



Independent Auditor's Report

The Honorable Mayor
and Members of City Commission
City of Fargo, North Dakota
Fargo, North Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fargo, North Dakota, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fargo, North Dakota's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fargo, North Dakota, as of December 31, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2011, on our consideration of the City of Fargo, North Dakota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fargo, North Dakota's financial statements as a whole. The introductory section, combining and individual fund statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
June 14, 2011

City of Fargo, North Dakota

Management's Discussion and Analysis

As management of the City of Fargo, we offer readers of the City of Fargo's financial statements this narrative overview and analysis of the financial activities of the City of Fargo for the fiscal year ended December 31, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages III - VI of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

The assets of the City of Fargo exceeded its liabilities at the close of the most recent fiscal year by \$744,465 (net assets).

As of the close of the current fiscal year, the City of Fargo's governmental funds reported combined ending fund balances of \$46,637 an increase of \$2,617 in comparison with the prior year. The increase in fund balance is explained in subsequent sections of this analysis.

The City's unreserved General Fund fund balance of 28% of the total General Fund expenditures exceeds our management goal of maintaining a 25% fund balance. This was achieved based upon financial performance slightly better than anticipated during the 2010 budget process.

Major improvements were completed on the City's wastewater collection system including a large scale expansion of our overall collection capacity and the addition of a North Side lift station. This extra capacity will provide relief to existing infrastructure and will help mitigate rainstorm and flood risk.

The construction value of new single-family residential homes exceeded the values generated in 2009. Fargo's property tax valuations and new construction have slowed from past years, however, significant activity remains in spite of a weak national housing market.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Fargo's basic financial statements. The City of Fargo's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Fargo's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Fargo's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Fargo is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Fargo that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Fargo include general government, public safety, public works, public health and welfare, recreation & culture, urban redevelopment, public transportation, and general support. The business-type activities of the City of Fargo include a Municipal Airport, Water, Wastewater, Storm Sewer, Solid Waste collection and landfill,

Southeast Cass Sewer, Urban Forestry, Vector Control, Street Lighting and the FargoDome, a multi-use facility.

The government-wide financial statements can be found on pages 14 and 15 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Fargo, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Fargo can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Fargo maintains thirty-two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, and the capital projects fund, which are all considered as major funds. Data from the other twenty-nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Fargo adopts an annual appropriated budget for its governmental funds, except for capital projects funds. A budgetary comparison statement has been provided for all of these funds to demonstrate compliance with the approved budget.

The basic governmental fund financial statements can be found on pages 16 - 19 of this report.

Proprietary funds

The City of Fargo maintains ten different proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Fargo uses enterprise funds to account for its Municipal Airport, Water, Wastewater, Storm Sewer, Vector Control, Solid Waste, Southeast Cass Sewer, Forestry, Street Lighting and FargoDome activities. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Fargo's various functions. The City of Fargo uses two internal service funds to account for its risk self insurance pools. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Municipal Airport, Water, Wastewater, Storm Sewer, Solid Waste, and FargoDome activities which are considered to be major funds of the City of Fargo. Data from the other four enterprise funds are combined into a single, aggregated presentation, with individual data available elsewhere in this report. Both internal service funds are combined into a single aggregated presentation in the proprietary fund financial

statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 22 - 27 of this report.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Fargo's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 28 and 29 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31 – 73 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Fargo's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 61 - 72 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 75 - 110 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Fargo, assets exceeded liabilities by \$744,465 at the close of the most recent fiscal year.

By far the largest portion of the City of Fargo's net assets (85%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment); less any related outstanding debt used to acquire those assets. The City of Fargo uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Fargo's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following two tables present condensed financial information on the City's Net Assets and Changes in Net Assets for the fiscal year ending December 31, 2010 and 2009.

**City of Fargo's Net Assets
(In Thousands)**

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 301,898	\$ 290,700	\$ 73,806	\$ 69,176	\$ 375,704	\$ 359,876
Capital assets	268,946	263,401	533,597	497,580	802,543	760,981
Total assets	570,844	554,101	607,403	566,756	1,178,247	1,120,857
Long-term liabilities outstanding	353,734	314,865	59,160	57,913	412,894	372,778
Other liabilities	17,485	31,587	3,403	11,452	20,888	43,039
Total liabilities	371,219	346,452	62,563	69,365	433,782	415,817
Net assets:						
Invested in capital assets, net of related debt as restated	142,710	133,055	488,521	447,424	631,231	580,479
Restricted	83,724	88,187	34,129	29,311	117,853	117,498
Unrestricted	(26,809)	(13,593)	22,190	20,656	(4,619)	7,063
Total net assets	\$ 199,625	\$ 207,649	\$ 544,840	\$ 497,391	\$ 744,465	\$ 705,040

A portion of the City of Fargo's net assets (16%) represents resources that are subject to external restrictions on how they may be used.

The City's net assets increased by \$39,425 during the current fiscal year.

**City of Fargo's Changes in Net Assets
(In Thousands)**

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 25,968	\$ 23,512	\$ 53,875	\$ 51,779	\$ 79,843	\$ 75,291
Operating grants and contributions	13,938	19,366	-	-	13,938	19,366
Capital grants and contributions	57,828	65,837	4,158	9,096	61,986	74,933
General Revenues:						
Taxes	68,794	56,417	601	580	69,395	56,997
Unrestricted intergovernmental	3,831	3,297	-	-	3,831	3,297
Unrestricted investment earnings	3,014	3,440	3,942	3,601	6,956	7,041
Miscellaneous	406	(86)	1,408	1,173	1,814	1,087
Total revenues	173,779	171,783	63,984	66,229	237,763	238,012
Expenses:						
General government	16,172	16,061	-	-	16,172	16,061
Public safety	31,292	31,299	-	-	31,292	31,299
Public works	56,087	61,561	-	-	56,087	61,561
Public health & welfare	9,185	8,620	-	-	9,185	8,620
Recreation & culture	6,176	7,291	-	-	6,176	7,291
Urban redevelopment	4,986	5,270	-	-	4,986	5,270
Transportation	7,637	8,241	-	-	7,637	8,241
General support	1,577	1,279	-	-	1,577	1,279
Interest and fiscal charges	13,203	10,971	-	-	13,203	10,971
Municipal airport authority	-	-	6,920	6,381	6,920	6,381
Water system	-	-	13,378	13,173	13,378	13,173
Wastewater	-	-	8,114	7,282	8,114	7,282
Storm sewer	-	-	3,743	3,574	3,743	3,574
Solid waste	-	-	8,230	7,524	8,230	7,524
Fargodome	-	-	7,285	6,872	7,285	6,872
Southeast Cass	-	-	47	66	47	66
Vector control	-	-	593	390	593	390
Street lighting	-	-	2,237	-	2,237	-
Forestry	-	-	1,476	1,362	1,476	1,362
Total expenses	146,315	150,593	52,023	46,624	198,338	197,217
Change in net assets before transfers	27,464	21,190	11,961	19,605	39,425	40,795
Transfers	(35,488)	(25,763)	35,488	25,763	-	-
Change in net assets	(8,024)	(4,573)	47,449	45,368	39,425	40,795
Net assets - Beginning	207,649	212,222	497,391	452,023	705,040	664,245
Net assets - Ending	\$ 199,625	\$ 207,649	\$ 544,840	\$ 497,391	\$ 744,465	\$ 705,040

Governmental activities

The governmental activities' net assets decreased by \$8,024 during the current fiscal year.

Sales taxes increased by \$11.2 million during the year. Voters approved a twenty-year sales tax authorization for flood control projects starting on January 1, 2010.

Unrestricted investment earnings were stable due to a significant amount of construction financing for infrastructure projects in process during the year.

Interest and fiscal charges increased by \$2.2 million due to the continued use of long-term debt financing to fund growth related infrastructure projects.

Business type activities.

Business-type activities increased the City of Fargo's net assets by \$47,449 reflecting most of the growth in the government's net assets. Total user fee revenues generated by our utility funds increased by 4% due largely to the creation of a self-sustaining street lighting utility fund. These costs were previously funded within the governmental funds; however, a user fee was enacted to cover the ongoing costs of this function. Rising energy costs spurred this decision to create this new utility fund since the cost of electricity continues to rise as the city expands and prices increase over time.

The sale of byproducts generated from our utility operations increased from \$965 to \$1,342 this year. Projects that generate byproducts include a methane gas operation at the landfill, and conversion of methane gas into electricity from the same source as well as the sale of wastewater effluent to a nearby Ethanol plant. Methane gas is sold to Cargill, Inc and is used in their operations while the electricity is sold to Cass County Electric Cooperative. Wastewater effluent is sold to an Ethanol plant and used to produce ethanol fuel in a nearby community. Investments in conservation and reuse of our byproduct resources have helped us grow our overall business type revenue base without raising user fees as well as becoming good stewards of our environment.

Financial Analysis of the Government's Funds

As noted earlier, the City of Fargo uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds.

The focus of the City of Fargo's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Fargo's financing requirements. In particular, unreserved fund balance serves as a useful measure of a government's net resources available for spending during the fiscal year.

As of the end of the current fiscal year, the City of Fargo's governmental funds reported combined ending fund balances of \$46,637, an increase of \$2,617 in comparison with the prior year. Fund balance has been reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$392), 2) from advances to capital projects (\$1,325), 3) inventory of supplies & materials (\$784), 4) prepaid expenditures (\$373), 5) debt retirement (\$67,151), 6) property held for resale (\$1,232), and 7) capital improvements (\$158).

The General Fund is the chief operating fund of the City of Fargo. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$19,630 while total fund balance reached \$22,481. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 28% percent of total general fund expenditures, while total fund balance represents 32% percent of that same amount. Managements fund balance goal of 25% has been achieved for this fiscal year. This fund balance level represents an increase of \$ 2,153 during the year.

Overall, General Fund revenues increased by 5%. Charges for services revenues increased by 22% largely a result of aggressively programming capital projects included in the City's utility master infrastructure and flood control plan. Flood control projects were accelerated this year due to a predication of another spring flood event.

Total General Fund expenditures increased by 4.2%. The largest cost increases are reflected in general governmental expenditures, public works, and general support. Public works expenditure increases are directly related to demands on City services that are weather related. Above average snowfalls were experienced this year. General support costs increased significantly due to program changes related to workers compensation. Workforce Safety, Inc. (WSI) did not pay a premium dividend due to lower investment returns experienced in 2009. As a result policy holders were assessed a gross premium which was much higher than in the past fiscal years where the premium dividend was approved and rebated to policyholders.

The debt service fund has a total fund balance of \$67,151, all of which is reserved for the payment of future debt service. The net increase in fund balance during the current year was \$9,603. The City continues to experience above average amounts of special assessment prepayment due to a very low interest rate environment. Many taxpayers are simply paying off their existing special assessments which are held in trust for future bond payments.

The infrastructure capital projects fund has a fund deficit of (\$46,862). This will be recovered by future bonds sales and other revenues and transfers. Work in progress is bonded as completed and certified during the special assessment process. The City will be issuing refunding improvement bonds in spring 2011 to reimburse the capital project fund for projects completed. A total of approximately \$25 million is expected to be sold which will provide additional liquidity during the 2011 construction season.

Capital project expenditures decreased by 14% in 2010. While a significant amount of construction activity was experienced this year, spring flood events cause more effort to be spent on disaster protection and recovery. Overall, slightly less was spent in the capital project fund; however, projects were more concentrated in flood protection category due to the urgent nature of our disaster preparedness and higher than normal snowfalls experienced this year. Permanent flood protection projects consumed approximately \$16 million from local sales tax resources.

Proprietary funds

The City of Fargo's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the proprietary funds at the end of the year amounted to \$22,190. All individual proprietary funds reported increases in net assets, except for Solid Waste and Vector Control.

Operating revenues of this fund group increased by 4%, while the operating expenses increased by 13%.

As mentioned in the Business Activities section of this report, the City started a new street lighting utility fund this year funded by user fees. In the past this essential function was accounted for in our governmental funds. This new fund will account for all of the operational costs to maintain over nine thousand street lights. The purpose of segregating this fund was to assure that adequate revenues were generated to sustain this function and to begin to account for this as a utility fund versus a general governmental function. This shift to a self-sustaining utility fund removed \$1.2 million out of General Fund expenditures helping to preserve financial capacity for budget development strategies in the future.

General Fund Budgetary Highlights

Significant variances between original and final budget are noted as follows:

Intergovernmental revenues were increased for major Federal and State grant awards approved or carried forward from the prior year. Notable grant programs authorized during the year or continued include SAFER grants for firefighters, Homeland Security capital grants and state highway distribution funds. Intergovernmental revenue budgets were increased by \$3 million during the year.

Overall General Fund revenues exceeded final budget by \$3.9 million, or 6%. More revenues were realized for capital project administration due to acceleration of flood protection projects. Investment income exceeded budget projections due to higher volumes of construction financing of capital projects. Expenditures for capital projects were concentrated near year-end based upon an elevated risk of spring flooding. These expenditures were not anticipated during the normal budget development cycle.

Significant variances between final budget and actual are as follows:

Capital outlay expenditures lagged budget by \$1,200 resulting from a decision to move a scheduled phone system replacement into 2011.

Overall General Fund expenditures were incurred at 97% of final budget which is considered a normal budget variance for the City.

Capital Asset and Debt Administration

Capital Assets. The City of Fargo's investment in capital assets for its governmental and business type activities as of December 31, 2010 amounts to \$802,543 (net of accumulated depreciation). This investment in capital assets includes land, intangibles, construction in progress, buildings, improvements, machinery and equipment, and infrastructure.

Major capital asset events during the current fiscal year included the following:

As part of our overall flood control efforts several homes were acquired and demolished so that permanent flood control levies could be constructed. This provides a higher level of flood protection and reduces or eliminates the need to sandbag flood prone areas. This strategy produced very positive results during the 2011 spring flood event.

The 45th Street sewer interceptor project was completed this year and became operational in October, 2010. This north / south collection system added much needed capacity to serve the City's growth areas as well as providing relief capacity to existing sewer systems near the Downtown area. This project was financed with SRF funds and will be repaid with sales tax resources dedicated to utility projects.

City of Fargo's Capital Assets

(net of depreciaton)

(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 15,494	\$ 12,212	\$ 43,539	\$ 39,995	\$ 59,033	\$ 52,207
Construction in progress	5,554	13,891	18,545	18,323	24,099	32,214
Intangible	3,610	-	888	500	4,498	500
Buildings	46,994	35,925	129,654	131,103	176,648	167,028
Improvements other than buildings	420	425	9,376	8,574	9,796	8,999
Machinery and equipment	15,561	13,862	19,943	20,775	35,504	34,637
Infrastructure	181,313	187,086	311,652	278,310	492,965	465,396
Total	\$ 268,946	\$ 263,401	\$ 533,597	\$ 497,580	\$ 802,543	\$ 760,981

Additional information on the City of Fargo's capital assets can be found in Note 4. C. on pages 44 - 46 of this report.

Long Term Debt.

At the end of the current fiscal year, the City of Fargo had total bonded debt and notes outstanding of \$383,858. Of this amount, \$238,133 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The remainder of the City of Fargo's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

The City of Fargo's total outstanding debt increased by \$20.4 million during the current fiscal year. This increase can be associated with the need to finance ongoing capital project funding and expansion of the City's utility infrastructure.

City of Fargo's Outstanding Debt

General Obligation and Revenue Bonds

(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Special assessment bonds	\$ 238,133	\$ 219,829	\$ -	\$ -	\$ 238,133	\$ 219,829
Gross revenue bonds	6,201	6,625	33,815	37,610	40,016	44,235
General obligation bonds	2,730	2,875	-	-	2,730	2,875
Sales tax bonds	32,575	42,850	-	-	32,575	42,850
Notes payable	58,201	39,886	12,203	13,753	70,404	53,639
Total	\$ 337,840	\$ 312,065	\$ 46,018	\$ 51,363	\$ 383,858	\$ 363,428

During the current fiscal year, the City sold bond issues as detailed below:

Taxable Refunding Improvement Bonds, Build America Bonds, Series 2010 B (\$22,820) were issued to reimburse the capital project fund for completed. They will be repaid over a twenty five year period commensurate with special assessments levied for repayment of this debt.

Refunding Improvement Refunding Bonds, Series 2010 C (\$8,250) were issued to refinance certain maturities of the Series 2002 A bond issue. The net interest savings on this refinancing was \$396,248 NPV.

A Tax Increment Financing Note in the amount of \$707 was issued for a development project funded with tax increment financing assistance awards for housing developments in North Fargo.

The City of Fargo maintained an "AA" rating from Standard & Poor's and an "Aa2" rating from Moody's for general obligation debt.

Additional information on the City of Fargo's long-term debt can be found in Note 4. G. on pages 52 - 59 of this report.

Economic Factors and Next Year's Budgets and Rates

North Dakota's statewide economy has been very strong as compared to other states across the nation. Current statewide sales tax collections are growing at a double digit rate. This trend is expected to continue due to the oil extraction efforts across western and west central portions of the State.

Fargo's economy had done remarkably well in light of the national economic picture. Most notable is the continuation of construction activity that is bucking a national trend. Our real estate units have maintained their market values during this past year and the assessment rolls for 2011 payable 2012 have grown by 2.9%, reflective of continued construction in the area, especially in the residential permits. This is remarkable in light of a weak housing market. Unemployment rates decreased slightly from 4.2% to 3.9%, the same as the State's overall unemployment level. North Dakota's unemployment levels have consistently been lower than national averages for many years due to the strength and diversity of the economy.

The City approved a General Fund budget for 2011 that increased by 1.4%. This budget was constrained during the budget approval process due to concerns about the future in light of overall economic conditions and a decline in commercial development. Intergovernmental revenue growth is anticipated as legislative changes were recently enacted that increase our state aid revenue. The strength of the North Dakota economy continues at a robust pace.

There was no rate increases proposed in the 2011 budget for major utility funds, however, landfill tipping fees were increased so that our prices are more comparable with regional market prices.

A one half cent voter approved sales tax authorization for flood control projects began on January 1, 2010. This authorization runs for a twenty year period and will be used to construct major flood control facilities including a proposed flood diversion channel, and other local flood levy elevation increases within the community. The flood diversion project is a very large scale river diversion channel which is being proposed by the Army Corp of Engineers. A final decision is pending on the final approval of this project. We anticipate that the decisions on approval and federal funding will be made in 2011 or 2012. If approved, the actual construction will take from eight to ten years and will provide 250 year flood event protection.

Moody's Investors Service upgraded the City's bond rating from AA2 to AA1 for recently issued Series A & B Refunding Improvement Bonds. The strength of our local economy as well as the strength of the North Dakota economy and conservative fiscal management practices contributed to this upgrade.

Requests for information

This financial report is designed to provide a general overview of the City of Fargo's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, 200 3rd Street North, City of Fargo, ND, 58102 or visit the City's web site at www.cityoffargo.com. The entire report is presented in the Auditor's Office section.