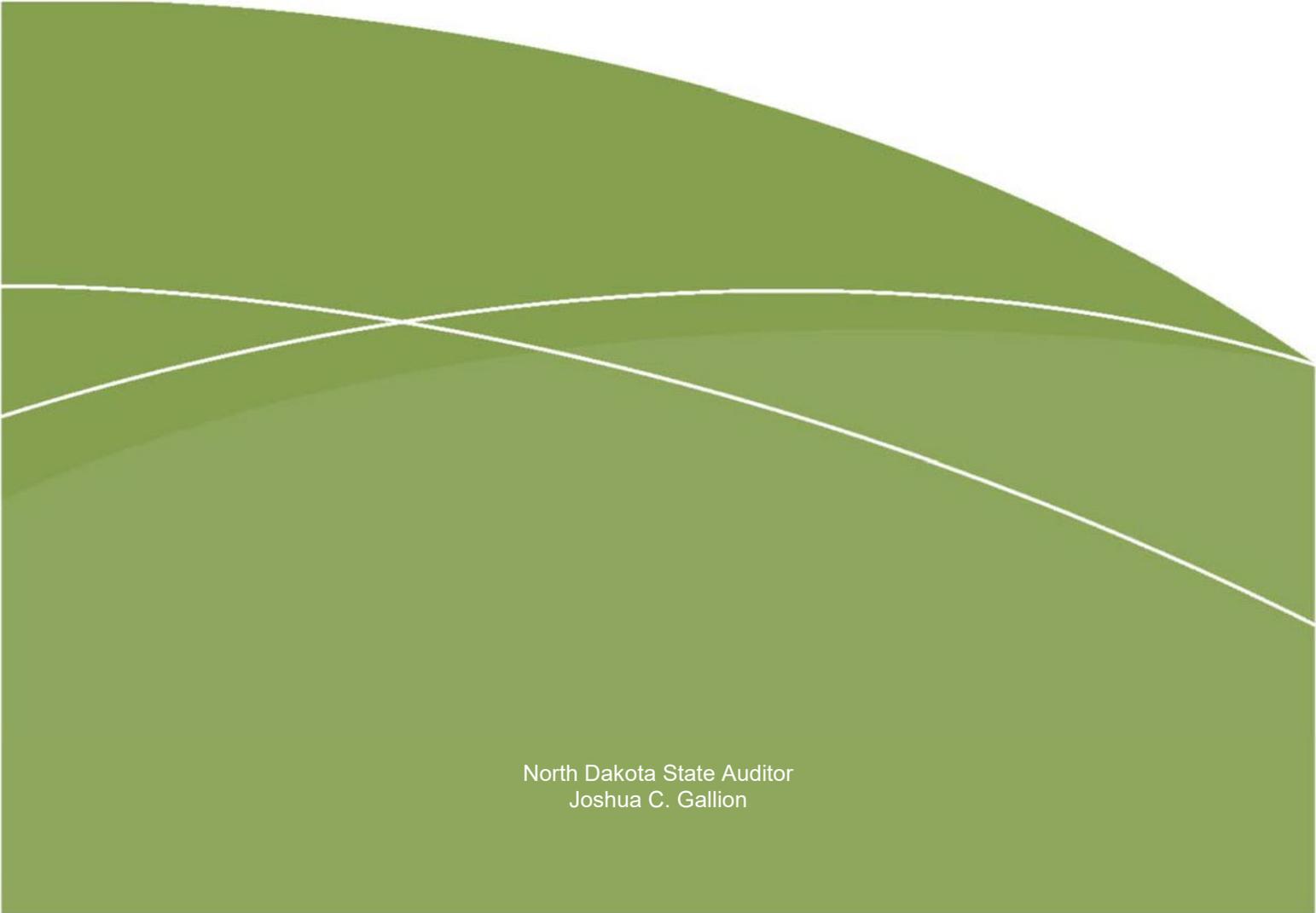


North Dakota Office of the State Auditor
Division of Local Government

City of West Fargo

Audit Report for the Year Ended December 31, 2018
Client Code PS9120



North Dakota State Auditor
Joshua C. Gallion

CITY OF WEST FARGO

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CITY OF WEST FARGO

City Officials and Audit Personnel
December 31, 2018

CITY OFFICIALS

President/Mayor	Bernie Davis
Vice-President	Mike Thorstad
Commissioner	Eric Gjerdevig
Commissioner	Mark Simmons
Commissioner	Brad Olson
City Administrator	Tina Fisk
Finance Director	Jim Larson
Police Chief	Heith Janke
Public Works Director	Chris Brungardt
Planning Director	Tim Solberg
Human Resources Administrator	Jenna Wilm
City Attorney	John Shockley

AUDIT PERSONNEL

Audit Manager	Craig Hashbarger, CPA, CIA, CFE
Lead Auditor	Rick Kremer

STATE AUDITOR

JOSHUA C. GALLION
Phone (701) 328-2241



Local Government Division
FARGO OFFICE
MANAGER – CRAIG HASHBARGER
Phone (701)239-7250

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
1655 43RD STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

INDEPENDENT AUDITOR'S REPORT

Board of City Commissioners
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, 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, 2018, and the related notes to the financial statements, which collectively comprise the City of West Fargo'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 involves 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, each major fund, and the aggregate remaining fund information of the City of West Fargo, North Dakota, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *budgetary comparison schedules, schedule of employer's share of net pension liability and employer contributions, schedule of employer's share of net OPEB liability and employer contributions, and the notes to the required supplementary information*, as listed in the table of contents, 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.

Management has omitted the *management's discussion and analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2019 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 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 City of West Fargo's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
December 31, 2019

CITY OF WEST FARGO

Statement of Net Position
December 31, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash And Investments	\$ 77,920,234	\$ 12,282,945	\$ 90,203,179
Restricted Cash	1,758,181	-	1,758,181
Accounts Receivable	225,377	904,916	1,130,293
Intergovernmental Receivable	1,744,574	-	1,744,574
Storefront Loans Receivable	79,976	-	79,976
TIF Loans Receivable	1,762,289	-	1,762,289
Taxes Receivable	142,612	-	142,612
Due From County	278,152	-	278,152
Special Assessments Receivable	235,845,007	-	235,845,007
Capital Assets			
Nondepreciable	109,709,619	1,857,610	111,567,229
Depreciable	106,432,655	283,578,752	390,011,407
Total Assets	\$ 535,898,676	\$ 298,624,223	\$ 834,522,899
DEFERRED OUTFLOWS OF RESOURCES			
Derived from Pension and OPEB	\$ 5,908,239	\$ 1,553,109	\$ 7,461,348
LIABILITIES			
Accounts & Accrued Expenses Payable	\$ 352,673	\$ 236,176	\$ 588,849
Construction Payable	1,126,938	-	1,126,938
Salaries & Benefits Payable	496,837	133,334	630,171
Court Deposits Payable	76,520	-	76,520
Retainages Payable	1,481,282	-	1,481,282
Interest Payable	1,813,998	98,839	1,912,837
Long-Term Liabilities			
Due Within One Year			
Long-Term Debt	18,163,402	665,000	18,828,402
Compensated Absences	190,450	48,400	238,850
Due Outside One Year			
Long-Term Debt	312,191,890	11,935,000	324,126,890
Compensated Absences	1,714,051	435,600	2,149,651
Net Pension & OPEB Liability	12,105,146	3,182,100	15,287,246
Total Liabilities	\$ 349,713,187	\$ 16,734,449	\$ 366,447,636
DEFERRED INFLOWS OF RESOURCES			
Derived from Pension and OPEB	\$ 639,484	\$ 168,102	\$ 807,586
NET POSITION			
Net Investment In Capital Assets	\$ 119,881,651	\$ 272,836,362	\$ 392,718,013
Restricted			
Culture & Recreation	539,108	-	539,108
Economic Development	1,776,576	-	1,776,576
Other Special Purposes	476,483	-	476,483
Capital Projects	12,064,789	-	12,064,789
Debt Service	36,990,313	-	36,990,313
Loans	1,842,265	-	1,842,265
Unrestricted	17,883,059	10,438,419	28,321,478
Total Net Position	\$ 191,454,244	\$ 283,274,781	\$ 474,729,025

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

CITY OF WEST FARGO

Statement of Activities

For the Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental Activities							
General government	\$ 4,234,991	\$ 1,646,394	\$ 85,777	\$ -	\$ (2,502,820)		\$ (2,502,820)
Public safety	10,456,325	342,380	268,470	-	(9,845,475)		(9,845,475)
Public works/streets	14,128,091	2,069,128	2,246,091	39,796,467	29,983,595		29,983,595
Economic development	1,679,183	-	-	-	(1,679,183)		(1,679,183)
Conserv. of natural resources	245,719	-	-	-	(245,719)		(245,719)
Culture and recreation	2,023,100	2,670	-	-	(2,020,430)		(2,020,430)
Interest & costs on long-term debt	9,414,660	-	-	-	(9,414,660)		(9,414,660)
Total Governmental Activities	\$ 42,182,069	\$ 4,060,572	\$ 2,600,338	\$ 39,796,467	\$ 4,275,308		\$ 4,275,308
Business-Type Activities							
Water and sewer	\$ 16,856,019	\$ 9,210,405	\$ -	\$ -		\$ (7,645,614)	
Health and sanitation	3,540,327	3,449,175	-	-		(91,152)	
Total Business-Type Activities	\$ 20,396,346	\$ 12,659,580	\$ -	\$ -		\$ (7,736,766)	\$ -
Total Primary Government	\$ 62,578,415	\$ 16,720,152	\$ 2,600,338	\$ 39,796,467	\$ 4,275,308	\$ (7,736,766)	\$ 4,275,308
General Revenues							
Taxes							
Property taxes					\$ 13,278,291	\$ -	\$ 13,278,291
Sales taxes					10,669,380	-	10,669,380
Unrestricted Revenues					2,782,956	-	2,782,956
Unrestricted investment interest earnings					869,986	61,902	931,888
Miscellaneous income					461,285	189,486	650,771
Capital Asset Transfers					(15,967,803)	15,967,803	-
Net Cash Transfers					1,704,785	(1,704,785)	-
Total General Revenues and Transfers					\$ 13,798,880	\$ 14,514,406	\$ 28,313,286
Change in Net Position					\$ 18,074,188	\$ 6,777,640	\$ 24,851,828
Net Position - January 1					\$ 173,994,209	\$ 276,824,840	\$ 450,819,049
Prior Period Adjustments					(614,153)	(327,699)	(941,852)
Net Position - January 1, as restated					\$ 173,380,056	\$ 276,497,141	\$ 449,877,197
Net Position - December 31					\$ 191,454,244	\$ 283,274,781	\$ 474,729,025

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

CITY OF WEST FARGO

Balance Sheet – Governmental Funds
December 31, 2018

	General Fund	Sales Tax Fund	Debt Service Funds	Capital Projects Funds	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Investments	\$ 24,747,512	\$ 2,619,903	\$ 38,532,711	\$ 7,548,700	\$ 4,471,408	\$ 77,920,234
Restricted Cash	-	-	-	1,754,586	3,595	1,758,181
Accounts Receivable	152,032	-	-	4,600	68,745	225,377
Intergovernmental Receivable	569,706	994,882	-	-	179,986	1,744,574
TIF Loans Receivable	-	-	-	-	1,762,289	1,762,289
Storefront Loans Receivable	-	-	-	-	79,976	79,976
Taxes Receivable	91,026	-	19,143	-	32,443	142,612
Special Assessments Receivable	-	-	235,575,951	269,056	-	235,845,007
Due From County	18,901	-	252,457	-	6,794	278,152
Due From Other Funds	36,516	-	-	-	-	36,516
Total Assets	\$ 25,615,693	\$ 3,614,785	\$ 274,380,262	\$ 9,576,942	\$ 6,605,236	\$ 319,792,918
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES						
Liabilities						
Accounts Payable	\$ 335,884	\$ -	\$ -	\$ -	\$ 16,789	\$ 352,673
Salaries Payable	414,509	-	-	-	82,328	496,837
Construction Payable	-	-	-	1,126,938	-	1,126,938
Municipal Court Bonds Payable	-	-	-	-	76,520	76,520
Due To Other Funds	-	-	-	-	36,516	36,516
Total Liabilities	\$ 750,393	\$ -	\$ -	\$ 1,126,938	\$ 212,153	\$ 2,089,484
Deferred Inflows of Resources						
Deferred Taxes & Special Assmts. Rec.	\$ 91,026	\$ -	\$ 235,595,094	\$ -	\$ 32,443	\$ 235,718,563
Total Liabilities & Deferred Inflows of Resources	\$ 841,419	\$ -	\$ 235,595,094	\$ 1,126,938	\$ 244,596	\$ 237,808,047
Fund Balances						
Non-Spendable						
Loans Receivable	\$ -	\$ -	\$ -	\$ -	\$ 1,842,265	\$ 1,842,265
Restricted						
Debt Service	-	-	38,785,168	-	-	38,785,168
Capital Project Funds	-	-	-	8,450,004	-	8,450,004
General Government	-	-	-	-	163,320	163,320
Public Safety	-	-	-	-	235,652	235,652
Public Works/Streets	-	-	-	-	556,904	556,904
Culture & Recreation	-	-	-	-	954,163	954,163
Economic Development	-	-	-	-	1,956,412	1,956,412
Other	-	-	-	-	473,315	473,315
Committed						
Sales Tax Fund	-	3,614,785	-	-	-	3,614,785
Culture & Recreation	-	-	-	-	42,688	42,688
Public Safety	-	-	-	-	4,197	4,197
Future Building Fund	-	-	-	-	131,724	131,724
Unassigned						
General Fund	24,774,274	-	-	-	-	24,774,274
Total Fund Balances	\$ 24,774,274	\$ 3,614,785	\$ 38,785,168	\$ 8,450,004	\$ 6,360,640	\$ 81,984,871
Total Liabilities and Fund Balances	\$ 25,615,693	\$ 3,614,785	\$ 274,380,262	\$ 9,576,942	\$ 6,605,236	\$ 319,792,918

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

CITY OF WEST FARGO

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position December 31, 2018

Total Fund Balances of Governmental Funds		\$ 81,984,871
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.		216,142,274
Property 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.		
Special Assessments Receivable	\$ 235,575,951	
Uncollected Taxes Receivable	<u>142,612</u>	235,718,563
Retainages payable are not a fund liability, but are accrued for government-wide purposes as those liabilities will be liquidated at the completion of capital projects.		(1,481,282)
Deferred outflows and inflows of resources related to pensions & OPEB are applicable to future periods and, therefore, are not reported in the governmental funds.		
Pension & OPEB Deferred Inflows of Resources	\$ (639,484)	
Pension & OPEB Deferred Outflows of Resources	<u>5,908,239</u>	5,268,755
Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Position.		
Long-Term Debt	\$ (330,355,292)	
Interest Payable	(1,813,998)	
Compensated Absences	(1,904,501)	
Net Pension & OPEB Liability	<u>(12,105,146)</u>	<u>(346,178,937)</u>
Total Net Position - Governmental Activities		<u><u>\$ 191,454,244</u></u>

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

CITY OF WEST FARGO

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds For the Year Ended December 31, 2018

	General Fund	Sales Tax Fund	Debt Service Funds	Capital Projects Funds	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property Taxes	\$ 8,110,494	\$ -	\$ 1,955,595	\$ -	\$ 3,180,813	\$ 13,246,902
Special Assessments	244,048	-	26,084,475	22,818	-	26,351,341
Sales Taxes	-	10,669,380	-	-	-	10,669,380
Licenses, Permits and Fees	3,372,761	-	-	-	3,371	3,376,132
Charges for Services	-	-	-	-	190,205	190,205
Intergovernmental	2,358,491	-	-	585,287	2,439,516	5,383,294
Fines, Forfeitures and Penalties	494,235	-	-	-	-	494,235
Interest	302,267	45,038	233,041	155,902	133,738	869,986
Miscellaneous	53,557	-	-	156,436	251,292	461,285
Total Revenues	\$ 14,935,853	\$ 10,714,418	\$ 28,273,111	\$ 920,443	\$ 6,198,935	\$ 61,042,760
EXPENDITURES						
Current						
General Government	\$ 5,704,101	\$ -	\$ -	\$ -	\$ 246,823	\$ 5,950,924
Public Safety	7,193,233	-	-	-	1,593,726	8,786,959
Public Works	2,676,633	-	-	-	121,849	2,798,482
Economic Development	214,690	-	-	79,999	1,316,576	1,611,265
Culture and Recreation	-	-	-	-	1,898,274	1,898,274
Conservation of Natural Resources	-	-	-	-	245,719	245,719
Capital Outlay	-	-	377,507	44,523,121	-	44,900,628
Debt Service						
Principal	-	-	28,317,888	-	-	28,317,888
Interest	-	-	9,365,958	-	-	9,365,958
Fiscal Charges & Fees	-	-	55,987	-	-	55,987
Total Expenditures	\$ 15,788,657	\$ -	\$ 38,117,340	\$ 44,603,120	\$ 5,422,967	\$ 103,932,084
Excess (Deficiency) of Revenues Over Expenditures	\$ (852,804)	\$ 10,714,418	\$ (9,844,229)	\$ (43,682,677)	\$ 775,968	\$ (42,889,324)
OTHER FINANCING SOURCES (USES)						
Bond Proceeds	\$ -	\$ -	\$ 9,275,000	\$ 75,290,000	\$ -	\$ 84,565,000
Bond Premium	-	-	547,384	1,763,832	-	2,311,216
Bond Discount	-	-	(92,750)	(774,123)	-	(866,873)
Transfers In	3,408,384	-	10,201,243	14,996,856	2,476,513	31,082,996
Transfers Out	(19,068)	(16,285,604)	(7,886,197)	(3,542,790)	(1,644,552)	(29,378,211)
Total Other Financing Sources and Uses	\$ 3,389,316	\$ (16,285,604)	\$ 12,044,680	\$ 87,733,775	\$ 831,961	\$ 87,714,128
Net Change in Fund Balances	\$ 2,536,512	\$ (5,571,186)	\$ 2,200,451	\$ 44,051,098	\$ 1,607,929	\$ 44,824,804
Fund Balances - January 1	\$ 22,237,762	\$ 9,185,971	\$ 36,584,717	\$ (35,601,094)	\$ 4,752,711	\$ 37,160,067
Fund Balances - December 31	\$ 24,774,274	\$ 3,614,785	\$ 38,785,168	\$ 8,450,004	\$ 6,360,640	\$ 81,984,871

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

CITY OF WEST FARGO

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities For the Year Ended December 31, 2018

Net Change in Fund Balances - Total Governmental Funds \$ 44,824,804

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.

Capital Asset Outlay	\$ 45,094,961	
Transfer of Capital Assets to Enterprise Activities	(15,967,803)	
Current Year Depreciation Expense	<u>(8,531,277)</u>	20,595,881

In the statement of activities, the gain and loss on sales or disposals of capital assets is recognized. The fund financial statements recognize only the proceeds from these sales.

(84,239)

Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net position. Proceeds from long-term debt provides financial resources to the governmental funds, but increases long-term liabilities in the statement of net position.

Repayment of Debt	\$ 28,317,888	
Debt Proceeds	(84,565,000)	
Bond Premium	(2,311,216)	
Bond Discount	<u>866,873</u>	(57,691,455)

Bond premium amortization is a reduction to interest expense as it is amortized over the life of the outstanding bonds using the straight-line method. Bond discounts are amortized over the life of the bond using the straight-line method (as interest expense):

Discount Amortization	\$ (158,683)	
Premium Amortization	<u>422,596</u>	263,913

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Change in Compensated Absences	\$ (753,852)	
Net Change in Retainages Payable	(520,317)	
Net Change in Interest Payable	<u>(256,628)</u>	(1,530,797)

The net pension & OPEB liability and related deferred outflows of resources and deferred inflows of resources are reported in the government wide statements; however, activity related to these pension items do not involve current financial resources, and are not reported in the funds.

Net Change in Pension & OPEB Liability	\$ (2,512,349)	
Net Change in Deferred Inflows of Resources for Pensions & OPEB	(359,807)	
Net Change in Deferred Outflows of Resources for Pensions & OPEB	<u>1,091,722</u>	(1,780,434)

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures.

Net Change in Taxes Receivable		31,389
Net Change in Special Assessments Receivable		<u>13,445,126</u>

Change in Net Position of Governmental Activities \$ 18,074,188

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

CITY OF WEST FARGOStatement of Net Position – Proprietary Funds
December 31, 2018

	Business-Type Activities - Enterprise Funds		
	Water & Sewer Funds	Sanitation & Health Fund	Total
ASSETS			
Current Assets			
Cash and investments	\$ 10,823,794	\$ 1,459,151	\$ 12,282,945
Accounts receivable	605,934	298,982	904,916
Total Current Assets	\$ 11,429,728	\$ 1,758,133	\$ 13,187,861
Noncurrent Assets			
Capital Assets			
Depreciable	\$ 1,857,610	\$ -	\$ 1,857,610
Nondepreciable	281,425,150	2,153,602	283,578,752
Total Noncurrent Assets	\$ 283,282,760	\$ 2,153,602	\$ 285,436,362
Total Assets	\$ 294,712,488	\$ 3,911,735	\$ 298,624,223
DEFERRED OUTFLOWS OF RESOURCES			
Derived from Pension and OPEB	\$ 943,300	\$ 609,809	\$ 1,553,109
Total Assets & Deferred Outflows of Resources	\$ 295,655,788	\$ 4,521,544	\$ 300,177,332
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 228,080	\$ 8,096	\$ 236,176
Salaries & benefits payable	84,604	48,730	133,334
Interest payable	98,839	-	98,839
Bonds payable	665,000	-	665,000
Compensated absences	31,538	16,862	48,400
Total Current Liabilities	\$ 1,108,061	\$ 73,688	\$ 1,181,749
Noncurrent Liabilities			
Bonds payable	\$ 11,935,000	\$ -	\$ 11,935,000
Compensated absences	283,842	151,758	435,600
Net Pension and OPEB Liability	1,932,688	1,249,412	3,182,100
Total Noncurrent Liabilities	\$ 14,151,530	\$ 1,401,170	\$ 15,552,700
Total Liabilities	\$ 15,259,591	\$ 1,474,858	\$ 16,734,449
DEFERRED INFLOWS OF RESOURCES			
Derived from Pension and OPEB	\$ 102,099	\$ 66,003	\$ 168,102
Total Liabilities & Deferred Inflows of Resources	\$ 15,361,690	\$ 1,540,861	\$ 16,902,551
NET POSITION			
Net investment in capital assets	\$ 270,682,760	\$ 2,153,602	\$ 272,836,362
Unrestricted	9,611,338	827,081	10,438,419
Total Net Position	\$ 280,294,098	\$ 2,980,683	\$ 283,274,781

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

CITY OF WEST FARGOStatement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds
For the Year Ended December 31, 2018

	Business-Type Activities - Enterprise Funds		
	Water & Sewer Funds	Sanitation & Health Fund	Total
OPERATING REVENUES			
Charges for Services	\$ 9,210,405	\$ 3,449,175	\$ 12,659,580
OPERATING EXPENSES			
Salaries	\$ 1,975,602	\$ 1,224,970	\$ 3,200,572
Water Purchases	3,268,935	-	3,268,935
Utilities	431,095	-	431,095
Landfill	-	1,068,006	1,068,006
Recycle Expense	-	764,828	764,828
Other Operating	1,346,428	323,128	1,669,556
Depreciation	9,209,839	159,395	9,369,234
Total Operating Expenses	\$ 16,231,899	\$ 3,540,327	\$ 19,772,226
Operating Income	\$ (7,021,494)	\$ (91,152)	\$ (7,112,646)
NONOPERATING REVENUES (EXPENSES)			
Investment Earnings	\$ 43,803	\$ 18,099	\$ 61,902
Miscellaneous	189,486	-	189,486
Interest on Long-Term Debt	(624,120)	-	(624,120)
Total Nonoperating Revenue (Expenses)	\$ (390,831)	\$ 18,099	\$ (372,732)
Income Before Transfers	\$ (7,412,325)	\$ (73,053)	\$ (7,485,378)
Transfers In	\$ 15,967,803	\$ -	\$ 15,967,803
Transfers Out	(1,704,785)	-	(1,704,785)
Total Net Transfers	\$ 14,263,018	\$ -	\$ 14,263,018
Changes in Net Position	\$ 6,850,693	\$ (73,053)	\$ 6,777,640
Net Position - January 1	\$ 273,771,104	\$ 3,053,736	\$ 276,824,840
Prior Period Adjustments	(327,699)	-	(327,699)
Net Position - January 1, as restated	\$ 273,443,405	\$ 3,053,736	\$ 276,497,141
Net Position - December 31	\$ 280,294,098	\$ 2,980,683	\$ 283,274,781

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

CITY OF WEST FARGO

Statement of Cash Flows – Proprietary Funds
For the Year Ended December 31, 2018

	Business-Type Activities - Enterprise Funds		
	Water & Sewer Operating	Sanitation & Health Fund	Total Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 9,244,768	\$ 3,450,334	\$ 12,695,102
Payments to Suppliers	(5,103,874)	(2,255,596)	(7,359,470)
Payments to Employees	(1,888,843)	(1,021,183)	(2,910,026)
Net Cash Provided by Operating Activities	\$ 2,252,051	\$ 173,555	\$ 2,425,606
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Miscellaneous Receipts	\$ 189,486	\$ -	\$ 189,486
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Transfer to Other funds	\$ (1,704,785)	\$ -	\$ (1,704,785)
Principal Paid on Capital Debt	(640,000)	-	(640,000)
Interest & Fees Paid on Capital Debt	(629,885)	-	(629,885)
Construction & Purchases of Capital Assets	(228,200)	(58,981)	(287,181)
Net Cash Used by Capital and Related Financing Activities	\$ (3,202,870)	\$ (58,981)	\$ (3,261,851)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Income	\$ 43,803	\$ 18,099	\$ 61,902
Net Increase in Cash and Cash Equivalents	\$ (717,530)	\$ 132,673	\$ (584,857)
Cash and Cash Equivalents - January 1	\$ 11,541,324	\$ 1,326,478	\$ 12,867,802
Cash and Cash Equivalents - December 31	\$ 10,823,794	\$ 1,459,151	\$ 12,282,945
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	\$ (6,821,896)	\$ (91,152)	\$ (6,913,048)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation Expense	9,010,241	159,395	9,169,636
Change in Assets and Liabilities			
Accounts Receivable	34,363	1,159	35,522
Deferred Pension and OPEB Outflows	39,054	(87,599)	(48,545)
Accounts Payable	(57,416)	(99,634)	(157,050)
Salaries Payable	3,054	8,832	11,886
Compensated Absences	23,407	37,519	60,926
Net Pension and OPEB Liability	(23,813)	209,355	185,542
Deferred Pension and OPEB Inflows	45,057	35,680	80,737
Net Cash Provided (Used) by Operating Activities	\$ 2,252,051	\$ 173,555	\$ 2,425,606

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

CITY OF WEST FARGO

Statement of Fiduciary Assets and Liabilities – Agency Funds
December 31, 2018

	<u>Agency Funds</u>
ASSETS	
Cash and investments	<u>\$ 1,326,316</u>
LIABILITIES:	
Due to others	<u>\$ 1,326,316</u>

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

CITY OF WEST FARGO

Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of West Fargo, North Dakota ("City") operates under a Home Rule Charter and various applicable sections in Title 40 of the North Dakota Century Code. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. 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.

Reporting Entity

The accompanying financial statements present the activities of the City. The City has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationships with the City are such that exclusion would cause its financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the City 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.

Based on these criteria, there are no component units to be included within the City as a reporting entity.

Basis of Presentation

Government-Wide Statements. The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, interest, and non-restricted grants and contributions, are presented as general revenues.

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 and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result 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 - This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Project 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).

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.

CITY OF WEST FARGO

Notes to the Financial Statements – Continued

The City reports the following major enterprise funds:

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

Health & Sanitation Fund – This fund accounts for the provisions of garbage pickup and landfill services to residents of the City.

Additionally, the City reports the following fund type.

Agency Funds – These funds account for assets by the City in a custodial capacity as an agent on behalf of others. The City's agency funds are used to account for property taxes collected on behalf of other governments.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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 liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. 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 is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues 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 for principal and interest on general 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 unrestricted resources first, and then restricted resources as they are needed.

Cash and Investments

Cash includes amounts in demand deposits and money market accounts.

The investments of the City consist of certificates of deposit stated at cost with maturities in excess of three months.

Capital Assets

Capital assets for the primary government are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets is not capitalized.

CITY OF WEST FARGO

Notes to the Financial Statements – Continued

Capital assets are depreciated using the straight-line method over the following estimated useful lives (amounts in years):

Buildings	30 - 50
Land Improvements	30
Machinery & Equipment	5 - 20
Infrastructure	20 - 40

Compensated Absences

Vacation and Sick leave accruals are based on 26 pay periods. Employees not within the police department accrue vacation leave at a rate of 3.25 to 7.5 hours per pay period depending on years of service. Employees within the police department accrue vacation leave at a rate of 3.75 to 8.5 hours per pay period depending on years of service. Up to 240 hours of vacation leave may be carried over at each year-end. Upon termination vacation benefits that have accrued through the last day of work will be paid.

Sick leave is accrued at a rate of 3.75 to 5.75 hours per pay period for all employees. Up to 960 hours of sick leave may be carried over at each year-end. Upon termination employees with ten continuous years of service will be paid 50% of accumulated sick leave, not to exceed 480 hours. Employees hired prior to January 1, 2017 with 10 or more years of continuous service will receive an annual sick leave payout of 50% of any hours over 960 and 50% of sick leave paid out at time of termination unless the employee selected a full sick leave payout option.

A liability for vested or accumulated vacation and sick leave is reported in the statement of net position.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

In the fund financial statements, the face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs are reported as debt service expenditures.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS), and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Balances

Fund Balance Spending Policy. It is the policy of the City 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.

Non-spendable Fund Balances. Non-spendable fund balances are reported for loans receivable in the Debt Service and Economic Development funds.

CITY OF WEST FARGO

Notes to the Financial Statements – Continued

Restricted Fund Balances. Restricted fund balances are shown by primary function on the balance sheet. Restricted fund balances are restricted by tax levies (enabling legislation) and by outside 3rd parties (state and federal governments for various grants & reimbursements).

Committed Fund Balances. Committed fund balances are shown by primary function on the balance sheet. They have been committed by the governing boards City council action. They are committed in various special revenue funds.

Unassigned Fund Balances. Unassigned fund balances are reported in the general fund and for negative fund balances at year-end.

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, as well as net of any related debt to purchase or finance the capital assets. These assets are not available for future spending.

Restrictions of net position in the statement of net position are due to restricted tax levies and restricted Federal & State grants/reimbursements.

Unrestricted net position is primarily unrestricted amounts related to the general fund and negative fund balances.

Interfund Transactions

In the governmental 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 reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except reimbursements, are reported as transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

NOTE 2 PRIOR PERIOD ADJUSTMENTS

Net position as of January 1, 2018 has been restated as follows for the correction of previously reported depreciation in the governmental and business-type activities.

Adjustments to beginning net position are outlined as follows:

	Governmental Activities	Business-Type Activities	Water & Sewer Fund
Beginning Net Position, as Previously Reported	\$ 173,994,209	\$ 276,824,840	\$ 273,771,104
Adjustments to restate the January 1, 2018 net position Depreciation	(614,153)	(327,699)	(327,699)
Net Position January 1, as Restated	\$ 173,380,056	\$ 276,497,141	\$ 273,443,405

NOTE 3 DEPOSITS**Custodial Credit Risk**

Custodial credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution's failure, the City would not be able to recover the deposits or collateralized securities that in the possession of the outside parties. The City does not have a formal policy regarding deposits that limits the amount they may invest in any one issuer.

CITY OF WEST FARGO

Notes to the Financial Statements – Continued

In accordance with North Dakota statutes, 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, school district, 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 another state of the United States or such other securities approved by the banking board.

At December 31, 2018, the City's carrying amount of deposits was \$93,288,218 and the bank balances were \$95,557,946. Of the bank balances, \$75,599,248 was covered by Federal Depository Insurance, while the remaining balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

NOTE 4 PROPERTY TAXES

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.

NOTE 5 CAPITAL ASSETS

Governmental Activities

The following is a summary of changes in capital assets for the year ended 2018:

Governmental Activities	Bal. Restated Jan 1	Increases	Decreases	Transfers	Balance Dec 31
Capital Assets Not Being Depreciated					
Land	\$ 14,752,650	\$ 2,500,567	\$ -	\$ -	\$ 17,253,217
Construction in Progress	87,240,598	41,546,825	-	(36,331,021)	92,456,402
Total Capital Assets Not Being Depreciated	\$ 101,993,248	\$ 44,047,392	\$ -	\$ (36,331,021)	\$ 109,709,619
Capital Assets Being Depreciated					
Buildings	\$ 13,039,517	\$ -	\$ -	\$ -	\$ 13,039,517
Equipment	4,754,832	1,047,569	330,402	-	5,471,999
Land Improvements	13,687	-	-	-	13,687
Infrastructure	138,556,500	-	-	20,363,218	158,919,718
Total Capital Assets Being Depreciated	\$ 156,364,536	\$ 1,047,569	\$ 330,402	\$ 20,363,218	\$ 177,444,921
Less Accumulated Depreciation					
Buildings	\$ 1,696,908	\$ 287,415	\$ -	\$ -	\$ 1,984,323
Equipment	2,470,097	510,808	246,163	-	2,734,742
Land Improvements	3,193	456	-	-	3,649
Infrastructure	58,556,954	7,732,598	-	-	66,289,552
Total Accumulated Depreciation	\$ 62,727,152	\$ 8,531,277	\$ 246,163	\$ -	\$ 71,012,266
Total Capital Assets Being Depreciated, Net	\$ 93,637,384	\$ (7,483,708)	\$ 84,239	\$ 20,363,218	\$ 106,432,655
Governmental Activities Capital Assets, Net	\$ 195,630,632	\$ 36,563,684	\$ 84,239	\$ (15,967,803)	\$ 216,142,274

CITY OF WEST FARGO

Notes to the Financial Statements – Continued

Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities	
General Government	\$ 330,589
Public Safety	267,606
Public Works	7,933,082
Total Depreciation Expense	\$ 8,531,277

Business-Type Activities

The following is a summary of changes in capital assets for the year ended 2018:

Business-Type Activities	Bal. Restated Jan 1	Increases	Decreases	Transfers	Balance Dec 31
Capital Assets Not Being Depreciated					
Land	\$ 1,857,610	\$ -	\$ -	\$ -	\$ 1,857,610
Capital Assets Being Depreciated					
Buildings	\$ 3,817,134	\$ -	\$ -	\$ -	\$ 3,817,134
Equipment	8,542,551	287,182	388,482	-	8,441,251
Land Improvements	3,751,796	-	-	-	3,751,796
Infrastructure	341,127,344	-	-	15,967,803	357,095,147
Total Capital Assets Being Depreciated	\$ 357,238,825	\$ 287,182	\$ 388,482	\$ 15,967,803	\$ 373,105,328
Less Accumulated Depreciation					
Buildings	\$ 510,943	\$ 77,371	\$ -	\$ -	\$ 588,314
Equipment	5,755,926	341,448	388,482	-	5,708,892
Land Improvements	3,751,796	-	-	-	3,751,796
Infrastructure	70,527,159	8,950,415	-	-	79,477,574
Total Accumulated Depreciation	\$ 80,545,824	\$ 9,369,234	\$ 388,482	\$ -	\$ 89,526,576
Total Capital Assets Being Depreciated, Net	\$ 276,693,001	\$ (9,082,052)	\$ -	\$ 15,967,803	\$ 283,578,752
Business-Type Activities Capital Assets, Net	\$ 278,550,611	\$ (9,082,052)	\$ -	\$ 15,967,803	\$ 285,436,362

Depreciation expense was charged to the following business-type functions:

Business-Type Activities	
Water & Sewer	\$ 9,209,839
Sanitation & Health	159,395
Total Depreciation Expense	\$ 9,369,234

CITY OF WEST FARGO

Notes to the Financial Statements – Continued

NOTE 6 LONG-TERM LIABILITIES

Governmental Activities

The following changes occurred in long-term liabilities for the year ended 2018:

Governmental Activities	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Long Term Debt					
G.O. Bonds	\$ 5,715,000	\$ -	\$ 730,000	\$ 4,985,000	\$ 755,000
Special Assessment Bonds	246,915,000	84,565,000	27,060,000	304,420,000	16,515,000
Revenue Bonds	2,135,000	-	220,000	1,915,000	230,000
BND Drawdown	14,611,432	-	307,888	14,303,544	399,490
Bond Premium	4,788,489	2,311,216	422,595	6,677,110	422,595
Bond Discount	(1,237,171)	(866,874)	(158,683)	(1,945,362)	(158,683)
Total Long Term Debt	\$ 272,927,750	\$ 86,009,342	\$ 28,581,800	\$ 330,355,292	\$18,163,402
Compensated Absences *	\$ 1,150,649	\$ 753,852	\$ -	\$ 1,904,501	\$ 190,450
Net Pension & OPEB Liability	9,592,797	2,512,349	-	12,105,146	-
Total Governmental Activities	\$ 283,671,196	\$ 89,275,543	\$ 28,581,800	\$ 344,364,939	\$18,353,852

* The change in compensated absences is shown as a net change.

Debt service requirements on long-term debt is as follows:

GOVERNMENTAL ACTIVITIES						
Year Ending Dec. 31	G.O. Bonds		Special Assmt. Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 755,000	\$ 198,778	\$ 16,515,000	\$ 10,152,983	\$ 230,000	\$ 66,403
2020	780,000	173,108	16,005,000	9,380,743	240,000	58,808
2021	810,000	144,248	59,280,000	8,331,759	245,000	50,949
2022	845,000	111,848	13,390,000	7,300,880	260,000	42,828
2023	880,000	77,203	12,695,000	6,784,650	470,000	31,095
2024 - 2028	915,000	39,803	57,235,000	27,260,238	185,000	88,213
2029 - 2033	-	-	55,310,000	17,189,712	105,000	58,600
2034 - 2038	-	-	50,230,000	7,794,137	145,000	27,375
2039 - 2043	-	-	23,760,000	1,538,325	35,000	875
Total	\$ 4,985,000	\$ 744,988	\$ 304,420,000	\$ 95,733,427	\$ 1,915,000	\$ 425,146

GOVERNMENTAL ACTIVITIES				
Year Ending Dec. 31	Drawdown Payable		Bond Premium	Bond Discount
	Principal	Interest		
2019	\$ 399,490	\$ 369,404	\$ 422,595	\$ (158,683)
2020	490,813	278,081	422,595	(158,683)
2021	500,629	268,265	422,595	(150,723)
2022	510,642	258,252	353,584	(88,089)
2023	520,855	248,039	353,584	(88,089)
2024 - 2028	2,764,759	1,079,711	1,311,766	(363,155)
2029 - 2033	3,052,517	791,953	1,311,766	(363,155)
2034 - 2038	3,370,225	474,244	1,309,740	(363,155)
2039 - 2043	2,693,614	133,641	768,885	(211,630)
Total	\$ 14,303,544	\$ 3,901,590	\$ 6,677,110	\$ (1,945,362)

CITY OF WEST FARGO

Notes to the Financial Statements – Continued

Business-Type Activities

The following changes occurred in long-term liabilities for the year ended 2018:

Business-Type Activities	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Long Term Debt					
Sewer Bonds	\$ 13,240,000	\$ -	\$ 640,000	\$ 12,600,000	\$ 665,000
Compensated Absences *	\$ 423,073	\$ 60,927	\$ -	\$ 484,000	\$ 48,400
Net Pension & OPEB Liability	2,996,558	185,542	-	3,182,100	-
Total Business-Type Activities	\$ 16,659,631	\$ 246,469	\$ 640,000	\$ 16,266,100	\$ 713,400

* The change in compensated absences is shown as a net change.

Debt service requirements on long-term debt is as follows:

BUSINESS-TYPE ACTIVITIES		
Year Ending Dec. 31	Sewer Bonds	
	Principal	Interest
2019	\$ 665,000	\$ 605,300
2020	690,000	580,400
2021	715,000	554,060
2022	745,000	523,840
2023	775,000	489,793
2024 - 2028	4,415,000	1,913,099
2029 - 2033	3,455,000	882,927
2034 - 2038	1,140,000	72,675
Total	\$ 12,600,000	\$ 5,622,094

NOTE 7 OPERATING LEASES

The City is involved in an operating lease for two copiers. Total lease payments made during 2018 totaled \$8,454. Future lease payments are as follows:

2019	\$ 8,454
2020	8,454
2021	6,341

NOTE 8 PENSION PLAN

General Information about the NDPERS Pension Plan

North Dakota Public Employees Retirement System (Main System)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney

CITY OF WEST FARGO

Notes to the Financial Statements – Continued

General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 was replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

1 to 12 months of service	Greater of one percent of monthly salary or \$25
13 to 24 months of service	Greater of two percent of monthly salary or \$25
25 to 36 months of service	Greater of three percent of monthly salary or \$25
Longer than 36 months of service	Greater of four percent of monthly salary or \$25

CITY OF WEST FARGO

Notes to the Financial Statements – Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2018, the following net pension liability was reported:

	Net Pension Liability
Main System	\$ 14,645,578

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net pension liability was based on their respective share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2018, the entities had the following proportion, change in proportion, and pension expense:

	Proportion of Net Pension Liability	Change in Proportion	Pension Expense
Main System	0.867830%	0.119341%	\$ 2,752,535

At December 31, 2018, the following deferred outflows of resources and deferred inflows of resources were reported related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 38,768	\$ 498,271
Changes of Assumptions	5,286,748	209,037
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	71,252
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	1,274,204	(2)
District Contributions Subsequent to the Measurement Date	624,360	-
Total	\$ 7,224,080	\$ 778,558

\$624,360 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2019	\$ 1,833,822
2020	1,638,491
2021	1,392,131
2022	835,419
2023	121,229

CITY OF WEST FARGO

Notes to the Financial Statements – Continued

Actuarial Assumptions

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%	
Salary increases	Service at Beginning of year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 30	10.00%
	30 – 39	7.50%
	40 – 49	6.75%
	50 – 59	6.50%
	60+	5.25%
	* Age-based salary increase rates apply for employees with three or more years of service	
Investment rate of return	7.75%, net of investment expenses	
Cost-of-living adjustments	None	

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund’s target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.20%
Domestic Fixed Income	23%	1.45%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.11%
Cash Equivalents	0%	0.00%

Discount rate

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal

CITY OF WEST FARGO

Notes to the Financial Statements – Continued

bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.32 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's Proportionate Share of the Net Pension Liability	\$ 19,900,618	\$ 14,645,578	\$ 10,260,416

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued NDPERS financial report.

NOTE 9 OPEB PLAN

General Information about the OPEB Plan

North Dakota Public Employees Retirement System

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "prefunded credit applied" on the Statement of Changes in Plan Net Position for the OPEB trust funds.

CITY OF WEST FARGO

Notes to the Financial Statements – Continued

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2018, the following net OPEB liabilities were reported:

	Net OPEB Liability
Main System	\$ 641,668

The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The proportion of the net OPEB liability was based on its respective share of covered payroll in the main system OPEB plan relative to the covered payroll of all participating main system employers. At June 30, 2018, the entity had the following proportion, change in proportion, and OPEB expense:

	Proportion of Net OPEB Liability	Change in Proportion	OPEB Expense
Main System	0.814772%	0.108485%	\$ 89,327

At December 31, 2018, the following deferred outflows of resources and deferred inflows of resources were reported related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Total Entity		
Differences Between Expected and Actual Experience	\$ 19,212	\$ 13,258
Changes of Assumptions	52,651	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	13,804
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	65,437	1,966
District Contributions Subsequent to the Measurement Date	99,968	-
Total	\$ 237,268	\$ 29,028

\$99,968 reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019

CITY OF WEST FARGO

Notes to the Financial Statements – Continued

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$	161
2019		161
2020		161
2021		304
2022		278
2023		176
Thereafter		35

Actuarial assumptions

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	Not applicable
Investment rate or return	7.50%, net of investment expenses
Cost of living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37%	7.15%
Small Cap Domestic Equities	9%	14.42%
International Equities	14%	8.83%
Core-Plus Fixed Income	40%	.10%

Discount rate

The discount rate used to measure the total OPEB liability was 7.5%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

CITY OF WEST FARGO

Notes to the Financial Statements – Continued

Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the Plans as of June 30, 2018, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's Proportionate Share of the OPEB Liability	\$ 19,034	\$ 15,044	\$ 11,623

NOTE 10 TRANSFERS

Transfers are used to move unrestricted general revenue to finance programs that the City accounts for in other funds in accordance with budget authority and to subsidize other programs.

NOTE 11 RISK MANAGEMENT

The City is exposed to various risks of loss relating 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 (NDRIF), 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 pays an annual premium to NDRIF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDRIF is limited to losses of \$10,000,000 per occurrence for general liability and automobile, and up to \$7,340,995 for public assets (mobile equipment and portable property).

The City 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 \$1,000,000 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 has worker's compensation with the North Dakota Workforce Safety and Insurance.

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

CITY OF WEST FARGO

Notes to the Financial Statements – Continued

NOTE 12 CONSTRUCTION COMMITMENTS

The City had open commitments as of December 31, 2018 as follows:

Project	Contract Amount	Change Order	Total Contract	Total Completed	Remaining Balance
Street Improvements					
Pioneer Place Alley Improvements	\$ 174,598	\$ 4,792	\$ 179,390	\$ 140,810	\$ 38,580
2241 5th St West Ext. (27th Ave W to 28th Ave W)	435,390	1,900	437,290	431,639	5,651
2243 Intersection at 9th & 13th - NDDOT project	5,050,939	-	5,050,939	3,438,903	1,612,036
2250 Sheyenne (Beaton to 40th) Improvement District	939,546	-	939,546	321,117	618,429
2251 13th Avenue (12th to 45th Street) Reconstruct	4,218,363	-	4,218,363	4,105,312	113,051
Eagle Run Plaza 6th	756,474	13,376	769,850	442,247	327,603
Sheyenne St Main to 7th (Road Diet)	249,942	-	249,942	229,649	20,293
Sidewalk Improvement District	291,724	10,457	302,181	250,023	52,158
2244 Shenne St. CIP (South of I94)	5,443,981	187,979	5,631,960	4,588,942	1,043,018
32 & 40th Ave West to Diversion	262,318	-	262,318	259,622	2,696
Storm Sewer					
4059 Storm Lift Rehab - SM 33	151,000	1,626	152,626	151,866	760
Halvorson Pond	719,541	17,607	737,148	538,238	198,910
1310 South Regional Sanitary Sewer Forcemain	2,265,750	297	2,266,047	1,428,679	837,368
Water and Sewer					
1273 Main Avenue Ph III NHU-8010(032)932	22,198,834	-	22,198,834	7,546,976	14,651,858
1302 Water Tank Rehab - 12th Ave E (WT-3) & Meadow Ridge	935,535	-	935,535	927,035	8,500
1305 Wilds 9th Addition Sanitary Lift Station (SA46)	5,218,551	1,060,671	6,279,222	5,739,855	539,367
1305 Wilds 9th Addition Sanitary Lift Station (SA46)	501,921	(44,451)	457,470	233,776	223,694
1308 Fargo Wastewater Connection Project	4,664,455	826,021	5,490,476	4,142,325	1,348,151
1311 Brooks Harbor Water Tower	2,230,900	1,420	2,232,320	1,642,998	589,322
Sanitary Sewer District	859,963	21,950	881,913	756,878	125,035
Total	\$ 57,569,725	\$ 2,103,645	\$ 59,673,370	\$ 37,316,890	\$ 22,356,480

CITY OF WEST FARGOBudgetary Comparison Schedule – General Fund
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 8,363,028	\$ 8,363,028	\$ 8,110,494	\$ (252,534)
Special Assessments	110,000	110,000	244,048	134,048
Licenses, Permits & Fees	2,244,500	2,244,500	3,372,761	1,128,261
Intergovernmental	2,274,000	2,274,000	2,358,491	84,491
Fines, Forfeitures, & Penalties	325,000	325,000	494,235	169,235
Interest Income	30,000	30,000	302,267	272,267
Miscellaneous	15,000	15,000	53,557	38,557
Total Revenues	<u>\$ 13,361,528</u>	<u>\$ 13,361,528</u>	<u>\$ 14,935,853</u>	<u>\$ 1,574,325</u>
EXPENDITURES				
Current				
General Government	\$ 5,160,728	\$ 5,160,728	\$ 5,704,101	\$ (543,373)
Public Safety	6,772,300	7,272,464	7,193,233	79,231
Public Works/Streets	2,900,100	2,900,100	2,676,633	223,467
Economic Development	228,400	228,400	214,690	13,710
Total Expenditures	<u>\$ 15,061,528</u>	<u>\$ 15,561,692</u>	<u>\$ 15,788,657</u>	<u>\$ (226,965)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (1,700,000)</u>	<u>\$ (2,200,164)</u>	<u>\$ (852,804)</u>	<u>\$ 1,347,360</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 1,500,000	\$ 1,500,000	\$ 3,408,384	\$ 1,908,384
Transfers Out	-	-	(19,068)	(19,068)
Total Other Financing Sources and Uses	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>	<u>\$ 3,389,316</u>	<u>\$ 1,889,316</u>
Net Changes in Fund Balances	<u>\$ (200,000)</u>	<u>\$ (700,164)</u>	<u>\$ 2,536,512</u>	<u>\$ 3,236,676</u>
Fund Balance - January 1	<u>\$ 22,237,762</u>	<u>\$ 22,237,762</u>	<u>\$ 22,237,762</u>	<u>\$ -</u>
Fund Balance - December 31	<u>\$ 22,037,762</u>	<u>\$ 21,537,598</u>	<u>\$ 24,774,274</u>	<u>\$ 3,236,676</u>

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

CITY OF WEST FARGOBudgetary Comparison Schedule – Sales Tax Fund
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 8,000,000	\$ 8,000,000	\$ 10,669,380	\$ 2,669,380
Interest Income	10,000	10,000	45,038	35,038
Total Revenues	<u>\$ 8,010,000</u>	<u>\$ 8,010,000</u>	<u>\$ 10,714,418</u>	<u>\$ 2,704,418</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	<u>\$ (9,165,000)</u>	<u>\$ (9,165,000)</u>	<u>\$ (16,285,604)</u>	<u>\$ (7,120,604)</u>
Net Changes in Fund Balances	<u>\$ (1,155,000)</u>	<u>\$ (1,155,000)</u>	<u>\$ (5,571,186)</u>	<u>\$ (4,416,186)</u>
Fund Balance - January 1	<u>\$ 9,185,971</u>	<u>\$ 9,185,971</u>	<u>\$ 9,185,971</u>	<u>\$ -</u>
Fund Balance - December 31	<u>\$ 8,030,971</u>	<u>\$ 8,030,971</u>	<u>\$ 3,614,785</u>	<u>\$ (4,416,186)</u>

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

CITY OF WEST FARGO

Schedule of Employer's Share of Net Pension Liability and Employer Contributions
 For the Year Ended December 31, 2018

**Schedule of Employer's Share of Net Pension Liability
 ND Public Employee's Retirement System
 Last 10 Fiscal Years**

	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.867830%	\$ 14,645,578	\$ 8,915,372	164.27%	62.80%
2017	0.748489%	12,030,675	7,640,904	157.45%	61.98%
2016	0.712207%	6,941,151	7,177,366	96.71%	70.46%
2015	0.665753%	4,527,007	5,931,052	76.33%	77.15%
2014	0.655469%	4,160,402	5,521,525	75.35%	77.15%

**Schedule of Employer Contributions
 ND Public Employees Retirement System
 Last 10 Fiscal Years**

	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2018	\$ 656,655	\$ 609,328	\$ 47,327	\$ 8,915,372	6.83%
2017	519,630	546,659	(27,029)	7,177,366	7.62%
2016	450,511	451,207	(696)	5,931,052	7.61%
2015	393,133	393,133	-	5,521,525	7.12%
2014	328,555	328,555	-	4,614,538	7.12%

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

CITY OF WEST FARGO

Schedule of Employer's Share of Net OPEB Liability and Employer Contributions
 For the Year Ended December 31, 2018

**Schedule of Employer's Share of Net OPEB Liability
 ND Public Employees Retirement System
 Last 10 Fiscal Years**

	Proportion of the Net OPEB Liability (Asset)	Proportionate Share of the Net OPEB (Asset)	Covered-Employee Payroll	Proportionate Share of the Net OPEB (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2018	0.814772%	\$ 641,668	\$ 8,915,372	7.20%	61.89%
2017	0.706287%	558,681	7,640,904	7.31%	59.78%

**Schedule of Employer Contributions
 ND Public Employees Retirement System
 Last 10 Fiscal Years**

	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2018	\$ 104,572	\$ 97,561	\$ 7,011	\$ 8,915,372	1.09%
2017	88,820	86,124	2,696	7,640,904	1.13%

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

CITY OF WEST FARGO

Notes to the Required Supplementary Information
For the Year Ended December 31, 2018

NOTE 1 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

The governing board adopts an annual budget on a basis consistent with GAAP, and state law as outlined in various sections of North Dakota Century Code (NDCC) Chapter 40-40 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 for each of these funds.

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

- The governing body of each municipality, annually or before August 10th, shall make an itemized statement known as the preliminary budget statement showing the amounts of money which, in the opinion of the governing body, will be required for the proper maintenance, expansion, or improvement of the municipality during the year (NDCC 40-40-04).
- The preliminary budget must include a detailed breakdown of the estimated revenues and appropriations requested for the ensuing year for the general fund, each special revenue fund, and each debt service fund of the municipality. The revenue and expenditure items for the preceding year and estimates of the revenue and expenditures for the current year must be included for each fund to assist in determining the estimated revenues and appropriation requested for the ensuing year. The budget must also include any transfers in or out and the beginning and ending fund balance for each of the funds. The budget must be prepared on the same basis of accounting used by the municipality for its annual financial reports (NDCC 40-40-05).
- After the governing body has prepared the preliminary budget statement, the auditor of the municipality shall give notice that: the preliminary budget is on file in the office of the auditor and may be examined by anyone upon request; the governing body shall meet no later than October 7th at the time and place specified in the notice for the purpose of adopting the final budget and making the annual tax levy; and, the governing shall hold a public session at the time and place designated in the notice of the hearing at which any taxpayer may appear and discuss with the body any item of proposed expenditure or may object to any item or amount (NDCC 40-40-06).
- After the budget hearing, the final budget must be prepared on or before October 7th in accordance with provisions outlined in detail in NDCC 40-40-08.
- After completing the final budget on or before October 7th, the governing body shall proceed to make the annual tax levy in an amount sufficient to meet the expenses for the ensuing year as determined at the budget meeting (NDCC 40-40-09).
- Immediately after completion of the final budget and adoption of the annual tax levy by the governing body of a municipality in accordance with provisions, and in no case later than October 10th, the auditor of the municipality shall send to the county auditor a certified copy of the final budget (NDCC 40-40-10).
- No municipal expenditure may be made nor liability incurred, and no bill may be paid for any purposes in excess of the appropriation made therefor in the final budget. Expenditures made liabilities incurred, or warrants issued in excess of the appropriations are a joint and several liability the members of the governing body (NDCC 40-40-15).
- At the end of the fiscal year, the balance to credit of each annual appropriation becomes a part of the general unappropriated balance in the municipal treasury, but no special appropriation lapses until the work for which it was made has been completed, the bills paid, and the accounts closed. He governing body of a city may elect, at the end of the fiscal year, to carry over the unencumbered cash balance in the general fund or other budgeted funds and designate the balances for subsequent years (NDCC 40-40-21).

CITY OF WEST FARGO

Notes to the Required Supplementary Information - Continued

NOTE 2 LEGAL COMPLIANCE - BUDGETS

Budget Amendments

The board of commissioners amended the City budget for various funds as follows:

EXPENDITURES & TRANSFERS OUT			
	Original Budget	Budget Amendment	Amended Budget
Governmental Funds			
Major Funds			
General Fund	\$ 15,061,528	\$ 500,164	\$ 15,561,692

NOTE 3 SCHEDULE OF PENSION AND OPEB LIABILITY AND CONTRIBUTIONS

GASB Statements No. 68 and 75 require ten years of information to be presented in these tables. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

NOTE 4 PENSION AND OPEB - CHANGES OF ASSUMPTIONS

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2018 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
1655 43RD STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

**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**

Independent Auditor's Report

Board of City Commissioners
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, each major fund, and the aggregate remaining fund information of City of West Fargo as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise City of West Fargo's basic financial statements, and have issued our report thereon dated December 31, 2019.

Internal Control Over Financial Reporting

Our consideration of internal control 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 have not been identified. However, as described in the accompanying *schedule of audit findings*, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 audit findings* as item 2018-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying *schedule of audit findings* as item 2018-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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

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

City of West Fargo's Response to Findings

City of West Fargo's response to the findings identified in our audit is described in the accompanying *schedule of audit findings*. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
December 31, 2019

CITY OF WEST FARGO

Summary of Auditor's Results
For the Year Ended December 31, 2018

Financial Statements

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

Internal control over financial reporting

Material weaknesses identified?	<u> X </u> Yes	<u> </u> None Noted
Significant deficiencies identified not considered to be material weaknesses?	<u> X </u> Yes	<u> </u> None Noted
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> None Noted

CITY OF WEST FARGO

Schedule of Audit Findings

For the Year Ended December 31, 2018

2018-001 FINANCIAL STATEMENT PREPARATION

Condition

The City of West Fargo does not have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying note disclosures, as required by Generally Accepted Accounting Principles (GAAP). Thus, management has elected to have the financial statements and note disclosures be prepared by the auditors.

Criteria

Management of the City of West Fargo is responsible for establishing proper internal control over the preparation of the City of West Fargo's annual financial statements to ensure that financial statements and note disclosures are reliable, accurate, free of material misstatement, and in accordance with GAAP.

Cause

With the change in staff, management did not have adequate time to prepare the financial statements and note disclosures and has chosen to have the auditors assist in the preparation of the financial statements and note disclosures.

Effect

There is an increased risk of material misstatement to the City of West Fargo's financial statements.

Repeat Finding

No.

Recommendation

We recommend the City of West Fargo design and implement internal controls over financial reporting to ensure financial statements are presented in accordance with GAAP. We further recommend management continue to obtain sufficient knowledge to ensure the financial statements are free from material misstatement.

City of West Fargo's Response

Agree. The City of West Fargo is aware that there is a risk having the State Auditor's Office prepare and approve our financial statements and note disclosures. We may attempt to prepare the financial statements and note disclosures in the future.

2018-002 FRAUD RISK ASSESSMENT

Condition

The City of West Fargo does not currently prepare a fraud risk assessment of the entire entity.

Criteria

Fraud risk governance is a key component of entity-wide governance and the internal control environment according to the COSO framework principles. This entity-wide governance addresses the manner in which the board of directors and management meet their respective obligations to achieve the entities goals in reporting, reliance, and accountability.

Cause

The City may not have considered preparing a fraud risk assessment.

Effect

If the City does not prepare an adequate fraud risk assessment, there is an increased risk of fraudulent financial reporting, asset misappropriation, and corruption.

Repeat Finding

No.

Recommendation

We recommend the City of West Fargo prepare a fraud risk assessment in order to identify areas of concern within the entity to appropriately mitigate the risk of fraudulent financial reporting, misappropriation of assets, and corruption.

City of West Fargo's Response

Agree. We will perform a fraud risk assessment.

STATE AUDITOR

JOSHUA C. GALLION
Phone (701) 328-2241



Local Government Division
FARGO OFFICE
MANAGER – CRAIG HASHBARGER
Phone (701)239-7250

STATE OF NORTH DAKOTA
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GOVERNANCE COMMUNICATION

Board of City Commissioners
City of West Fargo
West Fargo, North Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of West Fargo, North Dakota, for the year ended December 31, 2018 which collectively comprise the City of West Fargo’s basic financial statements, and have issued our report thereon dated December 31, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in The United States of America, Government Auditing Standards and by the Uniform Guidance

As stated in our engagement letter dated May 9, 2019, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

In planning and performing our audit, we considered the City of West Fargo’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on internal control over financial reporting.

As part of obtaining reasonable assurance about whether the City of West Fargo’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, 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.

Significant Accounting Policies/Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of West Fargo are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended December 31, 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements presented by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is useful lives of capital assets.

CITY OF WEST FARGO

Governance Communication – Continued

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. Management has corrected all such misstatements. The schedule below lists all misstatements detected as a result of audit procedures that were corrected by management.

	<u>Client Provided Adjustments</u>	
	<u>Debit</u>	<u>Credit</u>
Governmental Activities		
Intergovernmental Receivable	1,744,574	
Due from County	278,152	
Revenue		2,022,726
Expenditures	1,700,350	
Accounts Payable		496,837
Salaries Payable		148,800
Construction Payable		1,054,713
Business-Type Activities		
Expenditures	345,795	
Accounts Payable		212,461
Salaries Payable		133,334

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, or reporting matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 31, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CITY OF WEST FARGO

Governance Communication – Continued

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of City Commissioners and management of the City of West Fargo, and is not intended to be, and should not be, used for any other purpose. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you and the employees of the City of West Fargo for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve the City of West Fargo.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
December 31, 2019

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