

**OFFICE OF  
STATE AUDITOR**

**AUDIT REPORT**

**CITY OF WEST FARGO  
WEST FARGO, NORTH DAKOTA**

**FOR THE YEAR ENDED DECEMBER 31, 2012**



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CITY OF WEST FARGO  
West Fargo, North Dakota

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For the Year Ended December 31, 2012

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CITY OF WEST FARGO  
West Fargo, North Dakota

**CITY OFFICIALS**

December 31, 2012

President / Mayor	Rich Mattern
Vice-President	Mark Simmons
Commissioner	Mark Wentz
Commissioner	Mike Thorstad
Commissioner	Duane Hanson
City Administrator	Jim Brownlee
Finance Director	Tina Gustafson
City Attorney	Brian Neugebauer

**STATE AUDITOR**

ROBERT R. PETERSON  
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MANAGER – DAVID MIX  
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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

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**INDEPENDENT AUDITOR'S REPORT**

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City Commission  
City of West Fargo  
West Fargo, North Dakota

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of West Fargo, North Dakota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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 from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of West Fargo, North Dakota, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Emphasis of a Matter**

As discussed in Note 11 to the financial statements, prior period adjustments for capital asset related matters were necessary to properly report beginning net position of governmental activities, business-type activities and proprietary funds. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and budgetary comparison information* on pages 4-12 and 43-44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

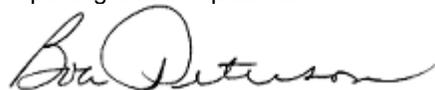
*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of West Fargo's basic financial statements. The *schedule of fund activity* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The *schedule of fund activity* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *schedule of fund activity* is *fairly* stated, in all material respects, in relation to the basic financial statements taken as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2013, on our consideration of the City of West Fargo's internal control over financial reporting and on 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* in considering the City of West Fargo's internal control over financial reporting and compliance.



Robert R. Peterson  
State Auditor

Fargo, North Dakota  
September 11, 2013

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CITY OF WEST FARGO  
West Fargo, North Dakota  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012

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As management of the City of West Fargo, North Dakota, we are pleased to offer readers of the City of West Fargo's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended December 31, 2012. We encourage readers to consider it in conjunction with the additional information presented in the basic financial statements, the fund financial statements, and the notes to the financial statements.

**FINANCIAL HIGHLIGHTS**

- Prior period adjustments were done to beginning net position of governmental activities (\$302,741 increase), enterprise activities (\$7,037,005 net decrease), made up of water/sewer fund (\$7,232,867 decrease), and the garbage/sanitation fund (\$195,862 increase) for correction of previous accumulated capital asset errors.
- The total net position of governmental activities of the City of West Fargo increased by \$21,439,380 as a result of current year operations, or approximately 34%. The increase is primarily due to the net change in long-term uncertified special assessments for new projects totaling approximately \$44.5 million.
- Net position of the business-type activities increased by \$37,040,922 or approximately 28%. The increase is due to a transfer of capital assets from the governmental activities totaling \$41.8 million.
- Total revenues from all sources were \$81,505,260 for governmental activities on the statement of activities and \$37,457,100 on the modified accrual basis. Total revenues from all sources were \$8,581,944 (excluding bond premium) for business-type activities.
- Total cost of all programs was \$31,761,090 consisting of \$19,930,896 for governmental activities and \$11,830,194 for business-type activities. This is a total increase of \$4.1 million for governmental activities and an increase of \$2 million for enterprise business-type activities over 2011.
- Governmental net capital assets totaled \$88,645,650 at December 31, 2012, and business-type capital assets totaled \$176,824,479 for an entity-wide total of \$265,470,129.
- Governmental expenditures exceeded revenues by \$44,552,114 in the fund-based statements due to spending approximately \$38.94 million on infrastructure projects and construction in progress. Governmental activities revenues exceeded expenses by \$21,439,380 (after transfers to enterprise activities).
- Unassigned fund balance for the General Fund at year-end was \$10,917,744 or 135% of the total 2012 general fund expenditures.

**USING THIS ANNUAL REPORT**

This annual report presents the following three components of the financial statements:

1. Government-wide financial statements provide information for the City as a whole.
2. Fund financial statements provide detailed information for the City's significant funds.
3. Notes to the financial statements provide additional information that is essential to understanding the government-wide and fund statements.

This report also contains other supplementary information in addition to the basic financial statements.

**Government-wide financial statements**

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

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## CITY OF WEST FARGO

### Management's Discussion & Analysis - Continued

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

The *Statement of Activities* presents information on how the City's *net position* changed during the most recent fiscal year. This statement is presented using the accrual basis of accounting, which means that all changes in net position 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 the statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected sales tax, and earned but unused vacation leave). Both the Statement of Net position and the Statement of Activities present information as follows:

- Governmental activities – this includes most of the City's basic services which are primarily supported by property and sales taxes, intergovernmental revenues, user fees and interest income.
- Business-type activities – this includes those services which are intended to recover all or a significant part of their costs through user fees.

### 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 West Fargo, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements provide detailed information about the City's significant funds – not the City as a whole. The City's funds can be divided into three categories – governmental funds, proprietary funds, and fiduciary funds.

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. The governmental fund statements provide a detailed short-term view of the government operations and the basic services it provides, and are reported on the modified accrual basis of accounting which focuses on available expendable resources. This allows the reader to evaluate the City's short-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 the comparison between the governmental funds and the government-wide financial statements.

The City of West Fargo maintains 30 individual governmental funds with all debt service funds and capital projects funds combined into one "fund" each. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the general fund, and the following major funds: sales tax fund, debt service fund, and special assessment construction (capital projects) fund. Data from the special revenue governmental funds are combined into a single, aggregated presentation titled "Other Governmental Funds".

The City of West Fargo adopts an annual budget for the general fund, sales tax fund, and the special assessment debt service fund. Budgetary comparison statements have been provided to demonstrate compliance. A budgetary comparison schedule is not required, nor presented for the debt service fund.

*Proprietary Funds* - the City of West Fargo maintains one type of proprietary funds. Enterprise funds are used to report activities that charge for services it provides to outside customers. The enterprise funds are presented as business-type activities in the government-wide statements. The City of West Fargo uses enterprise funds to account for its Sanitation and Water and Sewer operations, as major funds. Proprietary fund statements provide the same type of information as the government-wide statements, only in more detail.

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**CITY OF WEST FARGO**

## Management's Discussion &amp; Analysis - Continued

*Fiduciary Funds* – the City of West Fargo is responsible for other assets that are held on behalf of others. The City is responsible for ensuring the assets reported in these funds are used for their intended purpose. The City's fiduciary activities are reported in separate Statements of Fiduciary Net position. These activities have been excluded from the City's other financial statements since the City cannot use these assets to finance its operations.

**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.

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

The City implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Prior to GASB 63, net assets equity was reported, and subsequent to GASB 63, the elements of 'equity' are now known as net position. The following two tables' present condensed information on the City's net position and changes in net position for the fiscal year ended December 31, 2012. As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City of West Fargo, assets exceeded liabilities by \$251,878,171 at the close of the most recent fiscal year consisting of \$83,812,817 for governmental activities, and \$168,065,354 for business-type enterprise activities. The City of West Fargo's net position includes its investment in capital assets (e.g. land, buildings, infrastructure, machinery, equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding, and also includes restricted net position for specified purposes, and unrestricted net position. The City of West Fargo uses capital assets to provide services to its citizens; consequently, these assets are *not* available for future spending. Although the City of West 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.

**TABLE 1**  
**NET POSITION**  
December 31, 2012

	Governmental Activities	Business- Type Activities	Total
<b>ASSETS:</b>			
Current Assets	\$ 26,866,659	\$ 7,969,725	\$ 34,836,384
Noncurrent Assets	118,806,034	-	118,806,034
Capital Assets (net of accumulated depreciation)	88,645,650	176,824,478	265,470,128
Total Assets	<u>\$234,318,343</u>	<u>\$184,794,203</u>	<u>\$419,112,546</u>
<b>LIABILITIES:</b>			
Current Liabilities	\$ 16,995,664	\$ 718,893	\$ 17,714,557
Long-Term Liabilities	133,509,861	16,009,956	149,519,817
Total Liabilities	<u>\$150,505,525</u>	<u>\$ 16,728,849</u>	<u>\$167,234,374</u>
<b>NET POSITION:</b>			
Invested in Capital Assets, net of Related Debt	\$ (59,279,350)	\$160,629,478	\$101,350,128
Restricted	149,215,196	-	149,215,196
Unrestricted	(6,123,029)	7,435,876	1,312,847
Total Net Position	<u>\$ 83,812,817</u>	<u>\$168,065,354</u>	<u>\$251,878,171</u>

**CITY OF WEST FARGO**

Management's Discussion & Analysis - Continued

**TABLE 1**  
**NET POSITION**  
December 31, 2011 (as restated)

	Governmental Activities	Business- Type Activities	Total
<b>ASSETS:</b>			
Current Assets	\$ 2,064,443	\$ 8,205,956	\$ 10,270,399
Noncurrent Assets	74,319,507	-	74,319,507
Capital Assets (net of accumulated depreciation)	95,395,336	140,071,989	235,467,325
Total Assets	<u>\$171,779,286</u>	<u>\$148,277,945</u>	<u>\$320,057,231</u>
<b>LIABILITIES:</b>			
Current Liabilities	\$ 14,999,001	\$ 684,020	\$ 15,683,021
Long-Term Liabilities	94,406,848	16,569,492	110,976,340
Total Liabilities	<u>\$109,405,849</u>	<u>\$ 17,253,512</u>	<u>\$126,659,361</u>
<b>NET POSITION:</b>			
Invested in Capital Assets, net of Related Debt	\$ (8,133,664)	\$123,371,989	\$115,238,325
Restricted	93,865,293	-	93,865,295
Unrestricted	(23,358,192)	7,652,443	(15,705,751)
Total Net Position	<u>\$ 62,373,437</u>	<u>\$131,024,432</u>	<u>\$193,397,869</u>

**TABLE II**  
**CHANGES IN NET POSITION**  
As of December 31, 2012

	Governmental Activities	Business-Type Activities	Total
<b>Revenues</b>			
<b>Program Revenues:</b>			
Charges for Services	\$ 4,082,072	\$ 8,294,163	\$ 12,376,235
Operating Grants & Contributions	2,834,419	-	2,834,419
Capital Grants & Contributions	58,935,335	-	58,935,335
<b>General Revenues:</b>			
Taxes	10,975,891	-	10,975,891
State Aid & Unrestricted Grants	2,801,799	-	2,801,799
Interest Earnings	921,825	11,995	933,820
Miscellaneous Revenue	953,918	275,786	1,229,704
Premium/Discount/Costs (net)	-	154,190	154,190
Total Revenues	<u>\$ 81,505,259</u>	<u>\$ 8,736,134</u>	<u>\$ 90,241,393</u>
<b>Expenses</b>			
General Government	\$ 2,679,151	\$ -	\$ 2,679,151
Public Safety	5,725,264	-	5,725,264
Highways and Streets	5,341,210	-	5,341,210
Culture and Recreation	2,004,381	-	2,004,381
Economic Development	74,928	-	74,928
Interest and Service Charges	4,105,963	927,536	5,033,499
Sanitation	-	2,468,319	2,468,319
Water and Sewer	-	8,434,339	8,434,339
Total Expenses	<u>\$ 19,930,897</u>	<u>\$ 11,830,194</u>	<u>\$ 31,761,091</u>
Excess before transfers	<u>\$ 61,574,362</u>	<u>\$ (3,094,060)</u>	<u>\$ 58,480,302</u>
Transfers	<u>\$(40,134,982)</u>	<u>\$ 40,134,982</u>	<u>\$ -</u>
Change in Net Position	<u>\$ 21,439,380</u>	<u>\$ 37,040,922</u>	<u>\$ 58,480,302</u>
Net Position – January 1	<u>\$ 62,070,696</u>	<u>\$138,061,437</u>	<u>\$200,132,133</u>
Prior Period Adjustment	302,741	(7,037,005)	(6,734,264)
Net Position – January 1, as restated	<u>\$ 62,373,437</u>	<u>\$131,024,432</u>	<u>\$193,397,869</u>
Net Position – December 31	<u>\$ 83,812,817</u>	<u>\$168,065,354</u>	<u>\$251,878,171</u>

**CITY OF WEST FARGO**

Management's Discussion & Analysis - Continued

**TABLE II**  
**CHANGES IN NET POSITION**  
As of December 31, 2011

	Governmental Activities	Business-Type Activities	Total
<b>Revenues</b>			
<u>Program Revenues:</u>			
Charges for Services	\$ 1,221,904	\$ 6,078,644	\$ 7,300,548
Operating Grants & Contributions	2,962,554	-	2,962,554
Capital Grants & Contributions	13,922,563	-	13,922,563
<u>General Revenues:</u>			
Taxes	8,821,815	-	8,821,815
State Aid & Unrestricted Grants	2,625,404	-	2,625,404
Interest Earnings	113,078	12,745	125,823
Miscellaneous Revenue & Premium	236,793	483,219	720,012
<b>Total Revenues</b>	<b>\$ 29,904,111</b>	<b>\$ 6,574,608</b>	<b>\$ 36,478,719</b>
<b>Expenses</b>			
General Government	\$ 3,086,373	\$ -	\$ 3,086,373
Public Safety	5,678,972	-	5,678,972
Highways and Streets	2,317,370	-	2,317,370
Culture and Recreation	672,775	-	672,775
Economic Development	91,489	-	91,489
Interest and Service Charges	3,982,566	-	3,982,566
Sanitation	-	1,798,328	1,798,328
Water and Sewer	-	7,994,173	7,994,173
<b>Total Expenses</b>	<b>\$ 15,829,545</b>	<b>\$ 9,792,501</b>	<b>\$ 25,622,046</b>
Excess before transfers	\$ 14,074,566	\$ (3,217,893)	\$ 10,856,673
Transfers	\$(13,429,373)	\$ 13,429,373	\$ -
Net Position – January 1	\$ 61,443,788	\$127,849,957	\$189,293,745
Prior Period Adjustment	(18,285)	-	(18,285)
Net Position – January 1, as restated	\$ 61,425,503	\$127,849,956	\$189,293,744
Net Position – December 31	\$ 62,070,696	\$138,061,437	\$200,132,133

A portion of the City of West Fargo's governmental activities net position totaling \$149,215,196 represents resources that are subject to external restrictions on how they may be used (general government, debt service, highways & streets (public works), economic development, other special projects & capital improvements, and culture & recreation). Amounts shown as invested in capital assets, net of related debt amounted to a net positive balance of \$101,350,128 (governmental activities negative \$59,279,350 & business type activities positive total of \$160,629,478). These net position invested in capital assets net of related debt are not available for future spending. Although the City of West 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 are not used to liquidate these liabilities. The remaining balance of *unrestricted net position* is a total positive government-wide amount of \$1,312,847 may be used to meet the government's ongoing obligations to citizens and creditors. Unrestricted net position of business type activities was positive \$7,435,876 and the governmental activities was negative (\$6,123,029). At the end of the 2012, the City of West Fargo is able to report positive balances of net position for the government as a whole in all three categories, and one of three categories for its separate governmental activities, while the business-type activities showed positive balances in the two applicable categories. The City of West Fargo's total net position increased by a total of \$58.5 million (30.2%) for the year ended December 31, 2012. The main reason for the increase was the expenditures of approximately \$41.2 million in capital construction/capital outlay, and approximately \$44.5 million in new long-term uncertified special assessments receivable. Governmental program revenues for capital grants and contributions increased approximately \$45 million (addition of new long-term uncertified special assessments receivable). Additionally, a \$41.8 million transfer of infrastructure/construction in progress from governmental activities to business-type activities was done for completed projects. Tax revenue increased approximately \$2.2 million due to increased taxable valuation and increased sales taxes received in 2012. Charges for services increased approximately \$2.9 million due to administrative fees and park in lieu of dedications received.

**Financial Analysis of the Government's Funds**

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

**Governmental Funds**

The focus of the City of West Fargo's *governmental funds* is to provide information on near-term inflows, outflows, and balances of expendable resources. The City of West Fargo implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* during the year ended December 31, 2012. The City of West Fargo implemented the provisions of GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended December 31, 2011. GASB 54 defines the different types of fund balances that a governmental entity must use for financial reporting purposes. Such information is useful in assessing the City of West Fargo's financing requirements. In particular, *unassigned general fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The unassigned fund balance of the general fund was \$10,917,744. The remainder of unassigned fund balances is negative (\$16,729,180) for large negative cash amounts primarily reported in capital projects funds, and a couple non-major special revenue funds. It is noted that each capital project fund is eventually zeroed out from transfers in and debt proceeds. Debt isn't issued for capital projects funds until the projects are well under way or nearly completed and have incurred significant costs. As of the end of the current fiscal year, the City of West Fargo's governmental funds reported combined ending fund balances of \$25,466,756. \$474,851 of fund balance has been reported as non-spendable for the loan receivable reported in the general fund (\$74,851) and debt service fund (\$400,000). The remainder of fund balances (other than unassigned) totaling \$30,800,491 *is restricted or committed* to indicate that it is not available for new spending because it has already been restricted for general government (\$458,940), public safety (\$235,287), public works/streets (\$737,085), culture & recreation (\$224,920), economic development (\$8,656), and committed from sales tax revenues (\$4,504,815) and for future building (\$5,795,718), and restricted to pay debt service (\$18,835,071) for capital improvements.

The general fund is the chief operating fund of the City of West Fargo. At the end of the current fiscal year, unassigned fund balance of the general fund was \$10,917,744. Unassigned fund balance represented 135% of total 2012 general fund expenditures.

The fund balance of the City of West Fargo's general fund increased \$2.62 million during the current fiscal year. The general fund balance increase was due to transfers in of \$2,469,225 from construction funds for administration and from the municipal highway fund. Total fund balances increased by \$28.7 million primarily due to issuing bonds for capital projects totaling approximately \$71.2 million, while spending \$38.9 million on those related projects.

The fund balance of the sales tax fund increased by \$973,000 due to an increase in sales tax revenues, and a decrease in transfers out to capital projects funds and debt service funds. The ending fund balance of the sales tax fund was \$4,504,815.

The debt service fund has a total ending fund balance of \$19,235,071, all of which is restricted for the payment of debt service (\$18,835,071), or considered non-spendable related to loans (\$400,000).

**Proprietary Funds**

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

Total net position of enterprise funds increased by \$37,040,922. Unrestricted net position of the Health and Sanitation Fund totaled \$1,524,763 for Health and Sanitation Funds, and \$5,911,113 for Water and Sewer Funds for a total of \$7,435,876. Total unrestricted net position decreased by \$216,567 primarily due to an increase in operating expenses (primarily depreciation). Net investment in capital assets was \$1,794,533 for the Health & Sanitation Fund and \$158,834,945 in the Water & Sewer Fund for a total of \$160,629,478. The net total overall growth in net position for net investment in capital assets was \$37,257,489. The entirety of net position increase is attributable to a transfer of capital assets from governmental activities of over \$42.5 million.

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**CITY OF WEST FARGO**

## Management's Discussion &amp; Analysis - Continued

**General Fund Budgetary Highlights**

The city did not amend the original general budget (reserve) revenues or expenditures during the year ended December 31, 2012.

- Revenue was more than expected amounts by \$2,231,994 (30.7%). Transfers in totaled \$2,469,225, while the budgeted transfers were \$875,000.
- Expenditures were below appropriations by \$601,973 in the general fund, or 6.9%. Transfers out budgeted totaled \$166,000, while actual transfers out totaled \$1,250,340.

**CAPITAL ASSET AND DEBT ADMINISTRATION****Capital Assets**

The City of West Fargo's investment in capital assets for its governmental (\$88,645,650) and business-type (\$176,824,479) activities as of December 31, 2012, amounted to \$265,470,129 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings, machinery and equipment, and construction in progress. This is an increase of \$23.3 million, or 9.6% from 2011 ending amounts. Net investment in capital assets (net of related debt) amounted to negative (\$59,279,350) for governmental activities and \$160,629,478 for enterprise activities, which amounts to \$101,350,128 government-wide. Debt issued in 2012 totaled \$71.2 million for governmental activities to finance various capital projects and outstanding bonds account for the negative amount reported in governmental activities net investment in capital assets.

Major capital asset events during the current fiscal year included new street, street lights, storm sewer, and sewer and water projects capitalized in infrastructure and construction in progress in new subdivisions throughout the city including the additional of regional storm sewer lift stations in sections 19 and 20 of the City.

**TABLE III**  
**CAPITAL ASSETS**  
(Net of Accumulated Depreciation)  
December 31, 2012 and 2011

	2012			2011		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Land	\$ 7,747,632	\$ 774,500	\$ 8,522,132	\$ 5,925,756	\$ 774,500	\$ 6,700,256
Buildings	1,200,238	2,157,959	3,358,197	1,242,500	2,085,535	3,328,035
Equipment	1,255,532	1,822,230	3,077,762	879,277	1,427,568	2,306,845
Infrastructure	59,203,600	172,069,790	231,273,390	57,420,421	137,761,828	195,182,249
Construction in Progress	19,238,648	-	19,238,648	29,624,641	5,059,563	34,684,204
<b>Total Capital Assets</b>	<b>\$88,645,650</b>	<b>\$176,824,479</b>	<b>\$265,470,129</b>	<b>\$95,092,595</b>	<b>\$147,108,994</b>	<b>\$242,201,589</b>

**Long-Term Debt**

At year-end the City had total debt in governmental activities and enterprise activities of \$164,120,000 (excluding compensated absences), a net overall increase of \$43,891,000 (36.5%) over the prior year. Notes 1D.5 and 4E to the financial statements describe the City's long-term debt in greater detail.

**CITY OF WEST FARGO**

## Management's Discussion &amp; Analysis - Continued

The City issued new debt for Special Assessment Refunding Bonds in the amount of \$69,170,000. This debt was issued to retire two other outstanding bond issues with higher interest rates to obtain substantial debt cost savings over the life of the new bonds, and to issue debt for various special assessment capital construction projects. The City also issued \$2,060,000 of sales tax revenue bonds (CostCo) for governmental activities. The City also issued \$9,145,000 of water and sewer bonds to retire previously issued water and sewer bonds. The City defeased debt totaled \$25,500,000 and total debt payments totaled approximately \$11 million for 2012.

During the year ended December 31, 2012, the City's bond rating is at Aa-3.

**TABLE IV**  
**OUTSTANDING LONG-TERM DEBT**  
As of December 31, 2012

	Total			Total	
	Outstanding	Increases	Decreases	Outstanding	Due Within
	Dec. 31, 2011			Dec. 31, 2012	One Year
<b>Governmental Activities:</b>					
G.O. Bonds Payable	\$ 9,825,000	\$ -	\$ 760,000	\$ 9,065,000	\$ 640,000
Revenue Bonds	-	2,060,000	-	2,060,000	40,000
Special Assessment Bonds	93,704,000	69,170,000	26,074,000	136,800,000	14,570,000
Compensated Absences	929,831	-	2,207	927,624	92,762
<b>Total Governmental Activities</b>	<b>\$104,458,831</b>	<b>\$71,230,000</b>	<b>\$26,836,207</b>	<b>\$148,852,624</b>	<b>\$15,342,762</b>
<b>Business-Type Activities:</b>					
Sewer Bonds	\$ 16,700,000	\$ 9,145,000	\$ 9,650,000	\$ 16,195,000	\$ 555,000
Compensated Absences	410,546	515	-	411,062	41,106
<b>Total Business-Type Activities</b>	<b>\$ 17,110,546</b>	<b>\$ 9,145,515</b>	<b>9,650,000</b>	<b>\$ 16,606,062</b>	<b>\$ 596,106</b>
<b>Total Long-Term Debt</b>	<b>\$121,569,377</b>	<b>\$80,375,515</b>	<b>\$36,486,207</b>	<b>\$165,458,686</b>	<b>\$15,938,868</b>

**TABLE IV**  
**OUTSTANDING LONG-TERM DEBT**  
As of December 31, 2011

	Total			Total	
	Outstanding	Increases	Decreases	Outstanding	Due Within
	Dec. 31, 2010			Dec. 31, 2011	One Year
<b>Governmental Activities:</b>					
G.O. Bonds Payable	\$ 10,265,000	\$ -	\$ 440,000	\$ 9,825,000	\$ 760,000
Revenue Bonds	755,000	-	755,000	-	-
Special Assessment Bonds	94,371,000	17,920,000	18,587,000	93,704,000	9,199,000
Compensated Absences	632,698	297,133	-	929,831	92,983
<b>Total Governmental Activities</b>	<b>\$106,023,698</b>	<b>\$18,217,133</b>	<b>\$19,782,000</b>	<b>\$104,458,831</b>	<b>\$ 10,051,983</b>
<b>Business-Type Activities:</b>					
Sewer Bonds	\$ 17,180,000	\$ -	\$ 480,000	\$ 16,700,000	\$ 500,000
Contracts Payable	167,445	-	167,445	-	-
Compensated Absences	225,434	185,112	-	410,546	41,054
<b>Total Business-Type Activities</b>	<b>\$ 17,572,879</b>	<b>205,402</b>	<b>647,445</b>	<b>\$ 17,110,546</b>	<b>541,054</b>
<b>Total Long-Term Debt</b>	<b>\$123,596,577</b>	<b>\$18,422,535</b>	<b>\$20,429,445</b>	<b>\$121,569,377</b>	<b>\$10,593,037</b>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Projects in 2012 that boosted the economy in West Fargo included the addition of \$40,000,000 in various street, water and sewer, storm sewer, street lighting projects in various new subdivisions of the city. Also the city issued 411 single family building permits in 2012 along with 430 townhome and 841 apartment units. The City anticipated that the level on new construction will increase in 2013. The value of a mill for the City is expected to increase from \$79,156 to \$88,524 per mill.

The total operation appropriations for the year 2013 increased by approximately \$2,706,712 from 2012. This 8.4% increase is caused primarily by increases in Capital Purchases and increased employee salaries and benefits.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances and to demonstrate the City's accountability for the money it receives to the citizens of West Fargo. If you have any questions about this report or need further information, contact the City of West Fargo Finance Department, 800 4<sup>th</sup> Ave. E., West Fargo, ND 58078 or visit us online at [www.westfargond.gov](http://www.westfargond.gov).

CITY OF WEST FARGO  
West Fargo, North Dakota

STATEMENT OF NET POSITION  
December 31, 2012

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Airport	Library
<b>ASSETS:</b>					
Cash and investments	\$ 24,535,897	\$ 7,367,354	\$ 31,903,250	\$ 157,479	\$ 432,172
Accounts receivable	60,962	602,371	663,333	-	-
Intergovernmental receivable	1,270,951	-	1,270,951	-	-
Prepaid expenses	2,850	-	2,850	-	-
Loan receivable	474,851	-	474,851	-	-
Taxes receivable	79,000	-	79,000	1,742	9,673
Special assessments receivable - current	442,148	-	442,148	-	-
Long-Term Receivable:					
Long-term special assessments receivable	118,806,034	-	118,806,034	-	-
Capital Assets not being depreciated:					
Land	7,747,632	774,500	8,522,132	115,000	-
Construction in progress	19,238,648	-	19,238,648	-	-
Capital Assets being depreciated:					
Improvements to land	-	-	-	12,775	-
Buildings	1,200,238	2,157,959	3,358,197	204,652	-
Equipment	1,255,532	1,822,229	3,077,761	5,786	-
Infrastructure	59,203,600	172,069,790	231,273,390	-	-
Total Capital Assets	<u>\$ 88,645,650</u>	<u>\$ 176,824,478</u>	<u>\$ 265,470,128</u>	<u>\$ 338,213</u>	<u>\$ -</u>
Total Assets	<u>\$ 234,318,343</u>	<u>\$ 184,794,202</u>	<u>\$ 419,112,545</u>	<u>\$ 497,434</u>	<u>\$ 441,845</u>
<b>LIABILITIES:</b>					
<b>Current Liabilities:</b>					
Accounts payable	\$ 8,999	\$ 3,949	\$ 12,948	\$ -	\$ -
Retainages payable	869,754	-	869,754	-	-
Interest payable	774,148	118,838	892,985	-	-
Long-Term Liabilities:					
Portion Due or Payable Within One Year:					
Bonds payable	15,250,000	555,000	15,805,000	-	-
Compensated absences	92,762	41,106	133,869	-	5,466
Portion Due or Payable After One Year:					
Bonds payable	132,675,000	15,640,000	148,315,000	-	-
Compensated absences	834,861	369,956	1,204,817	-	49,190
Total Liabilities	<u>\$ 150,505,525</u>	<u>\$ 16,728,849</u>	<u>\$ 167,234,373</u>	<u>\$ -</u>	<u>\$ 54,656</u>
<b>NET POSITION:</b>					
Net investment in capital assets	\$ (59,279,350)	\$ 160,629,478	\$ 101,350,128	\$ 338,213	\$ -
Restricted for:					
General government	287,219	-	287,219	-	-
Public works/streets	615,190	-	615,190	-	-
Culture & recreation	224,920	-	224,920	-	-
Economic development	8,656	-	8,656	-	-
Other special purposes/capital projects	10,300,533	-	10,300,533	-	-
Debt service	137,303,828	-	137,303,828	-	-
Loans	474,851	-	474,851	-	-
Unrestricted	(6,123,029)	7,435,876	1,312,847	159,221	387,189
Total Net Position	<u>\$ 83,812,817</u>	<u>\$ 168,065,354</u>	<u>\$ 251,878,171</u>	<u>\$ 497,434</u>	<u>\$ 387,189</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WEST FARGO  
West Fargo, North Dakota

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units	
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Airport	Library
<b>Primary Government:</b>									
<b>Governmental Activities:</b>									
General government	\$ 2,679,151	\$ 789,815	\$ -	\$ -	\$ (1,889,336)		\$ (1,889,336)		
Public safety	5,725,264	691,267	463,077	-	(4,570,920)		(4,570,920)		
Public works/streets	5,341,210	1,568,566	2,371,342	58,935,335	57,534,033		57,534,033		
Economic development	74,928	-	-	-	(74,928)		(74,928)		
Culture and recreation	2,004,381	1,032,424	-	-	(971,957)		(971,957)		
Interest & costs on long-term debt	4,105,963	-	-	-	(4,105,963)		(4,105,963)		
<b>Total Governmental Activities</b>	<b>\$ 19,930,896</b>	<b>\$ 4,082,072</b>	<b>\$ 2,834,419</b>	<b>\$ 58,935,335</b>	<b>\$ 45,920,929</b>		<b>\$ 45,920,929</b>		
<b>Business-Type Activities:</b>									
Water and sewer	\$ 9,361,875	\$ 6,223,715	\$ -	\$ -	\$ -	\$ (3,138,160)	\$ (3,138,160)		
Health and sanitation	2,468,319	2,070,448	-	-	-	(397,871)	(397,871)		
<b>Total Business-Type Activities</b>	<b>\$ 11,830,194</b>	<b>\$ 8,294,163</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (3,536,031)</b>	<b>\$ (3,536,031)</b>		
<b>Total Primary Government</b>	<b>\$ 31,761,090</b>	<b>\$ 12,376,235</b>	<b>\$ 2,834,419</b>	<b>\$ 58,935,335</b>	<b>\$ 45,920,929</b>	<b>\$ (3,536,031)</b>	<b>\$ 42,384,898</b>		
<b>Component Units:</b>									
Library	\$ 718,707	\$ 14,717	\$ -	\$ -				\$ -	\$ (703,990)
Airport	167,781	17,715	-	-				(150,066)	-
<b>Total Component Units</b>	<b>\$ 886,488</b>	<b>\$ 32,432</b>	<b>\$ -</b>	<b>\$ -</b>				<b>\$ (150,066)</b>	<b>\$ (703,990)</b>
<b>General Revenues:</b>									
<b>Taxes:</b>									
Property taxes, levied for general purposes					\$ 5,184,798	\$ -	\$ 5,184,798	\$ 121,843	\$ 692,225
Property taxes, levied for debt service					1,045,514	-	1,045,514	-	-
Property taxes, levied for special purposes					883,030	-	883,030	-	-
Sales taxes					3,422,503	-	3,422,503	-	-
Franchise taxes					440,046	-	440,046	-	-
State aid distribution & other unrestricted revenues					2,801,799	-	2,801,799	41,304	40,631
Unrestricted investment interest earnings					921,825	11,995	933,820	404	1,494
Miscellaneous income					953,918	275,786	1,229,704	-	2,495
Bond discount/issuance costs					-	(114,313)	(114,313)	-	-
Bond premium					-	268,503	268,503	-	-
Transfers					(40,134,982)	40,134,981	-	-	-
<b>Total General Revenues and Transfers</b>					<b>\$ (24,481,549)</b>	<b>\$ 40,576,953</b>	<b>\$ 16,095,404</b>	<b>\$ 163,551</b>	<b>\$ 736,845</b>
<b>Change in Net Position</b>					<b>\$ 21,439,380</b>	<b>\$ 37,040,922</b>	<b>\$ 58,480,302</b>	<b>\$ 13,485</b>	<b>\$ 32,855</b>
<b>Net Position - January 1</b>					<b>\$ 62,070,696</b>	<b>\$ 138,061,437</b>	<b>\$ 200,132,133</b>	<b>\$ 483,951</b>	<b>\$ 354,335</b>
<b>Prior Period Adjustments</b>					<b>302,741</b>	<b>(7,037,005)</b>	<b>(6,734,264)</b>	<b>-</b>	<b>-</b>
<b>Net Position - January 1, as restated</b>					<b>\$ 62,373,437</b>	<b>\$ 131,024,432</b>	<b>\$ 193,397,869</b>	<b>\$ 483,951</b>	<b>\$ 354,335</b>
<b>Net Position - December 31</b>					<b>\$ 83,812,817</b>	<b>\$ 168,065,354</b>	<b>\$ 251,878,171</b>	<b>\$ 497,436</b>	<b>\$ 387,190</b>

The notes to the financial statements are an integral part of this statement.

CITY OF WEST FARGO  
West Fargo, North Dakota

BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2012

	General Fund	Sales Tax Fund	Debt Service Funds	Capital Projects Funds	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and investments	\$ 10,316,229	\$ 4,195,426	\$ 3,041,750	\$ -	\$ 6,982,491	\$ 24,535,897
Accounts receivable	41,220	-	-	7,076	12,666	60,962
Intergovernmental receivable	566,914	309,389	-	-	394,648	1,270,951
Loan receivable	74,851	-	400,000	-	-	474,851
Taxes receivable	64,770	-	1,800	-	12,430	79,000
Prepaid expense	-	-	-	-	2,850	2,850
Special assessments receivable - current	-	-	442,148	-	-	442,148
Special assessments receivable - deferred	-	-	118,806,034	-	-	118,806,034
Due from other city funds	-	-	15,793,321	-	-	15,793,321
<b>Total Assets</b>	<b>\$ 11,063,985</b>	<b>\$ 4,504,815</b>	<b>\$ 138,485,053</b>	<b>\$ 7,076</b>	<b>\$ 7,405,085</b>	<b>\$ 161,466,014</b>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 6,620	\$ -	\$ -	\$ -	\$ 2,380	\$ 8,999
Retainages payable	-	-	-	869,754	-	869,754
Due to other city funds	-	-	-	15,793,321	-	15,793,321
<b>Total Liabilities</b>	<b>\$ 6,620</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 16,663,075</b>	<b>\$ 2,380</b>	<b>\$ 16,672,074</b>
<b>Deferred Inflows of Resources</b>						
Deferred taxes & special assmts. rec.	\$ 64,770	\$ -	\$ 119,249,982	\$ -	\$ 12,430	\$ 119,327,182
<b>Fund Balances:</b>						
<b>Non-Spendable:</b>						
Loans Receivable	\$ 74,851	\$ -	\$ 400,000	\$ -	\$ -	\$ 474,851
Prepaid Expenses	-	-	-	-	2,850	2,850
<b>Restricted:</b>						
Debt service	-	-	18,835,071	-	-	18,835,071
General government	-	-	-	-	458,940	458,940
Public safety	-	-	-	-	235,287	235,287
Public works/streets	-	-	-	-	737,085	737,085
Culture & recreation	-	-	-	-	224,920	224,920
Economic development	-	-	-	-	8,656	8,656
<b>Committed:</b>						
Sales Tax Fund	-	4,504,815	-	-	-	4,504,815
Future Building Fund	-	-	-	-	5,795,718	5,795,718
<b>Unassigned:</b>						
Negative Fund Balances	-	-	-	(16,655,999)	(73,181)	(16,729,180)
General fund	10,917,744	-	-	-	-	10,917,744
<b>Total Fund Balances</b>	<b>\$ 10,992,595</b>	<b>\$ 4,504,815</b>	<b>\$ 19,235,071</b>	<b>\$ (16,655,999)</b>	<b>\$ 7,390,275</b>	<b>\$ 25,466,757</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 11,063,985</b>	<b>\$ 4,504,815</b>	<b>\$ 138,485,053</b>	<b>\$ 7,076</b>	<b>\$ 7,405,085</b>	<b>\$ 161,466,013</b>

The notes to the financial statements are an integral part of this statement.

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CITY OF WEST FARGO  
West Fargo, North Dakota

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
December 31, 2012

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Total *Fund Balances* for Governmental Funds \$ 25,466,757

Total Net Position reported for governmental activities in the statement of Net Position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 7,747,632	
Construction in progress (not depreciated)	19,238,648	
Infrastructure, net of (\$31,197,523) accumulated depreciation	59,203,600	
Buildings, net of (\$ 871,757) accumulated depreciation	1,200,238	
Equipment, net of (\$ 1,715,870) accumulated depreciation	<u>1,255,532</u>	
Total Capital Assets		88,645,650

Most of the City's taxes and special assessments will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenue in the funds.

Long-Term Uncertified Special Assessments Receivable	\$ 118,806,034	
Uncollected Taxes Receivable	79,000	
Special Assessments Receivable	<u>442,148</u>	119,327,182

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities --both current and long-term--are reported in the statement of Net Position. Balances at December 31, 2012 are:

Accrued Interest on Bonds	\$ (774,148)	
Bonds Payable	(147,925,000)	
Compensated Absences	<u>(927,624)</u>	
Total Long-Term Liabilities		<u>(149,626,772)</u>

Total Net Position of Governmental Activities \$ 83,812,817

The notes to the financial statements are an integral part of this statement.

CITY OF WEST FARGO  
West Fargo, North Dakota

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2012

	General Fund	Sales Tax Fund	Debt Service Funds	Capital Projects Funds	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Taxes	\$ 5,212,092	\$ -	\$ 1,045,514	\$ -	\$ 888,446	\$ 7,146,052
Special assessments	-	-	14,854,466	-	-	14,854,466
Sales taxes	-	3,422,503	-	-	-	3,422,503
Licenses, permits and fees	585,955	-	-	-	-	585,955
Charges for services	632,848	-	118,088	-	2,865,561	3,616,497
Intergovernmental	2,637,619	-	-	-	3,027,120	5,664,739
Fines, forfeitures and penalties	291,146	-	-	-	-	291,146
Interest on investments	78,571	6,329	25,511	1,793	809,621	921,825
Miscellaneous	56,671	-	819,301	55,210	22,736	953,918
<b>Total Revenues</b>	<b>\$ 9,494,901</b>	<b>\$ 3,428,832</b>	<b>\$ 16,862,879</b>	<b>\$ 57,003</b>	<b>\$ 7,613,484</b>	<b>\$ 37,457,100</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General government	\$ 2,061,652	\$ -	\$ -	\$ -	\$ 547,423	\$ 2,609,074
Public safety	4,492,939	-	-	-	1,185,501	5,678,440
Public works/streets	1,541,172	-	-	-	-	1,541,172
Economic development	-	-	-	-	74,928	74,928
Culture and recreation	-	-	-	-	2,002,131	2,002,131
<b>Debt Service:</b>						
Principal - Bonds	-	-	26,834,000	-	-	26,834,000
Interest	-	-	3,795,786	-	-	3,795,786
Fiscal charges & other costs	-	-	537,905	-	-	537,905
Capital outlay	-	-	-	38,935,777	-	38,935,777
<b>Total Expenditures</b>	<b>\$ 8,095,763</b>	<b>\$ -</b>	<b>\$ 31,167,691</b>	<b>\$ 38,935,777</b>	<b>\$ 3,809,983</b>	<b>\$ 82,009,214</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ 1,399,139</b>	<b>\$ 3,428,832</b>	<b>\$ (14,304,812)</b>	<b>\$ (38,878,774)</b>	<b>\$ 3,803,501</b>	<b>\$ (44,552,114)</b>
<b>Other Financing Sources (Uses):</b>						
Proceeds from bond sale	\$ -	\$ -	\$ 19,309,462	\$ 51,920,538	\$ -	\$ 71,230,000
Bond premium	-	-	690,115	-	-	690,115
Bond issuance costs	-	-	(304,378)	-	-	(304,378)
Transfers in	2,469,225	-	11,578,570	2,614,354	2,717,563	19,379,713
Transfers out	(1,250,340)	(2,456,000)	(10,839,696)	(1,061,137)	(2,142,331)	(17,749,503)
<b>Total Other Financing Sources and Uses</b>	<b>\$ 1,218,885</b>	<b>\$ (2,456,000)</b>	<b>\$ 20,434,073</b>	<b>\$ 53,473,755</b>	<b>\$ 575,233</b>	<b>\$ 73,245,947</b>
<b>Net Change in Fund Balances</b>	<b>\$ 2,618,024</b>	<b>\$ 972,832</b>	<b>\$ 6,129,261</b>	<b>\$ 14,594,981</b>	<b>\$ 4,378,734</b>	<b>\$ 28,693,833</b>
<b>Fund Balances - January 1</b>	<b>\$ 8,374,572</b>	<b>\$ 3,531,983</b>	<b>\$ 13,105,809</b>	<b>\$ (31,250,981)</b>	<b>\$ 3,011,540</b>	<b>\$ (3,227,077)</b>
<b>Fund Balances - December 31</b>	<b>\$10,992,596</b>	<b>\$ 4,504,815</b>	<b>\$ 19,235,070</b>	<b>\$ (16,656,000)</b>	<b>\$ 7,390,274</b>	<b>\$ 25,466,756</b>

The notes to the financial statements are an integral part of this statement.

CITY OF WEST FARGO  
West Fargo, North Dakota

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2012

Net Change in *Fund Balances* - Total Governmental Funds \$ 28,693,833

The change in Net Position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays and capital contributions exceeded depreciation and losses on disposals of capital assets in the current period:

Capital Asset Additions and Contributions	\$ 41,214,106	
Transfer of Capital Assets to Enterprise Activities	(41,764,068)	
Depreciation on Capital Assets	(6,151,723)	
Losses on Disposal of Capital Assets	<u>(48,002)</u>	(6,749,687)

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of Net Position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of Net Position:

Debt Issued:		
Special Assessment Bonds	\$ (71,230,000)	
Repayments:		
Bond Principal	<u>26,834,000</u>	(44,396,000)

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes of the following balances:

Net Increase in Compensated Absences	\$ 2,208	
Net Decrease in Interest Payable	<u>(159,133)</u>	(156,925)

LT Special assessments are not considered as available resources in the governmental funds; however, they are revenues in the statement of activities of activities. Likewise, collections of LT special assessments are reported as revenues in the governmental funds; however, they are a reduction of receivables in the statement of activities. The net effect is:

44,486,527

Because some property taxes and special assessments will not be collected for several months after year end, they are not considered as available resources in the governmental funds. However, they are revenues in the statement of activities. The net effect is:

Net Decrease in Taxes Receivable	(32,710)	
Net Decrease in Special Assessments Receivable	<u>(405,658)</u>	

Change in Net Position of Governmental Activities \$ 21,439,380

The notes to the financial statements are an integral part of this statement.

CITY OF WEST FARGO  
West Fargo, North Dakota

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
December 31, 2012

	Business-Type Activities - Enterprise Funds		
	Water & Sewer Funds	Sanitation & Health Fund	Total
<b>ASSETS</b>			
Current Assets:			
Cash and investments	\$ 5,973,144	\$ 1,394,210	\$ 7,367,354
Accounts receivable	386,656	215,714	602,371
Total Current Assets	<u>\$ 6,359,800</u>	<u>\$ 1,609,924</u>	<u>\$ 7,969,724</u>
Noncurrent Assets:			
Capital Assets not being depreciated:			
Land	\$ 774,500	\$ -	\$ 774,500
Capital Assets being depreciated:			
Building	1,205,346	952,613	2,157,959
Equipment	980,309	841,920	1,822,229
Infrastructure	172,069,790	-	172,069,790
Total Noncurrent Assets	<u>\$ 175,029,945</u>	<u>\$ 1,794,533</u>	<u>\$ 176,824,478</u>
Total Assets	<u>\$ 181,389,745</u>	<u>\$ 3,404,457</u>	<u>\$ 184,794,202</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	\$ 3,949	\$ -	\$ 3,949
Interest payable	118,838	-	118,838
Bonds payable	555,000	-	555,000
Compensated absences	32,590	8,516	41,106
Total Current Liabilities	<u>\$ 710,377</u>	<u>\$ 8,516</u>	<u>\$ 718,893</u>
Noncurrent Liabilities:			
Bonds payable	\$ 15,640,000	\$ -	\$ 15,640,000
Compensated absences	293,311	76,645	369,956
Total Noncurrent Liabilities	<u>\$ 15,933,311</u>	<u>\$ 76,645</u>	<u>\$ 16,009,956</u>
Total Liabilities	<u>\$ 16,643,687</u>	<u>\$ 85,161</u>	<u>\$ 16,728,849</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 158,834,945	\$ 1,794,533	\$ 160,629,478
Unrestricted	5,911,113	1,524,763	7,435,876
Total Net Position	<u>\$ 164,746,058</u>	<u>\$ 3,319,296</u>	<u>\$ 168,065,354</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WEST FARGO  
West Fargo, North Dakota

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds		
	Water & Sewer Funds	Sanitation & Health Fund	Total
<u>Operating Revenues:</u>			
Charges for sales services	\$ 6,223,715	\$ 2,070,448	\$ 8,294,163
<u>Operating Expenses:</u>			
Water and sewer operating	\$ 3,049,171	\$ -	\$ 3,049,171
Sanitation operating	-	2,304,534	2,304,534
Depreciation	5,385,168	163,785	5,548,953
Total Operating Expenses	\$ 8,434,339	\$ 2,468,319	\$ 10,902,658
Operating Income	\$ (2,210,624)	\$ (397,871)	\$ (2,608,495)
<u>Nonoperating Revenues (Expenses):</u>			
Investment earnings	\$ 9,610	\$ 2,385	\$ 11,995
Miscellaneous	69,602	206,185	275,786
Bond premium	268,503	-	268,503
Bond discount	(114,313)	-	(114,313)
Interest expense	(909,732)	-	(909,732)
Fees	(17,804)	-	(17,804)
Total Nonoperating Revenue (Expenses)	\$ (694,134)	\$ 208,570	\$ (485,564)
Income Before Transfers	\$ (2,904,758)	\$ (189,302)	\$ (3,094,060)
Transfers in	\$ 41,873,490	\$ 626,779	\$ 42,500,269
Transfers out	(2,365,288)	-	(2,365,288)
Total net transfers	\$ 39,508,202	\$ 626,779	\$ 40,134,981
Changes in Net Position	\$ 36,603,444	\$ 437,478	\$ 37,040,922
Net Position - January 1	\$ 135,375,481	\$ 2,685,956	\$ 138,061,437
Prior Period Adjustment	(7,232,867)	195,862	(7,037,005)
Net Position - January 1, as restated	\$ 128,142,614	\$ 2,881,818	\$ 131,024,432
Net Position - December 31	\$ 164,746,058	\$ 3,319,296	\$ 168,065,354

The notes to the financial statements are an integral part of this statement.

CITY OF WEST FARGO  
West Fargo, North Dakota

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds		
	Water & Sewer Operating	Sanitation & Health Fund	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>			
Receipts from customers and users	\$ 6,247,276	\$ 1,998,289	\$ 8,245,565
Payments to suppliers	(1,649,489)	(1,516,975)	(3,166,464)
Payments to employees	(1,496,021)	(787,192)	(2,283,214)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 3,101,765</b>	<b>\$ (305,878)</b>	<b>\$ 2,795,888</b>
<u>Cash Flows from Noncapital Financing Activities:</u>			
Miscellaneous	\$ 24,385	\$ 832,964	\$ 857,349
Transfer in	109,422	-	109,422
Amount loaned to governmental activities	2,737,066	-	2,737,066
Transfers out	(2,365,288)	-	(2,365,288)
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>\$ 505,585</b>	<b>\$ 832,964</b>	<b>\$ 1,338,549</b>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Principal paid on capital debt	\$ (9,650,000)	\$ -	\$ (9,650,000)
Bond proceeds	9,145,000	-	9,145,000
Premium on debt	197,849	-	197,849
Interest & fees paid on capital debt	(1,041,848)	-	(1,041,848)
Interest subsidy (build America bonds)	76,802	-	76,802
Construction of capital assets	(368,454)	(169,812)	(538,266)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>\$ (1,640,651)</b>	<b>\$ (169,812)</b>	<b>\$ (1,810,463)</b>
<u>Cash Flows from Investing Activities:</u>			
Interest income	\$ 10,101	\$ 2,385	\$ 12,486
<b>Net Increase in Cash and Cash Equivalents</b>	<b>\$ 1,976,801</b>	<b>\$ 359,659</b>	<b>\$ 2,336,460</b>
Cash and Cash Equivalents - January 1	\$ 3,996,343	\$ 1,034,550	\$ 5,030,893
Cash and Cash Equivalents - December 31	<b>\$ 5,973,144</b>	<b>\$ 1,394,209</b>	<b>\$ 7,367,353</b>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</u>			
Operating income (loss)	\$ (2,210,624)	\$ (397,871)	\$ (2,608,495)
<u>Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:</u>			
Depreciation expense	5,385,168	163,785	5,548,953
Increase in utility billing receivables	(92,215)	(72,158)	(164,373)
Increase in compensated absences	149	367	516
Net change in accrued payables	(3,949)	-	(3,949)
Loss on sale of asset	(892)	-	(892)
Decrease in interest payable	24,128	-	24,128
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 3,101,765</b>	<b>\$ (305,878)</b>	<b>\$ 2,795,887</b>

The notes to the financial statements are an integral part of this statement.

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CITY OF WEST FARGO  
West Fargo, North Dakota

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
December 31, 2012

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	<u>Agency Funds</u>
<u>ASSETS:</u>	
Cash and investments	<u>\$ 620,257</u>
<u>LIABILITIES:</u>	
Due to others	<u>\$ 620,257</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF WEST FARGO  
West Fargo, North Dakota

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2012

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of West Fargo operates under a home rule charter and various city ordinances, as well as under certain statutes as outlined in the North Dakota Century Code. The financial statements of the City of West Fargo have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of the City of West Fargo. The City of West Fargo has considered all potential component units for which the city is financially accountable, and other organizations for which the nature and significance of their relationship with the city are such that exclusion would cause the city's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. The criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City of West Fargo to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City of West Fargo.

Based on these criteria, there are two component units to be included within the City of West Fargo as a reporting entity.

**DISCRETELY PRESENTED COMPONENT UNITS**

The component units' columns in the basic financial statements include the financial data of the city's two component units. These units are reported in a separate column to emphasize that they are legally separate from the city.

West Fargo Airport Authority - The City's governing board appoints a voting majority of the members of the Authority's Board. The city has the authority to approve or modify the Airport Authority's operational and capital budgets. The city also must approve the tax levy established by the Airport Authority.

West Fargo Municipal Library - The City's governing board appoints a voting majority of the members of the Library's Board. The city has the authority to approve or modify the Library's operational and capital budgets. The city also must approve the tax levy established by the Library.

Complete financial statements for the component units may be obtained by contacting the City Finance Director at 800 4<sup>th</sup> Ave. East, West Fargo, ND 58078.

**B. Government-wide and fund financial statements**

*Government-wide statements:* The statement of net position displays information on the financial activities of the City, with the exception of the fiduciary activities. Reporting on the internal activities has been eliminated to avoid duplication on the statements. The statements distinguish between governmental activities – which are normally financed through taxes and intergovernmental revenues – and business type activities – which are normally financed in whole or in part by fees and charges for services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities compares the direct expenses and program revenues for both the functions of the governmental activities and business-type activities of the City. Direct expenses are clearly identifiable with a specific function. Indirect expenses allocations have been eliminated for the statement of financial activities. Program revenues include 1) fines, fees and charges for services to customers that benefit from the services provided, and 2) operating grants and contributions, and 3) capital grants are contributions, including special assessments. General revenues, including taxes, are those revenues that are not properly classified as program revenue.

*Fund Financial Statements:* The fund financial statements provide information about the city's funds including its fiduciary funds. Separate statements for each fund category-governmental, proprietary and fiduciary-are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, results from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental funds:

*General Fund.* The general fund is the general operating fund of the city. It is used to account for all financial resources except those required to be accounted for in another fund.

*Sales Tax Fund:* The sales tax fund is used to account for the city sales tax revenue. The sales tax fund is a major special revenue fund with a committed revenue stream to transfer to debt service funds and to close out various capital projects.

*Debt Service Funds:* Debt service funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs. Revenue sources in this fund are restricted solely for debt retirement.

*Capital Projects Funds.* Capital projects funds are used to account for financial resources, including special assessments, to be used for the acquisition or construction of major capital facilities, (other than those financed by proprietary funds and trust funds).

The City reports the following major proprietary funds:

*Water and Sewer Fund:* This fund accounts for the provisions of water and sewer services to the residents of the City.

*Sanitation & Health Fund:* This fund is used to account for the provisions of garbage pickup and landfill services to the residents of the City.

In addition, the City reports the following fund type:

*Agency Funds:* Agency funds are used to account for assets held by the city as an agent for individuals, private organizations, other governments and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations

### C. Measurement Focus and Basis of Accounting

Government-wide, proprietary, and Fiduciary Fund Financial Statements: The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available. The City considers revenues to be available if they are collected within sixty days after year-end. Special assessments, intergovernmental revenues, charges for services and investment income are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources as they are needed.

### D: Assets, Liabilities and Fund Balances/Net Position

#### 1. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits and money market accounts.

Investments consist of certificates of deposit, with a maturity date in excess of 90 days, CDAR investments, with a maturity of 28 days, stated at cost.

#### 2. Receivables and Payables

Activities between funds that are representative of lending/borrowing transaction outstanding at the end of the fiscal year are designated as either "due to other funds" or "due from other funds" in the governmental fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

**CITY OF WEST FARGO**

Notes to the Financial Statements - Continued

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All real estate is assessed as of the current value on February 1<sup>st</sup> of each year. Property taxes are attached as an enforceable lien on the real estate and become due on January 1<sup>st</sup> of the year following the assessment date. A 5% reduction of the taxes is allowed if the taxes are paid in full by February 15<sup>th</sup>.

Penalty and interest are added on March 1<sup>st</sup> if the first half of the year taxes is not paid. Additional penalty and interest are added October 15<sup>th</sup> to those taxes that are not paid. Taxes are collected by the County and remitted to the City monthly.

The City is permitted under provisions of the Home Rule Charter to levy taxes as needed for general governmental services and payment of principal and interest on long-term debt.

**3. Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental and business-type activities columns in the government-wide financial statements. Capital assets are defined as having an individual cost of \$5,000 or more and have a useful life in excess of two years. Capital assets are valued at historical or estimated historical cost if actual cost historical cost is not available. Donated capital assets are valued at estimated fair value on the date donated.

Major outlays for capital assets and improvements, including infrastructure, are capitalized as projects are constructed.

Depreciation has been provided over the estimated useful life, using the straight-line method for the City and the discretely presented component units, as follows:

<b>Assets</b>	<b>Years</b>
Buildings	30-50
Equipment	5-20
Vehicles	5-10
Infrastructure	20-40

**4. Compensated Absences**

Employees accrue vacation leave at a rate of four hours per month for the first year of service. The accrual rate is increased to seven hours per month from two to four years of continuous service, and nine hours per month from five to nine years of service, twelve hours per month from ten to fourteen years of service, fourteen hours per month from fifteen to nineteen years of service and sixteen hours per month for over twenty years of service. A maximum of 240 vacation hours is payable upon termination. Accumulated unpaid vacation is accrued when earned in the government-wide and proprietary fund statements.

Sick leave is accrued at a rate of four hours per month for from one to five years of service and eight hours per month of continuous service after five years. A maximum of 480 hours sick leave is payable upon termination with ten or more years of service. Accumulated unpaid sick leave is accrued when earned in the government-wide and proprietary fund statements.

**5. Long-Term Obligations**

In the government-wide financial statements and proprietary fund statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**CITY OF WEST FARGO**

Notes to the Financial Statements - Continued

In the fund financial statements, governmental fund types recognize bond discounts and premiums, as well as bond issuance costs, during the current period. The face amount of the debt is reported as other financing sources.

6. Fund Balances & Net Position

Prior to GASB Statement No. 54, in the fund financial statements, the governmental funds reported reservations of fund balances for amounts that were not available for appropriation or were legally restricted by outside parties for use for a specific purpose. Designations of fund balances represented tentative management plans that were subject to change. GASB Statement No. 54 established new fund balance spending priorities, minimum fund balance policies, and fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

***Fund Balance Spending Policy:***

It is the policy of the City of West Fargo to spend restricted resources first, followed by unrestricted resources. It is also the policy of the Board to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

***GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions***

On March 11, 2009 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for fiscal periods that begin after June 15, 2010. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below:

<b>CLASSIFICATION</b>	<b>DEFINITION</b>	<b>EXAMPLES</b>
Nonspendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables, endowment funds.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. (b) Imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose.
Committed	A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, City Commission formal action is required to be taken to establish, modify or rescind a fund balance commitment.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the business manager.	By city administrator action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is fund balance that has not been reported in any other classification. (a) The General Fund is the only fund that can report a positive unassigned fund balance	Available for any remaining general fund expenditure.

## CITY OF WEST FARGO

### Notes to the Financial Statements - Continued

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The City of West Fargo reports non-spendable fund balance, restricted fund balances, committed fund balances, and unassigned fund balances at December 31, 2012.

Non-spendable fund balances are reported in the general fund for a loan receivable of \$74,851, debt service funds \$400,000 for a loan receivable, and building special revenue fund of \$2,850 for prepaid expenses.

Restricted fund balances are reported for the debt service fund of \$18,835,071 and various functions within the special revenue funds for restricted tax levies, and amounts restricted by state and federal grants/contracts totaling \$1,664,888.

Committed fund balances are reported for the sales tax fund for funds \$4,504,815 committed by the governing board to close out various capital projects and for debt service, and the New Building Fund in the amount of \$5,795,718 also committed by the governing board for construction starting in 2014.

Unassigned fund balances are reported for the remaining portion of the general fund \$10,917,744 and for negative fund balances reported in the capital projects fund (\$16,655,999) and special revenue funds (\$73,181) totaling (\$16,729,180).

#### **Net Position:**

Prior to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, net assets equity was reported in the statement of net assets. Subsequent to the issuance of GASB Statement No. 63, net position is reported in the statement of net position.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Net investment in capital assets is reported for capital assets less accumulated depreciation and any related debt (bonds payable) issued to construct them. The resources needed to repay this related debt must be provided from other sources, since the capital assets are not used to liquidate these liabilities. These assets are not available for future spending.

Restrictions of net position shown in the net position statement are due to restricted tax levies and restricted Federal & State grants/reimbursements. Net position balances in the statement of net position is also shown by primary function as fund balances are shown and are restricted for debt service, general government, public safety, public works/streets, culture & recreation, economic development and other special purposes.

Unrestricted net position is primarily unrestricted amounts related to the general fund and enterprise funds, and amounts reclassified for negative cash balances from capital projects funds and applicable special revenue funds. The unrestricted net position is available to meet the district's ongoing obligations.

#### **7. Inter-fund Transactions**

In the fund statements, transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reduction of expenditures in the fund that is reimbursed. All other transactions, except reimbursements, are reported as transfers.

**CITY OF WEST FARGO**

Notes to the Financial Statements - Continued

**NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

A: Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position:

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of the \$58,346,060 differences are as follows:

Total Governmental Fund Balances		\$ 25,466,757
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		88,645,650
Other long-term assets are not available to pay current period expenditures and therefore are not reported in the funds (taxes & special assessments receivables)		119,327,182
Long-term liabilities, including bonds payable and accrued interest payable, and are not due and payable in the current period and therefore are not reported in the funds.		
Bonds Payable	\$(147,925,000)	
Interest Payable	(774,148)	
Compensated Absences Payable	(927,624)	(149,626,772)
Net Position of Governmental Activities		\$ 83,812,817

B: Explanation of certain differences between the governmental fund statements of revenue, expenditures, and changes in fund balances and the government-wide statement of activities:

The governmental fund statements of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balance – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the useful lives and reported as depreciation expenses.” The details of this \$7,254,453 difference are as follows:

Net Changes in Fund Balance-Governmental Funds	\$ 28,693,833
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount that capital outlay, exceeded depreciation and capital asset losses.	35,014,381
Accrued interest reported in the statement of activities does not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(159,133)
Accrued compensated absences reported in the statement of activities does not require current financial resources and therefore, are not reported as expenditures in the governmental funds.	2,208

**CITY OF WEST FARGO**

Notes to the Financial Statements - Continued

CONTINUED....

Capital grants & transfers to capital assets to enterprise funds are not reported in the fund financial statements, however, a capital contribution is reported in the enterprise funds and a transfer is reported in the governmental activities at the government-wide level.	\$(41,764,068)
Because some property taxes will not be collected for several months after year-end, they are not considered as available revenues in the governmental funds. However, they are revenues in the statement of activities.	(32,710)
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the changes in fund balance. In the statement of net position, however the, issuing debt increases long-term liabilities and does not affect the statement of activities.	(71,230,000)
Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in net position.	26,834,000
Special assessments levied in the current period are not considered as available revenues in the governmental funds, however they are revenues in the statement of activities. Likewise collection of current special assessments are reported as revenues in the governmental funds, however they are a reduction of the receivables in the statement of activities. The net effect is:	(405,658)
Change in Net Position of Governmental Activities	\$ 21,439,380

**NOTE 3: STEWARDSHIP, COMPLIANCE AND ACCCOUNTABILITY**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted accounting in the United States of America (GAAP) for the General Fund, Special Revenue Funds, and the Debt Service Funds.

Based upon available financial information and requests by the governing board, the city auditor prepares the preliminary city budget. The city budget is by function and activity on the modified accrual basis of accounting. The preliminary budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

The governing board holds a public hearing where any taxpayer may testify in favor of or against any proposed expenditure or tax levies requested in the preliminary budget. After the budget hearing and on or before October 1, the board adopts the final budget. The final budget must be filed with the county auditor by October 10. No expenditure shall be made or liability incurred in excess of the total appropriation by fund. However, the governing board may amend the budget during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The board must approve the budget amendments and the approval must be noted in the proceedings of the board.

**CITY OF WEST FARGO**

## Notes to the Financial Statements - Continued

The governing board approved the following budget amendments to the 2012 city budget (expenditures and transfers out):

<b>Fund #</b>	<b>Description</b>	<b>Amendment</b>
2050	Park	\$1,445,160
2080	Building and Technology Fund	104,429
2230	City Utility	40,553
2240	Food Control	25,779
2350	DARE	(64,445)
2600	Future Building	4,688
2960	Economic Development	15,000
2970	Capital Improvements	54,000
2980	South Facilities Hookup	70,224
3342	Sidewalk Refunding Bonds 2004	37,152
3350	Refunding Impr. Bonds 2005-B	6,219,058
3352	Refunding Impr. Bonds 2005-D	3,896,664
3360	Refunding Impr. Bonds 2012B	6,054,710
3375	Refunding Impr. Bonds 2012A	653,841
3376	Sidewalk Refunding Bonds 2012	4,298
3377	Refunding Impr. Bonds 2012C	9,845,702
3378	Refunding Impr. Bonds 2012D	71,200
3379	Sales Tax Bonds of 2012	423,505
3670	Refunding Impr. Bonds 1998-B	700,168
3870	GO Bonds of 2009	9,670
7050	Airport Authority	21,000
Total		\$29,632,355

**NOTE 4: DETAILED NOTES ON ALL FUNDS****A. Deposits and Investments**

In accordance with North Dakota Statutes, the city maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, city, park district, or other political subdivision of the state of North Dakota. whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by any other state of the United States or such other securities approved by the banking board.

At year ended December 31, 2012, the city's carrying amount of deposits was \$33,106,083 and the bank balances were \$34,407,243. Of the bank balances, \$1,250,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

**CITY OF WEST FARGO**

Notes to the Financial Statements - Continued

Credit Risk:

The City may invest idle funds as authorized in North Dakota Statutes, as follows:

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- (b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- (c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.

As of December 31, 2012, the city held certificates of deposit totaling \$9,107,853.

The City's bond rating was Aa-3 during the year ended December 31, 2012.

B. Receivables

Receivables as of the year end for the government's individual major and non-major funds reported in the financial statements are as follows:

<b>Receivables:</b>	<b>General</b>	<b>Non Major Funds</b>	<b>Debt/ Cap.</b>	<b>Sales Tax</b>	<b>Water/ Sewer</b>	<b>Health/ Sanitation</b>	<b>Total</b>
Accounts/Loans Rec.	\$ 41,220	\$ 12,666	\$ 7,076	\$ -	\$386,656	\$215,714	\$ 663,333
Taxes Receivable	64,770	12,430	1,799	-	-	-	79,000
Loans Receivable	74,851	-	400,000	-	-	-	474,851
Specials-Current	-	-	442,148	-	-	-	442,148
Specials-LT Uncertified	-	-	118,806,034	-	-	-	118,806,034
Intergovt.-Receivable	566,914	394,648	-	309,389	-	-	1,270,951
<b>Total Receivables</b>	<b>\$747,756</b>	<b>\$419,744</b>	<b>\$119,657,058</b>	<b>\$309,389</b>	<b>\$386,656</b>	<b>\$215,714</b>	<b>\$121,736,317</b>

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred inflows of resources reported in the governmental funds balance sheet were as follows:

Taxes Receivable – General	\$ 64,770
Taxes Receivable - NM Funds	12,430
Taxes Receivable - Debt Service Funds	1,800
Special Assessments Receivable-Current	442,148
LT Uncertified Spec. Assessments Receivable	118,806,034
<b>Total Deferred Inflows - Balance Sheet</b>	<b>\$119,327,182</b>

The taxes receivable and special assessments receivable amounts represent the past three years of delinquent uncollected taxes. The long-term uncertified special assessments receivable represents amounts not yet certified/assessed, but are to be assessed in future years for various projects/debt service collections. No allowance has been established for uncollectible taxes or special assessments receivable, or long-term uncertified special assessments receivable.

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Any material collections are distributed after the end of the month.

**CITY OF WEST FARGO**

Notes to the Financial Statements - Continued

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1. The tax levy may be paid in two installments: the first installment includes one-half of the real estate taxes and all the special assessments; the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the 5% discount on the property taxes.

C. Inter-fund Receivables/Payables and Transfers

Interfund receivables & payables -- the amount of due to/from other funds represents the \$15,793,321 total that the capital projects funds owes the debt service funds over expending their share of the pooled cash account.

Interfund Cash Transfers:

The following is a schedule of cash interfund transfers for the year ended December 31, 2012 (does not include capital asset transfers between governmental and business-type activities totaling \$41,764,048):

Transfers Out	Transfers In					Total
	General	Debt Service	Capital Projects	Non-Major	Water & Sewer	
General Fund	\$ -	\$ -	\$ 108	\$1,250,232	\$ -	\$ 1,250,340
Sales Tax	-	956,000	500,000	1,000,000	-	2,456,000
Debt Service	-	10,622,570	-	213,584	3,542	10,839,696
Capital Projects	825,876	-	56,565	178,696	-	1,061,137
Non-Major Funds	1,642,225	-	500,105	-	-	2,142,331
Agency Funds	1,124	-	-	-	-	1,124
Water & Sewer	-	-	1,557,577	75,052	732,660	2,365,289
<b>Totals</b>	<b>\$2,469,225</b>	<b>\$11,578,570</b>	<b>\$2,614,355</b>	<b>\$2,717,563</b>	<b>\$736,202</b>	<b>\$20,115,915</b>

Transfers in/out consist of the following:

- \$2,365,289 from Water & Sewer to vector control fund, various capital projects funds, and other enterprise funds;
- \$1,617,225 from Highway tax to General to fund street expenses;
- \$25,000 from gaming funds to General for various expenses;
- \$827,000 into general fund reserve (general fund) from various capital projects funds;
- \$2,392,280 into the Future Building Fund from Sales Tax (\$1,000,000), General Fund (\$1,000,000), Sales Tax Revenue Bonds (\$110,595), and various capital projects funds totaling \$281,685;
- \$500,000 from the Sales Tax Fund to the Capital Improvements Fund;
- \$956,000 from the Sales Tax Fund to the 2009 G.O. Bonds Debt Service Fund for a scheduled payment;
- \$2,614,355 into Capital Projects to help finance various capital projects, and to close various completed capital projects funds;
- Transfers between various debt service funds to set up a debt reserve fund, to defease debt, and for other debt payments;

**CITY OF WEST FARGO**

Notes to the Financial Statements - Continued

D. Capital Assets

<b>Governmental Activities:</b>	<b>Balance 1-1-12</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-12</b>
<i>Capital assets not being depreciated:</i>				
Land	\$ 7,747,632	\$ -	\$ -	\$ 7,747,632
Construction in Progress	29,634,985	40,663,115	51,059,452	19,238,647
<b>Total Capital Assets, not being depreciated</b>	<b>\$37,382,617</b>	<b>\$40,663,115</b>	<b>\$51,059,452</b>	<b>\$26,986,280</b>
<i>Capital assets being depreciated:</i>				
Buildings	\$ 2,071,995	\$ -	\$ -	\$ 2,071,995
Equipment & Vehicles	2,735,313	550,992	314,903	2,971,402
Infrastructure	81,105,739	9,295,384	-	90,401,123
<b>Total Capital Assets, Being Depreciated</b>	<b>\$85,913,047</b>	<b>\$ 9,846,376</b>	<b>\$ 314,903</b>	<b>\$95,444,520</b>
<i>Less Accumulated Depreciation for:</i>				
Buildings	\$ 821,650	\$ 50,107	\$ -	\$ 871,757
Equipment & Vehicles	1,731,249	251,521	266,901	1,715,869
Infrastructure	25,347,429	5,850,095	-	31,197,524
<b>Total Accumulated Depreciation</b>	<b>\$27,900,328</b>	<b>\$ 6,151,723</b>	<b>\$ 266,901</b>	<b>\$33,785,150</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$58,012,719</b>	<b>\$ 3,364,653</b>	<b>\$ 48,002</b>	<b>\$61,659,370</b>
<b>Governmental Activities - Capital Assets, Net</b>	<b>\$95,395,336</b>	<b>\$44,357,768</b>	<b>\$51,107,454</b>	<b>\$88,645,650</b>

<b>Enterprise Activities:</b>	<b>Balance 1-1-12</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-12</b>
<i>Capital assets not being depreciated:</i>				
Land	\$ 774,500	\$ -	\$ -	\$ 774,500
Construction in Progress	5,059,563	-	5,059,563	-
<b>Total Capital Assets, not being depreciated</b>	<b>\$ 5,834,063</b>	<b>\$ -</b>	<b>\$5,059,563</b>	<b>\$ 774,500</b>
<i>Capital assets being depreciated:</i>				
Buildings	\$ 2,372,095	\$ -	\$ -	\$ 2,372,095
Equipment	6,571,500	538,266	193,713	6,916,053
Land Improvements	3,751,796	-	-	3,751,796
Infrastructure	161,281,221	46,823,631	-	208,104,852
<b>Total Capital Assets, Being Depreciated</b>	<b>\$173,976,612</b>	<b>\$47,361,897</b>	<b>\$ 193,713</b>	<b>\$221,144,796</b>
<i>Less Accumulated Depreciation for:</i>				
Buildings	\$ 166,694	\$ 47,442	\$ -	\$ 214,136
Equipment	4,919,692	366,952	192,821	5,093,824
Land Improvements	3,751,796	-	-	3,751,796
Infrastructure	30,900,503	5,134,559	-	36,035,062
<b>Total Accumulated Depreciation</b>	<b>\$ 39,738,685</b>	<b>\$ 5,548,953</b>	<b>\$ 192,821</b>	<b>\$ 45,094,818</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$134,237,927</b>	<b>\$41,812,944</b>	<b>\$ 892</b>	<b>\$176,049,978</b>
<b>Enterprise Capital Assets, Net</b>	<b>\$140,071,990</b>	<b>\$41,812,944</b>	<b>\$5,060,455</b>	<b>\$176,824,478</b>

**CITY OF WEST FARGO**

Notes to the Financial Statements - Continued

Depreciation expense was charged to the following functions/programs of the City's governmental activities for the current fiscal year (\$6,151,723):

<b>Governmental Activities:</b>	<b>Amounts</b>
General Government	\$ 61,694
Public Safety	142,892
Highways and Streets	5,944,887
Culture and Recreation	2,250
<b>Total Depreciation Expense-Government Activities</b>	<b>\$6,151,723</b>

Component Unit – Airport:

Capital Asset activity for the year ended December 31, 2012 was as follows for the Airport:

<b>Governmental Activities (Airport):</b>	<b>Balance 1-1-12</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-12</b>
<i>Capital assets not being depreciated:</i>				
Land	\$115,000	\$ -	\$ -	\$115,000
<i>Capital assets being depreciated:</i>				
Land Improvements	\$ 13,687	\$ -	\$ -	\$ 13,687
Building	260,007	-	-	260,007
Equipment	8,900	-	-	8,900
<b>Total Capital Assets, Being Depreciated</b>	<b>\$282,594</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$282,594</b>
<i>Less Accumulated Depreciation for:</i>				
Land Improvements	\$ 456	\$ 456	\$ -	\$ 912
Building	47,446	7,908	-	55,354
Equipment	2,670	445	-	3,115
<b>Total Accumulated Depreciation</b>	<b>\$ 50,572</b>	<b>\$8,809</b>	<b>\$ -</b>	<b>\$ 59,381</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$232,022</b>	<b>\$8,809</b>	<b>\$ -</b>	<b>\$223,213</b>
<b>Governmental Activities - Capital Assets, Net</b>	<b>\$347,022</b>	<b>\$8,809</b>	<b>\$ -</b>	<b>\$338,213</b>

E. Long-term Debt

**Changes in Long-Term Liabilities:**

During the year ended December 31, 2012, the following changes occurred in long-term liabilities of governmental and business type activities:

Primary Government – Governmental Activities:

<b>Governmental Activities:</b>	<b>Balance 1-1-12</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-12</b>	<b>Due Within One Year</b>
General Obligation Bonds	\$ 9,825,000	\$ -	\$ 760,000	\$ 9,065,000	\$ 640,000
Sales Tax Revenue Bonds	-	2,060,000	-	2,060,000	40,000
Special Assessment Bonds	93,704,000	69,170,000	26,074,000	136,800,000	14,570,000
Compensated Absences *	929,831	-	2,207	927,624	92,762
<b>Total Governmental Activities</b>	<b>\$104,458,831</b>	<b>\$71,230,000</b>	<b>\$26,836,207</b>	<b>\$148,852,624</b>	<b>\$15,342,762</b>

\* - The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and deductions.

**CITY OF WEST FARGO**

Notes to the Financial Statements - Continued

**Changes in Long-Term Liabilities:**

<b>Enterprise Business-Type Activities:</b>	<b>Balance 1-1-12</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-12</b>	<b>Due Within One Year</b>
Sewer Bonds	\$16,700,000	\$9,145,000	\$9,650,000	\$16,195,000	\$555,000
Compensated Absences *	410,547	515	-	411,062	41,106
<b>Total Governmental Activities</b>	<b>\$17,110,547</b>	<b>\$9,145,515</b>	<b>\$9,650,000</b>	<b>\$16,606,062</b>	<b>\$596,106</b>

\* - The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and deductions.

**General Obligation Bonds – Governmental Activities:**

The City issued general obligation bonds to provide funds for the construction of major capital assets for governmental type activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 20 year serial bonds with equal amounts maturing each year. General obligation bonds currently outstanding are as follows:

\$10,000,000 Refunding Bond G.O. Bonds of 2009 due in annual installments of \$310,000 to \$915,000 through 2024; interest at 2.50% to 4.35% \$9,065,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

<b>GOVERNMENTAL ACTIVITIES</b>		
<b>Year Ending December 31</b>	<b>G.O. Bonds Payable</b>	
	<b>Principal</b>	<b>Interest</b>
2013	\$ 640,000	\$ 314,513
2014	650,000	298,513
2015	670,000	282,513
2016	685,000	263,837
2017	705,000	243,288
2018 – 2021	3,780,000	987,557
2022 – 2026	2,640,000	228,852
<b>TOTALS</b>	<b>\$9,065,000</b>	<b>\$2,369,535</b>

The City also issued \$69,170,000 of special assessment debt in 2012 to provide funds for the construction of streets, water and sewer lines, storm sewers and street lights in new residential developments. These bonds will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the city must provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received. Additionally, \$2,060,000 of sales tax revenue bonds were issued for CostCo. Special assessment bonds, TIF bonds, and sales tax revenue bonds currently outstanding are as follows:

**Special Assessment Bonds (including TIF bonds):**

\$6,015,000 of Refunding Improvement Bonds of 2009, Series A, (refund of 2002A, 2001A and 2001C) due in annual installments of \$665,000 to \$775,000 through 2017; interest at 3.0% \$ 3,695,000

\$5,635,000 Refunding Improvement Bonds of 2008, Series A (refund of 2003B) due in one annual installment of \$3,375,000 (defeased in 2013); interest at 4.0% 3,375,000

**CITY OF WEST FARGO**Notes to the Financial Statements - Continued

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**Special Assessment Bonds (including TIF bonds): Continued**

\$5,430,000 Refunding Improvement Bonds of 2009, Series B (refund of 2003C and 2003D), due in annual installments of \$290,000 to \$825,000 through 2018; interest at 2.50% to 4.0%.	\$ 2,855,000
\$7,725,000 Refunding Improvement Bonds of 2009, Series C, due in annual installments of \$310,000 to \$340,000 through 2034; interest at 2.0% to 4.85%.	7,045,000
\$525,000 Sidewalk Warrants of 2010 (6048) due in annual installments of \$50,000 to \$55,000 through 2020; interest at 1.0% to 2.4%.	420,000
\$530,000 Municipal Bonds of 2009, due in annual installments of \$10,000 to \$35,000 through 2039; interest at 2.00% to 5.00%.	500,000
\$570,000 Tax Increment Revenue Bonds of 2009, due in annual installments of \$30,000 to \$50,000; interest at 2.75% to 4.5%.	510,000
\$5,935,000 Refunding Improvement Bonds of 2010, Series A, due in annual installments of \$600,000 to \$720,000 through 2019; interest at 1.25% to 3.50%.	4,495,000
\$7,130,000 Refunding Improvement Bonds of 2010, Series B, due in annual installments of \$265,000 to \$335,000 through 2035; interest at 2.0% to 4.4%.	6,835,000
\$4,730,000 Refunding Improvement Bonds of 2005, Series C, due in annual installments of \$240,000 to \$495,000 through 2016; interest at 4.0%.	1,695,000
\$10,340,000 Refunding Improvement Bonds of 2007, Series A, due in annual installments of \$180,000 to \$700,000 through 2023; interest at 4.0%.	7,065,000
\$6,345,000 Refunding Improvement Bonds of 2007, Series B due in annual installments of \$265,000 to \$460,000 through 2023; interest at 4.0% to 4.25%.	4,470,000
\$240,000 Sidewalk Bonds of 2007, due in annual installments of \$20,000 to \$25,000 through 2017; interest 4.0% to 4.1%	115,000
\$215,000 Sidewalk Bonds of 2008, due in annual installments of \$20,000 to \$25,000 through 2018; interest 3.15% to 4.0%.	120,000
\$2,735,000 Refunding Improvement Bonds 2008, Series B due in annual installments of \$175,000 to \$195,000 through 2023; interest 3.75% to 4.5%.	2,005,000
\$7,080,000 Refunding Improvement Bonds 2008, Series C due in annual installments of \$450,000 to \$485,000 through 2024; interest 3.5% to 4.75%.	5,565,000
\$2,645,000 Refunding Improvement Bonds 2011, Series B due in annual installments of \$175,000 to \$325,000 through 2020; interest 0.6% to 3.2%.	2,320,000

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**CITY OF WEST FARGO**

Notes to the Financial Statements - Continued

**Special Assessment Bonds (including TIF bonds): Continued**

\$9,960,000 Refunding Improvement Bonds 2011, Series C due in annual installments of \$380,000 to \$475,000 through 2036; interest 2.0% to 4.0%.	\$ 9,960,000
\$5,315,000 Refunding Improvement Bonds 2011, Series A due in annual installments of \$550,000 to \$630,000 through 2020; interest 2.0% to 4.0%.	4,690,000
\$55,000 Sidewalk Bonds of 2003, due in annual installments of \$5,000 through 2014 at 4.60% interest.	10,000
\$170,000 Sidewalk Bonds of 2012, due in annual installments of \$15,000 to \$20,000 through 2022 at 1.0% to 2.25% interest.	170,000
\$15,630,000 Refunding Improvement Bonds of 2012, Series A, due in annual installments of \$500,000 to \$825,000 through 2036; interest rate from 3.0% to 4.25%.	15,430,000
\$6,030,000 Refunding Improvement Bonds of 2012, Series B, refinance of 2006A, due in annual installments of \$595,000 to \$740,000 through 2021; interest rate from .35% to 1.85%.	6,030,000
\$9,740,000 Refunding Improvement Bonds of 2012, Series C, refinance of 2005B and 2005D, due in annual installments of \$405,000 to \$1,240,000 through 2021; interest rate from 1.50% to 4.50%.	9,740,000
\$37,600,000 Refunding Improvement Bonds of 2012, Series D, included refinance of 2008A, due in annual installments of \$1,145,000 to \$2,445,000 through 2037; interest rate from 2.00% to 3.375%.	<u>37,600,000</u>
Total Special Assessment Bonds	<u>\$136,800,000</u>

**Sales Tax Bonds (issued in 2012)**

\$2,060,000 Sales Tax Revenue Bond, Series 2012, due in annual payments of \$40,000 to \$410,000 through 2023; interest rate of 1.20% to 3.00%	<u>\$ 2,060,000</u>
Total of "Bonds" for Governmental Activities	<u>\$138,860,000</u>

Annual debt service requirements to maturity for special assessment and TIF bonds are as follows:

<b>GOVERNMENTAL ACTIVITIES</b>		
<b>Year Ending December 31</b>	<b>Special Assessment &amp; TIF Bonds</b>	
	<b>Principal</b>	<b>Interest</b>
2013	\$ 14,570,000	\$ 4,364,820
2014	12,185,000	3,551,603
2015	11,585,000	3,268,346
2016	11,075,000	2,991,218
2017	10,390,000	2,714,696
2018 – 2022	36,185,000	9,759,639
2023 – 2027	17,725,000	5,781,266
2028 – 2032	14,050,000	3,328,416
2033 – 2037	11,010,000	897,568
2038 – 2042	65,000	3,375
<b>TOTALS</b>	<b>\$136,800,000</b>	<b>\$36,680,947</b>

**CITY OF WEST FARGO**

Notes to the Financial Statements - Continued

Annual debt service requirements to maturity for sales tax bonds are as follows:

<b>GOVERNMENTAL ACTIVITIES</b>		
<b>Year Ending December 31</b>	<b>Sales Tax Bonds</b>	
	<b>Principal</b>	<b>Interest</b>
2013	\$ 40,000	\$ 57,283
2014	165,000	47,835
2015	170,000	45,825
2016	170,000	43,615
2017	175,000	40,237
2018 – 2022	930,000	130,375
2023 – 2027	410,000	6,150
<b>TOTALS</b>	<b>\$2,060,000</b>	<b>\$371,320</b>

Business-Type Activities:

\$9,145,000 Water & Sewer Refunding Bonds 2012, (2005), due in annual installments of \$325,000 to \$630,000 through 2030; interest at .5% to 4.25% - enterprise funds (Business-Type Activities).	\$ 8,820,000
\$7,870,000 Water and Sewer Revenue Bonds Series 2009 due in annual installments of \$160,000 to \$1,140,000 through 2034; interest at 2.625% to 6.375% - enterprise funds (Business-Type Activities)	<u>7,375,000</u>
<b>Total Business-Type Activities Revenue Bonds</b>	<b><u>\$16,195,000</u></b>

Annual debt service requirements to maturity for the enterprise revenue bonds are as follows:

<b>ENTERPRISE ACTIVITIES</b>		
<b>Year Ending December 31</b>	<b>Revenue Bonds Payable</b>	
	<b>Principal</b>	<b>Interest</b>
2013	\$ 555,000	\$ 713,025
2014	570,000	697,400
2015	590,000	680,450
2016	610,000	662,463
2017	630,000	643,312
2018 – 2022	3,455,000	2,891,225
2023 – 2027	4,235,000	2,095,058
2028 – 2032	3,910,000	1,086,211
2033 - 2037	640,000	177,225
<b>TOTALS</b>	<b>\$16,195,000</b>	<b>\$9,646,369</b>

F. Contingent Liability

Amounts received from grantor agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

G. Pension Plan

The City of West Fargo contributes to the North Dakota Public Employees' Retirement System (NDPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. NDPERS provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. NDPERS issues a publicly available financial report that includes financial statements and required

**CITY OF WEST FARGO**

## Notes to the Financial Statements - Continued

supplementary information for NDPERS. That report may be obtained by writing to NDPERS, 400 E Broadway, Suite 505, PO Box 1214, Bismarck, North Dakota, 58502-1214.

Plan members are required to contribute 6% of their annual covered salary. The city is required to contribute 7.26% of the employee's salary, which consists of 6.26% for employee retirement and 1% for the retiree health benefits fund. The city has agreed to pay 100% of the member assessments in lieu of a salary increase. The contribution requirements of plan members and the city are established and may be amended by the State legislature. The city's contributions to NDPERS for the years ending December 31, 2012, 2011 and 2010 were \$487,641, \$494,643 and \$466,485, respectively, equal to the required contributions for each year.

The City also participates in a defined contribution (457B deferred compensation) plan. The city's contributions to the 457B deferred compensation plan for the years ending December 31, 2012, 2011 and 2010 were \$169,941, \$165,539 and \$171,453, respectively, equal to the required contributions for each year.

**NOTE 5: INDIVIDUAL FUND DEFICITS**

The following funds were in a deficit cash position at December 31, 2012:

Fund	Balance
<u>Non-major Fund - Special Revenue:</u>	
Special Assessment	\$ (16,055)
Flood Control	(56,985)
Night to Unite	(140)
<u>Debt Service Funds (Major):</u>	
Sidewalk Bonds 2010	(9,279)
<u>Capital Projects Funds (Major):</u>	
Total Capital Projects Funds (various funds, net)	(15,786,245)

The city will take appropriate action concerning these deficits by utilizing one or a combination of the following methods:

- Transfer general fund, sales tax fund, and debt service moneys sufficient to relieve deficits;
- Issue bonds to finance capital projects;
- Collect Special assessments to relieve deficits;

**NOTE 6: RISK MANAGEMENT**

The City of West Fargo is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City of West Fargo pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile and \$4,367,731 for mobile equipment and portable property.

**CITY OF WEST FARGO**

## Notes to the Financial Statements - Continued

The City of West Fargo also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The city pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the city with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City of West Fargo has workers compensation insurance with North Dakota Workforce, Safety and Insurance and provides health, dental and vision insurance benefits for full-time employees through Blue Cross Blue Shield of North Dakota. The city pays 100% for single coverage or 75% of family or single with dependents coverage.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

**NOTE 7: OPEN CONSTRUCTION PROJECTS**

The city had 13 construction projects open at year-end. The total amount of construction costs in progress was \$20,845,600 with contract amounts of \$28,204,906 leaving total construction commitments of \$7,539,306 at December 31, 2012.

Storm Sewer Impr Districts #4044-PhII, #4046 & #4047	\$ 73,408
Storm Sewer Impr Districts #4044-PhII, #4046 & #4047	793,517
S& W Impr District #1225	(168,736)
Street Impr District # 1232 PhIII	(4,937)
Street District #2215	304,764
Street Impr District # 2216	5,219,885
Street Impr District # 1238	17,067
Drain 45 Improvements	(11,039)
Street District # 2220	21,383
Street District # 2222	21,395
Sewer, W, Stm & Street Impr. District # 1243	630,124
Improvement District # 6050	28,502
Sewer, W, Stm & Street Impr District # 1244	433,973
<b>TOTAL</b>	<b>\$7,359,306</b>

**NOTE 8: SUBSEQUENT EVENTS**

In February of 2013, the City Commission approved the issuance of the following bond issues:

- \$15,900,000 of Refunding Improvement Bonds of 2013, Series A. The bonds were issued to fund various construction projects (Main Avenue Reconstruction Phase II District #1226, Sewer, Water, Street & Storm Improvement District #1235, #1237, #1238, #1240, #1242, Street Improvement District #2215, #2221, #2222, #2224, and Water and Sewer Improvement District #1239).

**CITY OF WEST FARGO**

Notes to the Financial Statements - Continued

**NOTE 9: CONTINGENT LIABILITIES**

The City is defendant in certain lawsuits incident to its operations. In the opinion of City Counsel and management, such claims against the City not covered by insurance would not materially affect the financial condition of the City.

**NOTE 10: DEBT DEFEASANCES**

2012 Refunding Water and Sewer Bonds, totaling \$9,145,000 with an effective true interest rate of 3.215% to refund the remaining 2005 Series A Refunding Bonds for a net present value savings (economic gain) of \$1,057,259.

2012 Refunding Improvement Bonds, totaling \$6,130,000 with an effective interest rate of 1.528% to refund 2006 Series A Refunding Bonds for a net present value savings (economic gain) of \$698,157.

2012 Refunding Improvement Bonds, totaling \$9,740,000 with an effective interest rate of 2.137% to refund 2005 Series B Refunding Bonds for a net present value savings (economic gain) of \$503,490.19 and 2005 Series D Refunding Bonds for a net present value savings (economic gain) of \$335,594.

2012 Refunding Improvement Bonds, totaling \$3,080,000 with an effective interest rate of 1.757% to refund 2008A Series Refunding Bonds for a net present value savings (economic gain) of \$134,346.

**NOTE 11: PRIOR PERIOD ADJUSTMENTS**

Prior period adjustments were made to the governmental activities beginning net position, as well as the water/sewer fund net beginning net position, garbage/sanitation fund beginning net position, and enterprise activities beginning net position. The adjustments were for various accumulated capital asset errors.

	<b>Govt. Activities</b>
Net Position as previously reported	\$62,070,696
<b>Adjustments to restate the January 1, 2012 net position for capital assets:</b>	
Capital Assets -- Cost	9,095,110
Capital Assets -- Accumulated Depreciation	(8,792,369)
Net Position, January 1, 2012 as restated	\$62,373,437

<b>Enterprise Funds/Activities:</b>	<b>Water/Sewer Fund</b>	<b>Garbage/Sanitation Fund</b>	<b>Total Enterprise</b>
Net Position as previously reported	\$135,375,481	\$2,685,956	\$138,061,437
<b>Adjustments to restate the January 1, 2012 net position for capital assets:</b>			
Capital Assets -- Cost	7,900,665	208,463	8,109,128
Capital Assets -- Accumulated Depreciation	(15,133,532)	(12,601)	(15,146,133)
Net Position January 1, 2012 as restated	\$128,142,614	\$2,881,818	\$131,024,432

CITY OF WEST FARGO  
West Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 5,206,207	\$ 5,206,207	\$ 5,212,092	\$ 5,885
Licenses, Permits & Fees	295,200	295,200	585,955	290,755
Intergovernmental	1,485,000	1,485,000	2,637,619	1,152,619
Charges for Services	-	-	632,848	632,848
Fines	202,000	202,000	291,146	89,146
Interest Income	56,000	56,000	78,571	22,571
Miscellaneous	18,500	18,500	56,671	38,171
<b>Total Revenues</b>	<b>\$ 7,262,907</b>	<b>\$ 7,262,907</b>	<b>\$ 9,494,901</b>	<b>\$ 2,231,994</b>
<u>Expenditures:</u>				
Current:				
General Government	\$ 2,268,426	\$ 2,268,426	\$ 2,061,652	\$ 206,774
Public Safety	4,680,370	4,680,370	4,492,939	187,431
Highways & Streets	1,748,940	1,748,940	1,541,172	207,768
<b>Total Expenditures</b>	<b>\$ 8,697,736</b>	<b>\$ 8,697,736</b>	<b>\$ 8,095,763</b>	<b>\$ 601,973</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ (1,434,829)</b>	<b>\$ (1,434,829)</b>	<b>\$ 1,399,139</b>	<b>\$ 2,833,968</b>
<u>Other Financing Sources (Uses):</u>				
Transfers In/Out	\$ 875,000	\$ 875,000	\$ 2,469,225	\$ 1,594,225
Transfers Out	(166,000)	(166,000)	(1,250,340)	(1,084,340)
<b>Total Other Financing Sources and Uses</b>	<b>\$ 709,000</b>	<b>\$ 709,000</b>	<b>\$ 1,218,885</b>	<b>\$ 509,885</b>
<b>Net Changes in Fund Balances</b>	<b>\$ (725,829)</b>	<b>\$ (725,829)</b>	<b>\$ 2,618,024</b>	<b>\$ 3,343,853</b>
<b>Fund Balance - January 1</b>	<b>\$ 8,374,572</b>	<b>\$ 8,374,572</b>	<b>\$ 8,374,572</b>	<b>\$ -</b>
<b>Fund Balance - December 31</b>	<b>\$ 7,648,743</b>	<b>\$ 7,648,743</b>	<b>\$ 10,992,596</b>	<b>\$ 3,343,853</b>

The accompanying required supplementary information notes are an integral part of this schedule.

CITY OF WEST FARGO  
West Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE  
SALES TAX FUND  
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 2,000,000	\$ 2,000,000	\$ 3,422,503	\$ 1,422,503
Interest Income	3,000	3,000	6,329	3,329
Total Revenues	<u>\$ 2,003,000</u>	<u>\$ 2,003,000</u>	<u>\$ 3,428,832</u>	<u>\$ 1,425,832</u>
<u>Expenditures:</u>				
Current:	\$ -	\$ -	\$ -	\$ -
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 2,003,000</u>	<u>\$ 2,003,000</u>	<u>\$ 3,428,832</u>	<u>\$ 1,425,832</u>
<u>Other Financing Sources (Uses):</u>				
Transfers Out	<u>\$ (1,456,000)</u>	<u>\$ (1,456,000)</u>	<u>\$ (2,456,000)</u>	<u>\$ (1,000,000)</u>
Net Changes in Fund Balances	<u>\$ 547,000</u>	<u>\$ 547,000</u>	<u>\$ 972,832</u>	<u>\$ 425,832</u>
Fund Balance - January 1	<u>\$ 3,531,983</u>	<u>\$ 3,531,983</u>	<u>\$ 3,531,983</u>	<u>\$ -</u>
Fund Balance - December 31	<u><u>\$ 4,078,983</u></u>	<u><u>\$ 4,078,983</u></u>	<u><u>\$ 4,504,815</u></u>	<u><u>\$ 425,832</u></u>

The accompanying required supplementary information notes are an integral part of this schedule.

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CITY OF WEST FARGO  
West Fargo, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2012

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NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

The governing body adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America for the general fund, each special revenue fund and each debt service fund of the municipality. The city is required to present the adopted and final amended revenues and expenditures of these funds.

The following procedures are followed in establishing budgetary data reflected in the financial statements:

- On or before September 10th of the preceding fiscal year, the city prepares a preliminary budget for the next succeeding year beginning January 1<sup>st</sup>. The preliminary budget includes a breakdown of the estimated revenues and appropriations.
- The governing body holds a public hearing where any taxpayer may testify in favor or against any proposed disbursements or tax levies requested in the preliminary budget. After the budget hearing and on or before October 7th, the board adopts the final budget.
- The final budget must be filed with the county auditor by October 10th.
- No disbursement shall be made or liability incurred in excess of the total appropriation by fund. However, the governing body may amend the budget during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the governing board and the approval must be noted in the official proceedings of the board.
- All appropriations lapse at year-end.

CITY OF WEST FARGO  
West Fargo, North Dakota

SCHEDULE OF FUND ACTIVITY - CLIENT GENERAL LEDGER BASIS  
For the Year Ended December 31, 2012

	Balance 1-1-12	Revenues	Transfers In	Other Financing Sources (net)	Transfers Out	Expenditures	Balance 12-31-12
General Fund (Major)	\$ 5,529,790.63	\$ 8,591,976.24	\$ 1,642,225.33	\$ -	\$ 1,183,000.00	\$ 8,063,619.62	\$ 6,517,372.58
General Fund Reserve	2,423,265.97	757,526.19	826,999.59	-	67,339.50	32,143.00	3,908,309.25
<b>Total General Fund</b>	<b>\$ 7,953,056.60</b>	<b>\$ 9,349,502.43</b>	<b>\$ 2,469,224.92</b>	<b>\$ -</b>	<b>\$ 1,250,339.50</b>	<b>\$ 8,095,762.62</b>	<b>\$ 10,425,681.83</b>
<b>Special Revenue Funds:</b>							
Sales Tax (Major)	\$ 3,304,552.18	\$ 3,346,873.95	\$ -	\$ -	\$ 2,456,000.00	\$ -	\$ 4,195,426.13
<b>Special Revenue Funds (Nonmajor):</b>							
City's Share of Specials	\$ 19,555.46	\$ 83,821.06	\$ -	\$ -	\$ -	\$ 119,431.64	\$ (16,055.12)
Park	247,168.82	1,732,656.29	-	-	-	1,979,825.11	-
Fire Fund	67,316.24	633,556.94	-	-	-	617,660.78	83,212.40
Building Fund	289,002.18	172,108.08	67,232.00	-	-	280,596.18	247,746.08
Gaming Funds	27,504.61	12,091.54	-	-	25,000.00	-	14,596.15
E-911	63,323.33	273,889.03	166,000.00	-	-	486,289.53	16,922.83
Municipal Highway Fund	455,832.41	2,212,399.02	-	-	2,117,225.33	-	551,006.10
Lodging Tax	70,847.58	47,017.42	-	-	-	25,725.00	92,140.00
Otto Bremer Grant Crisis Training	34,485.06	-	-	-	-	12,444.83	22,040.23
Police Siren Reserve	10,655.65	-	3,500.00	-	-	-	14,155.65
Police SWAT Reserve	16,800.00	-	3,500.00	-	-	12,754.90	7,545.10
Police Training Reserve	28,187.00	-	6,000.00	-	-	-	34,187.00
General Fund Police Equipment	671.47	1.90	-	-	-	-	673.37
City Hall Remodeling	97,354.59	149.19	-	-	-	40,454.58	57,049.20
Vector Control	(87,613.99)	70,133.56	75,051.76	-	-	46,418.28	11,153.05
Forestry	25,128.99	69,510.56	-	-	-	55,833.82	38,805.73
Flood Control	(31,206.36)	-	-	-	-	25,779.26	(56,985.62)
D.A.R.E.	8,488.08	11,205.14	4,000.00	-	-	13,354.36	10,338.86
Evidence Police Department	7,924.90	17.27	-	-	-	-	7,942.17
National Night Out (Night to Unite)	905.23	3,102.02	-	-	-	4,147.21	(139.96)
Future Building	1,212,040.23	2,196,191.25	2,392,279.71	-	105.41	4,688.00	5,795,717.78
West Fest	12,191.68	20,966.19	-	-	-	16,694.06	16,463.81
Cruise Night	1,209.52	6,865.00	-	-	-	5,611.95	2,462.57
Asset Forfeitures	40,194.22	8,570.02	-	-	-	13,070.47	35,693.77
Economic Development	47,576.82	10,281.96	-	-	-	49,203.03	8,655.75
Change Fund	300.00	-	-	-	-	-	300.00
<b>Total Special Revenue Funds (Nonmajor)</b>	<b>\$ 2,665,843.72</b>	<b>\$ 7,564,533.44</b>	<b>\$ 2,717,563.47</b>	<b>\$ -</b>	<b>\$ 2,142,330.74</b>	<b>\$ 3,809,982.99</b>	<b>\$ 6,995,626.90</b>
<b>Total Special Revenue Funds</b>	<b>\$ 5,970,395.90</b>	<b>\$ 10,911,407.39</b>	<b>\$ 2,717,563.47</b>	<b>\$ -</b>	<b>\$ 4,598,330.74</b>	<b>\$ 3,809,982.99</b>	<b>\$ 11,191,053.03</b>
<b>Debt Service Funds (Major):</b>							
Sidewalk 2001 - 6037	\$ 6,681.05	\$ 6,956.84	\$ 666.61	\$ -	\$ -	\$ 14,304.50	\$ -
Sales Tax Revenue Bonds	114,035.76	101.62	-	-	114,137.38	-	-
2003 Refunding G.O. Bonds	16,809.49	120,184.89	1,026.37	-	-	138,020.75	-
2011-C RIB	450,209.49	542,960.59	-	-	-	343,449.31	649,720.77
RIB 2011 B (recall 2004B)	375,894.94	370,628.72	-	-	-	374,536.50	371,987.16
2005 A Refunding Improvement Bonds	689,797.90	964,328.76	-	-	-	766,526.50	887,600.16
Sidewalk 6040 - 2004	33,714.11	20,137.49	-	-	8,092.22	45,759.38	-
Sidewalk 6043 - 2006	46,387.20	18,186.18	-	-	-	31,072.00	33,501.38
Sidewalk 6042 - 2005	56,126.44	25,018.94	-	-	-	30,156.75	50,988.63
Sidewalk 6044 - 2007	76,000.29	18,248.78	-	-	-	25,966.00	68,283.07
2008-B RIB	79,799.21	296,480.55	-	-	-	282,904.75	93,375.01
2008-C RIB	661,889.41	1,012,876.64	-	-	-	726,347.50	948,418.55
2005-B RIB	404,667.79	706,124.28	6,178,665.58	-	434.65	7,289,023.00	-
2009-A RIB (from 2001/2001c/2002)	1,785,742.05	829,852.45	-	-	-	898,417.00	1,717,177.50
2005-D RIB	650,360.20	471,538.66	3,385,294.68	-	482.29	4,506,711.25	-
2009-B RIB (from 2003C & 2003D)	1,215,635.50	765,542.28	-	-	-	921,676.00	1,059,501.78
2005-C Refunding Bonds	722,661.08	448,526.39	-	-	-	573,388.00	597,799.47
2006 A RIB	204,439.14	6,920,657.99	250,000.00	-	-	6,997,065.05	378,032.08
2007A RIB	1,082,262.47	1,235,120.11	-	-	-	997,412.00	1,319,970.58
2007B RIB	(193,298.21)	876,732.07	400,000.00	-	-	631,456.00	451,977.86
2012 D Ref - 2008A RIB (from 2003B)	638,263.95	620,894.30	-	3,080,000.00	-	727,546.00	3,611,612.25
G.O. Bonds 2009	4,881.75	1,368.76	956,000.00	-	-	956,224.50	6,026.01
Municipal Bonds 2009 NDPFA	131,163.73	39,496.80	-	-	-	33,760.84	136,899.69
2009-C RIB	245,881.79	789,522.20	-	-	-	609,137.50	426,266.49
2010 A - RIB (refund of 2003E & 2004A)	739,159.59	915,256.40	-	-	-	839,385.00	815,030.99
2010 B - RIB	152,747.75	486,257.41	-	-	-	497,876.50	141,128.66
Sidewalk Refunding Bonds 2010	(8,094.09)	62,194.34	-	-	-	63,379.00	(9,278.75)
2011 D - Special Assessment Bond	170,274.24	(170,274.24)	-	-	-	-	-
2012 A-RIB	287,600.00	937,413.06	-	205,351.49	-	653,840.94	776,523.61
2012 Sidewalk Refunding Bonds	-	16,935.39	-	-	-	4,297.50	12,637.89

Continued on next page...

CITY OF WEST FARGO  
West Fargo, North Dakota

SCHEDULE OF FUND ACTIVITY - CLIENT GENERAL LEDGER BASIS  
For the Year Ended December 31, 2012

	Balance 1-1-12	Revenues	Transfers In	Other Financing Sources (net)	Transfers Out	Expenditures	Balance 12-31-12
CONTINUED....							
<u>Debt Service Funds (Major):</u>							
2012 C (Ref of 2005B & 2005D)	\$ -	\$ 830,234.92	\$ 200,916.94	\$ 10,332,714.95	\$ 9,563,960.26	\$ 184,342.18	\$ 1,615,564.37
2012 D Special Assessment Bond	-	1,248,117.38	-	-	-	375,578.11	872,539.27
2012 Sales Tax Bonds	-	-	-	459,462.00	206,000.00	217,505.14	35,956.86
Reserve for 2012 Sales Tax Bonds	-	-	206,000.00	-	-	-	206,000.00
1998-B RIB	477,931.51	179,262.44	-	-	96,588.85	560,605.10	-
2067	1,382,054.05	150,477.21	-	-	-	-	1,532,531.26
#6039 - Sidewalk 2003	8,103.11	4,756.59	-	-	-	5,562.50	7,297.20
TIF Bonds Sterling Ind. Park (to 3377)	180,587.39	264,230.54	-	-	200,000.00	-	244,817.93
TIF Butler (to 3360 and 3366)	250,463.13	555,425.71	-	-	650,000.00	-	155,888.84
TIF Titan Machinery (to 3370)	(35,023.42)	105,754.44	-	-	-	51,436.50	19,294.52
<b>Total Debt Service Funds</b>	<b>\$ 13,105,809.79</b>	<b>\$ 22,687,527.88</b>	<b>\$ 11,578,570.18</b>	<b>\$ 14,077,528.44</b>	<b>\$ 10,839,695.65</b>	<b>\$ 31,374,669.55</b>	<b>\$ 19,235,071.09</b>
<u>Capital Projects Funds (Major):</u>							
Capital Improvements	\$ 438,326.09	\$ 56,994.39	\$ 500,000.00	\$ -	\$ -	\$ 316,717.46	\$ 678,603.02
Construction Testing	4,169.35	8.42	-	-	540.00	538.50	3,099.27
9th Street/I-94 Interchange	92,691.85	-	-	-	91,743.10	948.75	-
4050 Drain 45 Impr Phase II	-	-	500,000.00	-	-	765,234.37	(265,234.37)
4049 S Regstad Lake Storm Sewer Impr	-	-	107.50	-	-	107.50	-
2196 7th Ave.-9th St. E to 17th St. E.	(1,287,181.24)	-	-	1,466,000.00	31,925.19	146,893.57	-
1207 Main Ave. 2nd Segment	(1,762,478.45)	-	-	2,234,000.00	97,181.39	374,340.16	-
1213 Sanitary Improve. 8th St./2nd Ave.	(1,455,771.89)	-	1,557,576.22	-	-	101,804.33	-
1218 Eaglewood	70,246.20	-	-	-	70,246.20	-	-
1220 Shadow Wood 2nd Phase 2	5,458.33	-	-	-	5,458.33	-	-
1219 - 4th St. E/32nd Ave - 36th Ave	(3,472,106.21)	-	-	4,359,000.00	110,727.70	776,166.09	-
1221 Shadow Wood 4th	7,805.50	-	-	-	7,805.50	-	-
1222 Maple Ridge 1st	84,575.58	-	-	-	84,528.58	47.00	-
1225 South Pond @ the Reserve	(2,964,091.85)	-	-	4,246,000.00	-	1,090,670.25	191,237.90
2208 Lodeen Center Parking Lot	650.05	-	-	-	650.05	-	-
4046 Section 29 (Houkom) Lift	(1,322,447.54)	-	-	4,493,000.00	-	2,724,229.23	446,323.23
4047 Section 20 Maple Ridge Storm	(2,743,235.78)	-	-	5,295,730.00	-	2,320,352.37	232,141.85
4042 Section 31 and 6	(540.00)	-	540.00	-	-	-	-
2210 Aurora/Rendezvous Park	(402,879.73)	-	-	447,000.00	4,905.27	39,215.00	-
2211 4th Street/26th Ave East	(2,667,542.36)	-	-	4,906,503.00	70,783.84	2,168,176.80	-
2212 Christianson's 1st	(703,262.64)	-	-	1,001,000.00	64,322.69	233,414.67	-
2213 3rd Avenue Northwest	(153,807.44)	-	-	559,000.00	54,516.42	350,676.14	-
2214 3rd Ave. NW Phase II (Hal Ind Pk)	(141,672.16)	-	-	410,000.00	-	268,327.84	-
2215 7th Str & 32nd to 40th Street Impr	-	-	-	-	-	1,354,083.99	(1,354,083.99)
2216 Veterans Blvd 32nd to 40th	-	-	-	-	-	276,953.66	(276,953.66)
2217 31st Ave E to Veterans Blvd & 7th	-	-	-	577,000.00	15,916.96	561,083.04	-
2218 WF High School Parking Lot Impr	-	-	-	1,966,000.00	45,490.91	1,920,509.09	-
2221 Shiloh Street Impr	-	-	-	-	-	395,261.59	(395,261.59)
2222 The Yards Street Impr	-	-	-	-	-	154,600.93	(154,600.93)
2223 Elmwood Ct Overlay Impr	-	-	-	-	-	373.62	(373.62)
2224 Tintes/Burlington Overlay Impr	-	-	-	-	-	630,738.52	(630,738.52)
2225 Eagle Run Overlay	-	-	-	-	-	373.62	(373.62)
2220 Veterans Blvd Traffic Signal 23 &26	-	-	-	-	-	261,800.42	(261,800.42)
1227 Shadowwood 5th	(1,771,324.79)	-	-	2,102,000.00	5,886.26	324,788.95	-
1228 The Wild's 1st (St,S/W,Storm)	(3,190,041.33)	-	105.41	3,581,000.00	-	391,064.08	-
1229 Shadow Creel 1st	(2,782,859.50)	-	-	3,617,000.00	9,644.17	824,496.33	-
1230 Westport Beach 7th	(376,106.08)	-	-	440,000.00	24,010.80	39,883.12	-
1231 7th Street E 31st to 32nd Avenue	(742,543.65)	-	-	951,000.00	3,866.79	204,589.56	-
Main Ave Phase 2 NDU-8-010(031)935	(117,441.11)	-	-	-	-	4,128,190.37	(4,245,631.48)
1233 5th Street West (S,W & Storm)	(11,572.24)	-	-	280,000.00	11,563.99	256,863.77	-
1234A Construction-4th&7th-23rd Impr	-	-	-	2,524,305.00	64,306.64	2,459,998.36	-
1234B 4th & 7th Str E & 23rd E Impr	-	-	-	350,000.00	62,862.03	287,137.97	-
1236 S Pond @ Preserve 4th Impr	-	-	-	1,700,000.00	45,555.93	1,654,444.07	-
1237 Maple Ridge 2nd Impr	-	-	-	-	-	1,469,925.35	(1,469,925.35)
1238 Wild's 2nd Improvements	-	-	-	-	-	3,529,059.82	(3,529,059.82)
1235 Bluestem &31st Str Impr	-	-	-	-	-	711,391.02	(711,391.02)
1239 Shilo St & 23rd Impr	-	-	-	-	-	51,001.40	(51,001.40)
1240 Oakridge 2nd Improvements	-	-	-	-	-	463,072.53	(463,072.53)
1241 Montgomery Homestead Impr	-	-	-	-	-	14,377.74	(14,377.74)
1242 Christianson's 1st Ph III Impr	-	-	-	-	-	529,172.14	(529,172.14)
1243 Shadow Creed 3rd Impr	-	-	56,025.00	-	-	2,151,166.42	(2,095,141.42)
1244 Improvement District	-	-	-	-	-	625,365.95	(625,365.95)

Continued on next page....

CITY OF WEST FARGO  
West Fargo, North Dakota

SCHEDULE OF FUND ACTIVITY - CLIENT GENERAL LEDGER BASIS  
For the Year Ended December 31, 2012

	Balance 1-1-12	Revenues	Transfers In	Other Financing Sources (net)	Transfers Out	Expenditures	Balance 12-31-12
CONTINUED.....							
<u>Capital Projects Funds (Major):</u>							
12th Ave N-45th Str to Cty 19 Impr	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,091.22	\$ (4,091.22)
6049 Sidewalks 2011	(141,067.48)	-	-	170,000.00	20,673.40	8,259.12	-
6020 2012 Sidewalk Impr	-	-	-	-	-	173,149.37	(173,149.37)
2157 13th Ave. West	(220,174.84)	-	-	-	-	-	(220,174.84)
4039 Section 29 Water Retention	-	-	-	-	56,025.00	(56,025.00)	-
4044 Storm Water Section 19	(1,929,818.22)	-	-	4,245,000.00	-	2,181,856.71	133,325.07
<b>Total Capital Projects Funds</b>	<b>\$(29,656,043.58)</b>	<b>\$ 57,002.81</b>	<b>\$ 2,614,354.13</b>	<b>\$ 51,920,538.00</b>	<b>\$ 1,061,137.14</b>	<b>\$ 39,660,958.88</b>	<b>\$ (15,786,244.66)</b>
<b>Total Governmental Funds</b>	<b>\$ (2,626,781.29)</b>	<b>\$ 43,005,440.51</b>	<b>\$ 19,379,712.70</b>	<b>\$ 65,998,066.44</b>	<b>\$ 17,749,503.03</b>	<b>\$ 82,941,374.04</b>	<b>\$ 25,065,561.29</b>
<u>Enterprise Funds:</u>							
Sewer and Water Operating	\$ 2,861,097.37	\$ 5,313,355.81	\$ 90,553.00	\$ -	\$ 90,379.34	\$ 4,459,699.56	\$ 3,714,927.28
City Utility	55,510.55	133,766.38	-	-	90,553.00	-	98,723.93
Sewage Surcharge	296,625.80	7,845.06	-	-	-	40,553.00	263,917.86
2012 Ref Water/Sewer Reserve (2005)	742,750.00	-	-	9,413,502.60	-	9,490,592.38	665,660.22
Water/Sewer 2009 Reserve	601,646.26	-	-	-	-	-	601,646.26
South Facilities Hookup	796,125.87	821,082.74	-	-	300,000.00	70,224.00	1,246,984.61
Waste Water Treatment Revenue Bonds	16,763.25	14.94	3,541.81	-	-	20,320.00	-
1185 West Sanitary Lift Station	1,884,355.67	-	-	-	1,884,355.67	-	-
1208 Water Treatment Plant	(256,533.66)	-	-	-	-	36,242.93	(292,776.59)
WP-Well # 9 & #12 Rehabilitation	-	-	15,327.58	-	-	15,327.58	-
Replacement/Depreciation SWOP	30,000.00	-	-	-	-	-	30,000.00
SWOP Equipment	-	23,782.66	-	-	-	-	23,782.66
<b>Total Sewer and Water</b>	<b>\$ 7,028,341.11</b>	<b>\$ 6,299,847.59</b>	<b>\$ 109,422.39</b>	<b>\$ 9,413,502.60</b>	<b>\$ 2,365,288.01</b>	<b>\$ 14,132,959.45</b>	<b>\$ 6,352,866.23</b>
Sanitation & Street Bldg Fund	\$ -	\$ -	\$ 626,779.45	\$ -	\$ -	\$ 419,616.94	\$ 207,162.51
Health and Sanitation Operating	1,178,110.29	2,199,737.39	-	-	-	2,054,361.80	1,323,485.88
Sanitation Equip Maint Reserve	-	79,280.00	-	-	-	-	79,280.00
Total Health and Sanitation	\$ 1,178,110.29	\$ 2,279,017.39	\$ 626,779.45	\$ -	\$ -	\$ 2,473,978.74	\$ 1,609,928.39
<b>Total Enterprise Funds</b>	<b>\$ 8,206,451.40</b>	<b>\$ 8,578,864.98</b>	<b>\$ 736,201.84</b>	<b>\$ 9,413,502.60</b>	<b>\$ 2,365,288.01</b>	<b>\$ 16,606,938.19</b>	<b>\$ 7,962,794.62</b>
<u>Agency Funds:</u>							
Park Sp Assmt 2003-1	\$ -	\$ 7,367.92	\$ -	\$ -	\$ -	\$ 7,367.92	\$ -
Shadowwood Pk Sp.2010	-	25,745.71	-	-	-	25,745.71	-
2011 Maple Ridge Park Special Assmts	-	25,731.40	-	-	-	25,731.40	-
2011-1 Park Impr District	-	2,754.93	-	-	-	2,754.93	-
Park Sp Assmt 2007-1	-	26,133.00	-	-	-	26,133.00	-
Community Dev. Block Grant	1,913.26	4.18	-	-	-	-	1,917.44
Tree Planting	212,421.85	77,056.97	-	-	-	23,990.00	265,488.82
Marvin Windows Escrow Sp Assmts	170,658.00	-	-	-	-	-	170,658.00
Marcil Job Training Loan	13,947.88	(4,270.44)	-	-	-	-	9,677.44
Titan Job Training Grant 5%	2.45	10,910.00	-	-	-	10,364.50	547.95
Energy Grant	15,800.00	-	-	-	-	-	15,800.00
Windsor Green Subdivision	5,453.20	10,457.61	-	-	-	-	15,910.81
Eagle Run 8th-Land Development	-	118,516.89	-	-	-	-	118,516.89
Dist #1213 - 8th Street Addit Repair Fund	-	33,000.00	-	-	1,123.50	31,876.50	-
Bourd's Subdivision	7,489.87	14,249.50	-	-	-	-	21,739.37
<b>Total Agency Funds</b>	<b>\$ 427,686.51</b>	<b>\$ 347,657.67</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,123.50</b>	<b>\$ 153,963.96</b>	<b>\$ 620,256.72</b>
<b>Total Primary Government</b>	<b>\$ 6,007,356.62</b>	<b>\$ 51,931,963.16</b>	<b>\$ 20,115,914.54</b>	<b>\$ 75,411,569.04</b>	<b>\$ 20,115,914.54</b>	<b>\$ 99,702,276.19</b>	<b>\$ 33,648,612.63</b>
<u>Component Units:</u>							
<u>Airport:</u>							
Airport Authority	\$ 77,507.94	\$ 181,934.34	\$ -	\$ -	\$ -	\$ 158,972.53	\$ 100,469.75
Airport Authority Bond Construction	56,885.46	124.06	-	-	-	-	57,009.52
<b>Total Airport</b>	<b>\$ 134,393.40</b>	<b>\$ 182,058.40</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 158,972.53</b>	<b>\$ 157,479.27</b>
<u>Library:</u>							
Library General	\$ 390,085.71	\$ 754,728.51	\$ 0.58	\$ -	\$ -	\$ 712,642.44	\$ 432,172.36
Library Memorials	0.58	-	-	-	0.58	-	-
<b>Total Library</b>	<b>\$ 390,086.29</b>	<b>\$ 754,728.51</b>	<b>\$ 0.58</b>	<b>\$ -</b>	<b>\$ 0.58</b>	<b>\$ 712,642.44</b>	<b>\$ 432,172.36</b>
<b>Total Component Units</b>	<b>\$ 524,479.69</b>	<b>\$ 936,786.91</b>	<b>\$ 0.58</b>	<b>\$ -</b>	<b>\$ 0.58</b>	<b>\$ 871,614.97</b>	<b>\$ 589,651.63</b>
<b>Total Reporting Entity</b>	<b>\$ 6,531,836.31</b>	<b>\$ 52,868,750.07</b>	<b>\$ 20,115,915.12</b>	<b>\$ 75,411,569.04</b>	<b>\$ 20,115,915.12</b>	<b>\$ 100,573,891.16</b>	<b>\$ 34,238,264.26</b>

STATE AUDITOR

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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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Independent Auditor's Report

City Commission  
City of West Fargo  
West Fargo, North Dakota

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of West Fargo, North Dakota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of West Fargo's basic financial statements, and have issued our report thereon dated September 11, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of West Fargo's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of West Fargo's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified one deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying *schedule of findings and questioned costs* to be a material weakness [2012-01].

**CITY OF WEST FARGO**

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* - Continued

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**Compliance and Other Matters**

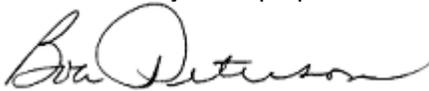
As part of obtaining reasonable assurance about whether the City of West Fargo's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**City of West Fargo's Response to Finding**

City of West Fargo's response to the finding identified in our audit is described in the accompanying *schedule of findings and questioned costs*. City of West Fargo's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Robert R. Peterson  
State Auditor

Fargo, North Dakota  
September 11, 2013

CITY OF WEST FARGO  
West Fargo, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2012

**Section I - Summary of Auditor's Results**

Financial Statements

Type of Report Issued?	
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Discretely Presented Component Units	Unmodified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal Control over financial reporting:

Material weaknesses identified?	<u>  X  </u> Yes	<u>      </u> No
Significant deficiencies identified not considered to be material weaknesses?	<u>      </u> Yes	<u>  X  </u> None noted
Noncompliance material to financial statements noted?	<u>      </u> Yes	<u>  X  </u> None noted

**Section II - Financial Statement Findings**

<b>2012-01 – CAPITAL ASSET PRIOR PERIOD ADJUSTMENTS</b>
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**Condition:**

Prior period adjustments to capital assets were necessary to properly report the beginning amounts of governmental activities, business-type activities, and proprietary funds net position. The prior period adjustments were necessary for various accumulated prior period capital asset cost and accumulated depreciation errors related to land, buildings, equipment, infrastructure, and construction in progress. The amount of prior period adjustments for governmental activities cost and accumulated depreciation totaled a net increase of \$292,487 to beginning net position, and business-type activities and enterprise funds totaled a net decrease of \$7,037,004 to beginning net position. Governmental activities adjustments to capital assets cost totaled an increase of \$9,064,856, while the accumulated depreciation errors totaled an increase of \$8,792,369. Business-type activities adjustments to capital assets cost totaled an increase of \$8,109,128, and to accumulated depreciation totaled an increase of \$15,146,132. Water/sewer fund beginning net position decrease totaled \$7,232,867, and the garbage/sanitation fund increase to beginning net position totaled \$195,862. The prior period adjustments were properly reported and disclosed by the client.

**Criteria:**

Proper internal control surrounding financial reporting and note disclosures require the proper reporting of applicable categories of capital assets, including cost and accumulated depreciation. Maintaining adequate, accurate and up-to-date complete capital assets records for each capital asset category is of vital importance to properly report capital asset components.

**CITY OF WEST FARGO**Schedule of Findings and Questioned Costs - Continued

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**Effect:**

The amount of prior period adjustments necessary to beginning net position related to capital assets for governmental activities is a net increase of \$292,487, and a net decrease to business-type activities totaling \$7,037,004. The adjustments also affected enterprise funds causing a net decrease of \$7,232,867 to the water/sewer fund beginning net position, and an increase of \$195,862 to the garbage/sanitation fund beginning net position.

**Cause:**

Majority of the misstatement was due to an erroneous entry of original infrastructure at an amount net of accumulated depreciation. Also, there is lack of reconciliation of the capital asset listing to the department head listing of inventory at or near year-end. Capital asset records are not being reviewed by another individual besides the preparer.

**Recommendation:**

We recommend that capital asset records are kept up-to-date and accurately for infrastructure and construction in progress, as well as for land and equipment. Elements of cost and accumulated depreciation should be properly tracked and reported so that capital cost and accumulated depreciation records are accurate and correctly stated for financial reporting purposes for each applicable capital asset category. An annual review of all capital assets should be completed prior to financial statement reporting and disclosure, as well as consultation with the City Engineering firm responsible for infrastructure projects and construction in progress projects should be done to ensure proper capital asset reporting, especially as it relates to infrastructure and construction in progress.

**Views of Responsible Officials:**

City of West Fargo agrees with the recommendation. Steps will be taken as necessary to ensure proper maintenance of capital asset records related to applicable categories of capital assets so that large prior period adjustments related to capital assets are not necessary in future audits.