens of the City of Fargo, North Dakota:

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) for the City of Fargo for the fiscal year ending December 31, 2015. This report satisfies audit and financial reporting requirements pursuant to North Dakota Century Code 54-10-14 and the Single Audit Act of 1985.

This report is prepared by the City's Finance Department in accordance with generally accepted accounting principles. The Finance Department is responsible for the accuracy, clarity, and presentation of the financial statements. We believe that this report fairly and accurately presents the financial position of the City and the results of operation of the various funds for the period covered, and that all disclosures necessary for such presentation have been included.

Eide Bailly LLP has issued an unmodified "clean" opinion on the City of Fargo's financial statements for the year ended December 31, 2015. The independent auditor's report is located at the front of the financial section of this report.

It is management's responsibility to develop a system of internal controls to safeguard the assets of the City. In developing the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. Because the cost of internal controls should not exceed their benefits, the City's internal controls have been designed to provide reasonable basis rather than absolute assurance that the financial statements will be free from material misstatement. We assert that this financial report is complete and reliable in all material respects.

Generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements. Management's Discussion and Analysis is included in this report on page 4. This letter of transmittal has been designed to compliment the MD&A and should be read in conjunction with it. The MD&A contains a more detailed analysis of changes in financial condition.

### **CITY OF FARGO PROFILE**

The City of Fargo was incorporated in 1875 and is located in the eastern border of North Dakota at the intersection of Interstate Highways I-29 and I-94. This regional economic center continues to expand with a trend of consistent growth over the past several years. The current population is estimated at 118,456, a 12% growth since 2010. Health care, education and retail have a strong presence that expands the local economy into a broader regional economic center. The City is empowered to levy taxes on real property located within its boundaries and continues to expand its size with many annexations being completed in the past few years. This trend is predicted for the next several years as our population and economy expands.

The City of Fargo operates under a Home Rule Charter, established in 1986, with a Mayor-Commission form of government. Policy making and legislative authority is vested in a five member Commission. The City Commission is responsible for policy and ordinance adoption, approving budgets, committees, and

serving needs of the community. The Mayor and City Commissioners are elected at large and serve four year terms. Tim Mahoney is the Mayor. He has served as a City Commissioner since 2005, as interim Mayor in December of 2014, and Mayor since that time. The next municipal election will be held in June of 2016 at which time the citizens will elect a two new City Commissioners.

All Department Heads serve on the Mayor's Cabinet which is used as a forum to communicate City and Community issues. The City Administrator, Bruce Grubb is the liaison to the City Commission and is responsible for overseeing the day to day operations of the City and its eight Departments. An Assistant City Administrator will be hired in 2016.

The City of Fargo provides a full range of governmental services including public safety, construction and maintenance of infrastructure, public utilities including water, wastewater, solid waste and urban forestry, health and social services, public transportation, recreation and culture, and general support services necessary to serve the citizens of Fargo.

The City is required to adopt an annual operating budget by October 7 of each year. All Departments submit their requests to the Mayor during the budget development process which begins each June. Currently, the Mayor utilizes a budget team approach to discuss budget strategy with the City Administrator and the Director of Finance; however, the Mayor is responsible for the final decisions relating to the preliminary budget presentation. The City Commission is responsible for adoption of the final budget. Budget control is maintained at the fund, function (e.g. Public Safety) and Department (e.g., Police). Department Heads may make transfers of appropriations within a department. Supplemental budget appropriations require approval by the City Commission.

## **STABLE ECONOMIC CONDITIONS IN FARGO AND STATE OF NORTH DAKOTA**

### **Statewide Financial Conditions Declining**

Statewide economic conditions have declined in North Dakota resulting primarily from the impact of declining oil prices and the impact on exploration in the western part of the State. State intergovernmental revenues in our General Fund decreased by about 4.4% in 2015 as compared to the previous year.

The Tax Commissioner for the State of North Dakota recently announced that statewide taxable sales and purchases decreased by 19% in 2015 as compared to 2014. Fargo's taxable sales and purchases declined by .84%, much better than the overall statewide average.

The changes in intergovernmental revenues are discussed in more detail in the management discussion and analysis section of this report.

The median Fargo per capita income and our labor force continues to rise and is reflective of our strong local economy. Per capita incomes have increased to \$48,914 in 2014 as compared to \$39,883 in 2009 which represents a 23% increase in income levels over the past five years. Our labor force has increased to 65,665 in 2015 as compared to 58,817 five years ago which represents an 11.6% increase.

### **Building Permit Numbers Remain Strong in Fargo**

Fargo set an all time record level of building permits in 2014 at just over \$1 billion. In 2015 total building permit activity topped \$500 million, surpassing totals tracked for the past several years. Residential permits increased by 17.3%. Demand for housing remains strong in our community.

## **Sales Taxes Funding Key Infrastructure**

Fargo is utilizing sales tax revenues as a primary funding source for key infrastructure projects. All of our sales tax resources are dedicated to various types of infrastructure. The most significant expenditures are being made in updating municipal utilities to accommodate present and future growth, flood levees to protect us from Red River flood events, and improving our highway systems throughout our community. Existing sales tax authorizations expire in 2028, 2029 and 2032 providing a solid stream of resources to plan well into the future.

A more comprehensive review of these statistics is contained in the statistical section of this report which begins on page 128.

## **State and Local Sales Tax Revenue Trends**

Sales tax collections across the State of North Dakota slowed considerably in 2015 experiencing an overall decrease of 19% as compared to 2014.

Fargo's locally imposed sales tax collections of 2% totaled \$52 million, up from \$48.5 in 2014. That represents an increase of 7.4% for the year. This is a sign of the strength of our local economy which is bucking the statewide trend by a significant margin.

## **MAJOR INITIATIVES FOR THE YEAR**

### **Fargo Moorhead Diversion Channel Project**

The Army Corp of Engineers has been studying various alternative flood protection projects for the Fargo-Moorhead area for the past two years. They have recommended a large flood diversion channel that will redirect and lower record river flood levels significantly. The estimated current project cost is \$2.1 billion. This will be funded by various Federal, State and local stakeholders.

In October of 2012 a record of decision was approved by the Chief of the Army Corp of Engineers. This critical step recognized the feasibility, final review, and concurrence to include this project on the Federal Government's approved projects listing.

This project was included in the 2013 Water Resources Development Act Bill and has been approved by the U.S. Senate and the House of Representatives. The construction project will take about eight to ten years to construct subject to funds being appropriated in a timely manner.

The project design continued during the year and much of the overall project design has been completed. The appropriation of Federal funds, completion of the Minnesota environmental impact study and the project partnership agreement with the Army Corp of Engineers will trigger the commencement of construction.

Work continued in 2015 on securing Federal and State funding for this project. Local officials and our congressional delegation from North Dakota and Minnesota are working together to help formulate plans for a public private partnership pilot project (PPP) as a way to provide long term funding of this project. In February of 2015 the Army Corp of Engineers named this project as federal P3 demonstration project. Voters will be asked to extend the current sales tax authorization in November 2016 that will provide long term funding for the project.

February, 2016 the Army Corp of Engineers approved this project as a federal "new start" project and provided budgetary resources to begin this project. We anticipate executing a final project participation agreement with the Army Corp of Engineers in June of 2016 obligates Federal funding. The work of procurement of the P3 vendor will continue in 2016 and our timeline is to select a vendor by late 2017, or early 2018.

Our success on this project is significant and we were fortunate to be selected by the Army Corp of Engineers for this demonstration project that has national significance in its planned delivery method.

### **Status of Municipal Building Projects Completed or in Progress**

The City completed the facility remodeling for the Fargo Cass Public Health, Cass County Coroner, and a Police precinct in 2015. This remodeling project totaled about \$12.5 million. It is being funded by a combination of pay as we go financing from the General Fund and short term financing.

The second project is the design and construction of a new City Hall. The existing City Hall was built in 1960 and is not meeting the needs of our growing community. It will be demolished once the new facility is constructed. Design work was completed in 2014 and construction bids will be solicited in early 2015. Subsequent to year end project bids were tabulated and the cost of the facility was \$31 million, significantly higher than anticipated. Bids have been rejected and a formal review of design elements is ongoing with the goal of rebidding the project in May of 2016 with an expected cost of \$22 million. If bids are in line with our expectations work should commence in 2016 with an estimate completion date of 2018.

The third project is the expansion of our water treatment plant to accommodate future growth and demands for water. The project will incorporate advanced water treatment technologies due to changing water quality conditions on the Sheyenne River as a result of discharges from Devils Lake. In addition advanced water treatment technologies, the project will also increase the City's overall treatment capacity from 30 million gallons per day (MGD) to 45 MGD. Construction began this year and will take three years to complete.

### **Strategic Planning and Long Term Capital Improvement Plans**

Strategic planning efforts are ongoing for various City functions and the development of long term capital improvement plans have been formally adopted for municipal utility infrastructure projects over a twenty year planning horizon, flood control projects and Departmental capital needs for a five year timeframe. Major infrastructure projects are funded with a variety of sources, however, the major resources available are from sales tax and special assessment revenues.

Funds were appropriated in 2015 for a Downtown Fargo strategic plan for the growth and redevelopment of our core Downtown area. Our flood control projects in the Downtown area are creating new opportunities for accelerated growth and development in our City center. This planning focus will take place in 2016.

## **AWARDS AND ACKNOWLEDGEMENTS**

### **Certificate of Achievement for Excellence in Financial Reporting**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fargo for its comprehensive annual financial report for the fiscal year ended December 31, 2014. This will be the eighteenth consecutive award received since submission to this voluntary quality review program. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## **Acknowledgements**

The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the dedicated services of our entire staff. The staff members who were responsible for the achievement of this goal include:

Jenica Flanagan, Accounting Manager  
Jamie Bullock, Grant Accountant  
Jessica Houim, Accountant  
Megan Brandt, Financial Analyst  
Sheree Calkins, Accounting Supervisor

Finally, I would like to express my appreciation to the members of the City Commission, the Mayor, City Administrator, Cabinet members and City staff for operating the City in a professional and progressive manner.

Respectfully submitted,

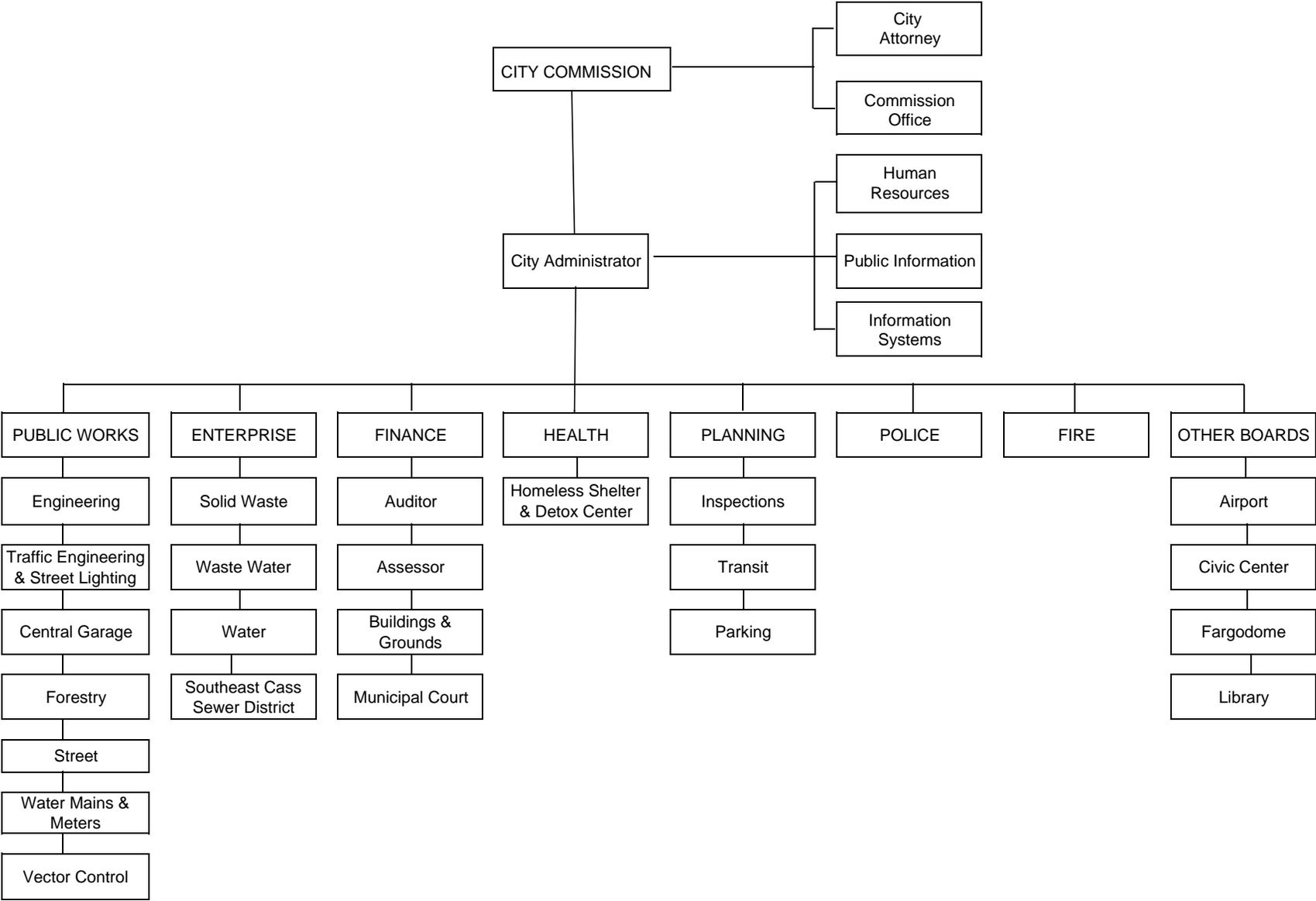
A handwritten signature in black ink that reads "Kent Costin". The signature is written in a cursive, flowing style.

Kent A. Costin  
Director of Finance

**CITY OF FARGO, NORTH DAKOTA  
LISTING OF CITY OFFICIALS  
AS OF DECEMBER 31, 2015**

<b>NAME</b>	<b>OFFICE</b>	<b>TERM EXPIRES</b>
Dr. Tim Mahoney	Mayor	June 2018
Dave Piepkorn	Commissioner	June 2018
Tony Gehrig	Commissioner	June 2018
Melissa Sobolik	Commissioner	June 2016
Michael Williams	Commissioner	June 2016
Bruce Grubb	City Administrator	
Kent Costin	Finance Director	
Steven Sprague	City Auditor	
Sharon Odegaard	City Commission Executive Assistant	

# CITY OF FARGO, NORTH DAKOTA ORGANIZATIONAL CHART





Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**City of Fargo**  
**North Dakota**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2014**

Executive Director/CEO