



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Fargo, North Dakota as of and for the year ended December 31, 2008, which collectively comprise the City of Fargo, North Dakota's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fargo, North Dakota's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Fargo, North Dakota, as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2009, on our considerations of the City of Fargo, North Dakota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 10 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United State of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Eide Bailly LLP

Fargo, North Dakota
July 20, 2009

City of Fargo, North Dakota
Management's Discussion and Analysis

As management of the City of Fargo, we offer readers of the City of Fargo's financial statements this narrative overview and analysis of the financial activities of the City of Fargo for the fiscal year ended December 31, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages III - VI of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

The assets of the City of Fargo exceeded its liabilities at the close of the most recent fiscal year by \$664,245 (net assets).

As of the close of the current fiscal year, the City of Fargo's governmental funds reported combined ending fund balances of \$17,746 a decrease of \$38,399 in comparison with the prior year. The decrease in fund balance is explained in subsequent sections of this analysis.

The City's fund balance goal of 25% of General Fund operating expenditures was achieved based upon financial performance slightly better than anticipated during the 2008 budget development cycle.

Property values remain strong in spite of a slowing national economy. Valuations have not increased as much as in the recent past, however, they have not fallen as reported in other communities in other markets. Several large commercial permits were issued in 2008 and this category of construction was up by more than 100% from the previous year. Residential and multi-family permits were down by 30% and 24%, while overall permit totals increased by 14% as compared to 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements

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

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

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

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

The government-wide financial statements can be found on pages 12 and 13 of this report.

Fund financial statements

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

Governmental funds

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

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

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

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

The basic governmental fund financial statements can be found on pages 14 - 17 of this report.

Proprietary funds

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

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

The basic proprietary fund financial statements can be found on pages 20 - 25 of this report.

Fiduciary funds

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

The basic fiduciary fund financial statements can be found on pages 26 and 27 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29 - 69 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Fargo's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 57 - 68 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 71 - 107 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Fargo, assets exceeded liabilities by \$664,245 at the close of the most recent fiscal year.

By far the largest portion of the City of Fargo's net assets (82%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment); less any related outstanding debt used to acquire those assets. The City of Fargo uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Fargo's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following two tables present condensed financial information on the City's Net Assets and Changes in Net Assets for the fiscal year ending December 31, 2008 and 2007.

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 235,827	\$ 251,873	\$ 67,807	\$ 62,657	\$ 303,634	\$ 314,530
Capital assets	239,890	215,396	459,632	441,499	699,522	656,895
Total assets	475,717	467,269	527,439	504,156	1,003,156	971,425
Long-term liabilities outstanding	240,020	235,592	61,382	66,618	301,402	302,210
Other liabilities	23,475	19,664	14,034	12,874	37,509	32,538
Total liabilities	263,495	255,256	75,416	79,492	338,911	334,748
Net assets:						
Invested in capital assets, net of related debt as restated	136,830	109,640	405,649	384,874	542,479	494,514
Restricted	99,853	101,928	27,579	20,038	127,432	121,966
Unrestricted	(24,461)	445	18,795	19,752	(5,666)	20,197
Total net assets	\$ 212,222	\$ 212,013	\$ 452,023	\$ 424,664	\$ 664,245	\$ 636,677

A portion of the City of Fargo's net assets (19%) represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the deficit in the unrestricted governmental activities can be attributed to the deficit carried in the capital projects fund. As projects are finalized and closed, the majority are financed through the issuance of bonds, which are then repaid through special assessments from the benefiting property owners. As the bonds are issued and special assessments are approved, the special assessments are recorded as receivables. However, many infrastructure projects remain open at year-end, resulting in a deficit net asset amount created by the construction work in progress incurred during the year. A bond sale currently planned during 2009 will reimburse a significant portion of this deficit.

The City's net assets increased by \$27,568 during the current fiscal year.

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

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 23,755	\$ 21,415	\$ 50,875	\$ 48,651	\$ 74,630	\$ 70,066
Operating grants and contributions	8,737	7,375	-	20	8,737	7,395
Capital grants and contributions	51,554	37,607	26,965	19,540	78,519	57,147
General Revenues:						
Taxes	36,809	35,207	10,920	10,788	47,729	45,995
Unrestricted intergovernmental	3,404	2,971	-	-	3,404	2,971
Unrestricted investment earnings	4,890	5,833	(3,064)	2,067	1,826	7,900
Miscellaneous	287	254	1,041	427	1,328	681
Total revenues	129,436	110,662	86,737	81,493	216,173	192,155
Expenses:						
General government	12,629	11,988	-	-	12,629	11,988
Public safety	27,259	24,519	-	-	27,259	24,519
Public works	66,435	50,592	-	-	66,435	50,592
Public health & welfare	7,802	7,382	-	-	7,802	7,382
Recreation & culture	5,878	5,564	-	-	5,878	5,564
Urban redevelopment	4,901	5,530	-	-	4,901	5,530
Transportation	6,713	5,839	-	-	6,713	5,839
General support	1,252	1,710	-	-	1,252	1,710
Interest and fiscal charges	10,079	10,384	-	-	10,079	10,384
Municipal airport authority	-	-	6,340	6,493	6,340	6,493
Water system	-	-	12,740	11,186	12,740	11,186
Sewage disposal system	-	-	6,811	6,760	6,811	6,760
Storm sewer	-	-	3,318	3,137	3,318	3,137
Solid waste	-	-	7,739	6,616	7,739	6,616
Fargodome	-	-	6,782	7,544	6,782	7,544
Southeast Cass	-	-	67	53	67	53
Vector Control	-	-	589	479	589	479
Forestry	-	-	1,271	1,198	1,271	1,198
Total expenses	142,948	123,508	45,657	43,466	188,605	166,974
Change in net assets before transfers	(13,512)	(12,846)	41,080	38,027	27,568	25,181
Transfers	13,721	12,800	(13,721)	(12,800)	-	-
Change in net assets	209	(46)	27,359	25,227	27,568	25,181
Net assets - Beginning	212,013	212,059	424,664	399,437	636,677	611,496
Net assets - Ending	\$ 212,222	\$ 212,013	\$ 452,023	\$ 424,664	\$ 664,245	\$ 636,677

Governmental activities

The governmental activities' net assets increased by \$209 during the current fiscal year.

Charge for services program revenue increased by 10.9% due to an aggressive infrastructure plan. The City began working on utility infrastructure projects funded in the City's recently approved utility master plan. As a result there was a jump in infrastructure spending this year above our normal levels of traditional infrastructure work related to new sub-divisions. A mid-year budget modification increased this line by \$2 million based upon the projected amount of work to be completed in the 2008 construction season.

Capital grants and contributions increased by 37% due largely to an overall increase in spending on infrastructure projects and for projects funded by direct Department of Justice COPS Technology grants. The City was awarded an interoperable communications grant in 2006 and a major public safety software system was awarded in 2007. The public safety software grant was a major award of \$3 million and was awarded to Fargo on a competitive basis based upon the overall goal of multi-jurisdictional functionality. This software will be used by all of the major law enforcement agencies in the Fargo-Moorhead area. Much of the work associated with the interoperable grant was completed this year, while a great share of the planning and vendor selection was completed on the software replacement project. The majority of the work remaining on the software grant will be complete in 2010 and 2011.

Investment income declined by 19% as a result of a falling interest rate environment during the year.

Public works expenditures increased by 31% during the year, representing the largest single functional category of the City's overall budget. A major east – west travel corridor was constructed from South University Drive west to 45th Street at 52nd Avenue as part of the ongoing growth of the City to the South and Southwest. Approximately \$15 million was spent on this project. A new anchor retailer, WalMart is building a new supercenter at the intersection of I-29 and 52nd Avenue.

Business type activities.

Business-type activities increased the City of Fargo's net assets by \$27,359, accounting for 99% of the total growth in the government's net assets. Overall enterprise fund revenues increased by 6% while expenditures increased by 5%. Investment earnings declined by \$5.1 million during the year as a result of steadily falling interest rates on short term funds and market losses incurred in the FargoDome's long term capital escrow fund. This fund is being managed much like a pension fund with some exposure to the equity markets that were negatively impacted during the year. A more comprehensive review of individual fund performance is highlighted in the proprietary funds section below.

Financial Analysis of the Government's Funds

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

Governmental funds.

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

As of the end of the current fiscal year, the City of Fargo's governmental funds reported combined ending fund balances of \$17,746, a decrease of \$38,399 in comparison with the prior year. Fund balance has been reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$643), 2) from advances to capital projects (\$1,520), and 3) prepaid expenditures (\$133), 4) debt retirement (\$44,286), 5) property held for resale (\$311), and 6) capital improvements (\$2,112).

The General Fund is the chief operating fund of the City of Fargo. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$15,274 while total fund balance reached \$17,550. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 25% percent of total general fund expenditures, while total fund balance represents 29% percent of that same amount.

The General Fund balance increased by \$1,704 during the current fiscal year.

Total General Fund revenues were greater than budgeted by \$2,641. The primary source of this variance was intergovernmental revenues which exceeded budget by \$1,610. The North Dakota economy has been very strong and various State revenues are shared with political subdivisions. Overall State intergovernmental revenues exceeded projections by 13%. A positive variance was experienced with investment income due to the fact that the City provides interim financing of infrastructure capital projects during a time when more projects were being constructed.

There were several divisions within the General Fund that exceeded budgets as a result of rising energy prices. The Public Transportation division exceeded overall budget by \$576, while the Public Works division exceeded its budget by \$118. The Public Transportation variance is mitigated by additional FTA operating grant revenue earned for this period. All of the Public Transportation costs are eligible for FTA funding, and therefore some revenue offset this negative expenditure variance. Both of these divisions are large consumers of fuel for their operations which was the primary reason for the overall results. These negative fuel price variances were offset by positive variance in other divisions and capital outlay budgets. Overall spending in the General Fund was 1% above the revised budget.

Capital outlay expenditures were reported under budget with a positive variance of \$55. A portion of a Department of Justice COPS capital grant was not completed during 2008 and will be carried forward into 2009.

The debt service fund has a total fund balance of \$44,286, all of which is reserved for the payment of future debt service. Of this amount \$8,079 is currently held in escrow relating to a crossover refunding transaction that was completed in 2006. The escrow funds will be expended in 2009 as the crossover date occurs. The net decrease in fund balance during the current year in the debt service fund was \$13,334. Two previously refunded bond issues were paid out of escrow in the amount of \$10,055 accounting for most of this fund balance decline.

The infrastructure capital projects fund has a fund deficit of (\$49,637). This will be recovered by future bonds sales and other revenues and transfers. The City issues long term financing for these projects on a reimbursement basis, and therefore, construction work in process causes this short term deficit to be carried in the capital project fund until final financing is complete. This deficit results from the timing of City bond sales. Work in process is bonded as completed and certified during the special assessment process.

Proprietary funds

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

Unrestricted net assets of the proprietary funds at the end of the year amounted to \$18,795. All individual proprietary funds reported increases in net assets, except for Southeast Cass Sewer and Vector Control.

Operating revenues of this fund group increased by 6%, while the operating expenses increased by 5%.

Water and Wastewater utility revenues increased by 3.1% and 7.8% respectively due primarily from growth in system users. The Wastewater utility constructed an effluent re-use plant that was completed in October 2008 to provide clean water to an ethanol plant in Casselton, ND, a nearby community. Under the provisions of the City's agreement the cost of the re-use plant was donated by the ethanol producer. Title to this major facility will pass to the City in 2009 after it has been certified and accepted. This is the third renewable energy initiative completed by City of Fargo officials in the past three years. Other projects most recently completed include a methane gas to electricity conversion and a surplus methane gas capture project in the Solid Waste Utility. All of these innovative projects are producing new revenue streams that should continue into the future.

General Fund Budgetary Highlights

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

Budgets were amended during the year to account for changes approved by the City Commission during the year, or for capital outlay and open encumbrance carryovers from the previous fiscal year, new grant awards and supplemental appropriations. The original expenditures budget of \$58,661 was amended as final totaling \$60,679 for an increase of \$2,018 during the year.

Significant variances between final budget and actual are as follows:

Intergovernmental revenues exceeded final budget by \$1,610. This variance is due to the strength of the overall North Dakota economy and State legislative funding formulas.

Transfers in from other funds was lower than originally budgeted because of a decision not to access the Revenue Stabilization Fund because of the positive final operating performance and a lower amount available from the Debt Service Fund.

Capital Asset and Debt Administration

Capital Assets. The City of Fargo's investment in capital assets for its governmental and business type activities as of December 31, 2008 amounts to \$699,522 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure.

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

The Downtown library project was nearing completion at year end and opened in April, 2009.

A major expansion to the Wastewater Treatment Plant was completed in October that allows re-use of municipal wastewater effluent to be sold to a major industrial user.

Work continues on various phases of the City's utility master plan for infrastructure. Several capacity expansion projects were in progress including a new water tower, a major sanitary sewer line, and larger water mains from the Water plant to a secondary storage area designed in our plan.

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 4,409	\$ 1,785	\$ 38,531	\$ 36,674	\$ 42,940	\$ 38,459
Construction in progress	13,809	6,589	19,217	16,075	33,026	22,664
Intangible	-	-	500	500	500	500
Buildings	33,349	33,691	115,381	115,086	148,730	148,777
Improvements other than buildings	385	414	7,234	6,769	7,619	7,183
Machinery and equipment	11,135	9,201	15,325	15,221	26,460	24,422
Infrastructure	176,803	163,716	263,444	251,174	440,247	414,890
Total	\$ 239,890	\$ 215,396	\$ 459,632	\$ 441,499	\$ 699,522	\$ 656,895

Additional information on the City of Fargo's capital assets can be found in Note 4. C. on pages 42 and 43 of this report.

City of Fargo's Outstanding Debt General Obligation and Revenue Bonds (In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Special assessment bonds	\$ 201,651	\$ 197,424	\$ -	\$ -	\$ 201,651	\$ 197,424
Gross revenue bonds	7,034	7,674	40,880	41,920	47,914	49,594
Sales tax bonds	20,050	24,620	1,810	6,405	21,860	31,025
Notes payable	8,594	3,202	15,253	16,591	23,847	19,793
Total	\$ 237,329	\$ 232,920	\$ 57,943	\$ 64,916	\$ 295,272	\$ 297,836

Long Term Debt.

At the end of the current fiscal year, the City of Fargo had total bonded debt and notes outstanding of \$295,272. Of this amount, \$201,651 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The remainder of the City of Fargo's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

The City of Fargo's total debt decreased by \$2,564 (1%) during the current fiscal year.

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

Infrastructure financing:

The City issued special assessment infrastructure bonds on December 19, 2008, Series 2008E in the amount of \$ 26,285 to reimburse the capital project fund for completed projects.

Refinancing Bonds:

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

Additional information on the City of Fargo's long-term debt can be found in Note 4. G. on pages 49 - 55 of this report.

Economic Factors and Next Year's Budgets and Rates

North Dakota's statewide economy has been robust as compared to other states across the nation. Statewide sales tax collections have increased by double digit gains since the third quarter of 2007. Growth of 28% and 20% is noted for the third and fourth quarter of 2008. This is directly related to an increase in oil extraction efforts across the western portion of the State.

Fargo's economy had done remarkably well in light of the national trends. As a regional hub there is strong employment in health care, education, and retail sectors. Major retailers continue to expand their operations in Fargo. Our real estate units have maintained their market values during this past year and the assessment rolls for 2009 payable 2010 have grown by 3.6%, reflective of continued construction in the area, especially in the commercial development area. Unemployment rates increased slightly from 2.6% to 2.7% but still remain at levels much below state and national averages, consistent with our past history.

The City approved a General Fund budget for 2009 that increased 11%. This increase was impacted by spiking energy costs and higher than normal salary costs and benefit costs associated with market conditions. Ironically, the 2009 budget was prepared near the peak of the energy escalation in 2008. Prices have fallen since that time and energy budgets may be rolled back at mid-year to more traditional levels. Significant savings will accrue to the General Fund due to pricing of energy used in our municipal operations.

There were no rate increases proposed in the 2009 budget for utility funds. A one half cent voter approved sales tax authorization for infrastructure began on January 1, 2009. This authorization runs for a twenty year period. Utility capital projects previously funded by utility rate revenue and special assessments are now being paid for with sale tax resources. A significant amount of utility infrastructure will be constructed in 2009 to meet the needs of a growing City.

Requests for information

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