



Financial Statements
December 31, 2022

City of West Fargo, North Dakota

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City of West Fargo, North Dakota
Elected and Appointed Officials
December 31, 2022

<u>Elected</u>	<u>Position</u>	<u>Term Expires</u>
Bernie Dardis	Mayor/President of City Commission	6/30/2026
Brad Olson	Vice President of City Commission	6/30/2026
Roben Anderson	City Commissioner	6/30/2026
Amanda George	City Commissioner	6/30/2024
Mark Simmons	City Commissioner	6/30/2024
<u>Administration</u>		
Dustin Scott	City Administrator	
Jim Larson	Finance Director (through July 2022)	
Judy Afdahl	Finance Director (through April 2023)	
Heide Delorme	Finance Director (through February 2024)	
Vacant	Finance Director (current)	



Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

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 (the City), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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 as of December 31, 2022, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison schedule for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Adoption of New Accounting Standard

As discussed in Notes 1 and 10 to the financial statements, the City has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended December 31, 2022. Accordingly, a restatement has been made to the governmental activities, business-type activities, and water and sewer fund net position as of January 1, 2022, to restate beginning net position and the other nonmajor governmental funds fund balance as of January 1, 2022, to restate beginning fund balance. Our opinions are not modified with respect to this matter.

Corrections of Errors

As discussed in Note 10 to the financial statements, certain errors resulting in an understatement of amounts previously reported for accounts receivable and revenues as of December 31, 2021, were discovered by management of the City during the current year. Accordingly, a restatement has been made to the water and sewer fund and business-type activities net position as of January 1, 2022, to correct the error. Certain errors resulting in an understatement of prepaid expenses/expenditures as of December 31, 2021, were discovered by management of the City during the current year. Accordingly, a restatement has been made to governmental activities net position and general fund fund balance as of January 1, 2022, to correct the error. Certain errors resulting in improperly capitalized assets as of December 31, 2021, were discovered by management of the City during the current year. Accordingly, a restatement has been made to governmental activities net position as of January 1, 2022, to correct the error. Our opinions are not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedules of employer's share of net pension liability and schedules of employer's contributions, and schedule of employer's share of net OPEB liability and schedule of employer's contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and 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 GAAS, 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 opinions on the basic financial statements are not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards as required by Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the listing of elected and appointed officials but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2024, on our consideration of the City'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 solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Fargo, North Dakota
March 18, 2024

City of West Fargo, North Dakota

Statement of Net Position

December 31, 2022

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 44,234,457	\$ 6,281,165	\$ 50,515,622
Restricted cash	1,123,100	1,129,566	2,252,666
Investments	50,866,856	8,310,866	59,177,722
Receivables			
Accounts	344,588	2,973,929	3,318,517
Interest	115,648	12,901	128,549
Property taxes	147,893	-	147,893
Special assessments	263,389,370	-	263,389,370
Notes	1,163,334	-	1,163,334
Due from other governmental units	3,054,243	-	3,054,243
Leases	4,415,375	287,340	4,702,715
Interfund balances	644,604	(644,604)	-
Prepaid items	18,545	134,612	153,157
	<u>369,518,013</u>	<u>18,485,775</u>	<u>388,003,788</u>
Capital assets			
Capital assets, not being depreciated	63,888,436	1,857,610	65,746,046
Capital assets, net of accumulated depreciation	168,201,293	320,522,499	488,723,792
Right to use leased assets, net of accumulated amortization	1,410,996	4,923	1,415,919
	<u>233,500,725</u>	<u>322,385,032</u>	<u>555,885,757</u>
Total capital assets	<u>233,500,725</u>	<u>322,385,032</u>	<u>555,885,757</u>
Total assets	<u>603,018,738</u>	<u>340,870,807</u>	<u>943,889,545</u>
Deferred Outflows of Resources			
Related to pensions	23,454,597	2,797,787	26,252,384
Related to OPEB	785,257	134,372	919,629
	<u>24,239,854</u>	<u>2,932,159</u>	<u>27,172,013</u>
Total deferred outflows of resources	<u>24,239,854</u>	<u>2,932,159</u>	<u>27,172,013</u>

City of West Fargo, North Dakota

Statement of Net Position

December 31, 2022

	Governmental Activities	Business-type Activities	Total
Liabilities			
Accounts payable	\$ 3,169,167	\$ 824,435	\$ 3,993,602
Retainage payable	1,321,249	-	1,321,249
Due to other governments	83,369	-	83,369
Accrued interest payable	1,659,009	48,605	1,707,614
Other liabilities	800,922	70,608	871,530
Unearned revenues	3,084,449	-	3,084,449
Long-term liabilities			
Due within one year -			
other than pension and OPEB	18,386,062	855,500	19,241,562
Due in more than one year -			
other than pension and OPEB	310,727,314	9,220,709	319,948,023
Net pension liability	27,491,308	3,797,049	31,288,357
Net OPEB liability	1,219,377	208,657	1,428,034
Total liabilities	367,942,226	15,025,563	382,967,789
Deferred Inflows of Resources			
Related to pensions	12,003,658	1,532,295	13,535,953
Related to OPEB	20,354	3,482	23,836
Lease related	4,209,151	244,032	4,453,183
Total deferred inflows of resources	16,233,163	1,779,809	18,012,972
Net Position			
Net investment in capital assets	217,984,216	312,732,681	530,716,897
Restricted	66,997,887	1,129,566	68,127,453
Unrestricted	(41,898,900)	13,135,347	(28,763,553)
Total net position	\$ 243,083,203	\$ 326,997,594	\$ 570,080,797

City of West Fargo, North Dakota

Statement of Activities

Year Ended December 31, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 20,777,080	\$ 3,163,264	\$ 1,112,630	\$ -	\$ (16,501,186)	\$ -	\$ (16,501,186)
Public safety	10,763,838	1,465,238	326,040	-	(8,972,560)	-	(8,972,560)
Public works	18,577,604	86,448	1,811,526	56,782,680	40,103,050	-	40,103,050
Culture and recreation	4,322,191	247,425	71,349	-	(4,003,417)	-	(4,003,417)
Economic development	501,819	75,000	1,025	-	(425,794)	-	(425,794)
Interest on long-term debt	9,127,911	-	-	-	(9,127,911)	-	(9,127,911)
Total governmental activities	<u>64,070,443</u>	<u>5,037,375</u>	<u>3,322,570</u>	<u>56,782,680</u>	<u>1,072,182</u>	<u>-</u>	<u>1,072,182</u>
Business-type activities							
Water & sewer	23,489,138	13,650,493	-	-	-	(9,838,645)	(9,838,645)
Garbage	5,511,740	5,227,162	-	-	-	(284,578)	(284,578)
Total business-type activities	<u>29,000,878</u>	<u>18,877,655</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,123,223)</u>	<u>(10,123,223)</u>
Total government	<u>\$ 93,071,321</u>	<u>\$ 23,915,030</u>	<u>\$ 3,322,570</u>	<u>\$ 56,782,680</u>	<u>1,072,182</u>	<u>(10,123,223)</u>	<u>(9,051,041)</u>
General revenues							
Sales and use tax					15,718,833	-	15,718,833
Property taxes					19,433,315	-	19,433,315
State aid					6,007,950	-	6,007,950
Unrestricted investment earnings					910,995	95,560	1,006,555
Miscellaneous					1,250,735	484,222	1,734,957
Transfers and capital asset contributions					(1,518,623)	1,518,623	-
Total general revenues and transfers and capital asset contributions					<u>41,803,205</u>	<u>2,098,405</u>	<u>43,901,610</u>
Change in net position					42,875,387	(8,024,818)	34,850,569
Net position - beginning, as restated (Note 10)					<u>200,207,816</u>	<u>335,022,412</u>	<u>535,230,228</u>
Net position - ending					<u>\$ 243,083,203</u>	<u>\$ 326,997,594</u>	<u>\$ 570,080,797</u>

City of West Fargo, North Dakota
Governmental Funds
Balance Sheet
December 31, 2022

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 9,145,700	\$ 4,271,271	\$ 24,403,666	\$ 6,413,820	\$ 44,234,457
Restricted cash	22,424	-	1,049,884	50,792	1,123,100
Investments	10,493,814	4,810,247	28,312,968	7,249,827	50,866,856
Due from other funds	980,479	798,140	1,347,800	628,545	3,754,964
Receivables					
Accounts	150,869	19,497	9,359	164,863	344,588
Property taxes	97,276	-	-	50,617	147,893
Interest	37,855	6,411	60,010	11,372	115,648
Special assessments	-	143,277	263,246,093	-	263,389,370
Notes	-	-	-	1,163,334	1,163,334
Due from other governmental units	1,361,667	984,416	279,591	428,569	3,054,243
Leases	-	-	-	4,415,375	4,415,375
Prepaid items	15,760	-	-	2,785	18,545
Total assets	\$ 22,305,844	\$ 11,033,259	\$ 318,709,371	\$ 20,579,899	\$ 372,628,373
Liabilities					
Accounts payable	\$ 498,671	\$ 2,515,328	\$ -	\$ 155,168	\$ 3,169,167
Construction retainage payable	-	1,321,249	-	-	1,321,249
Accrued payroll	672,666	-	-	79,888	752,554
Due to other governments	-	-	-	83,369	83,369
Due to other funds	-	-	2,312,220	798,140	3,110,360
Other liabilities	30,375	-	-	17,993	48,368
Unearned revenue	-	3,084,449	-	-	3,084,449
Total liabilities	1,201,712	6,921,026	2,312,220	1,134,558	11,569,516
Deferred Inflows of Resources					
Unavailable revenue-property taxes and special assessments	858,358	143,277	263,246,093	50,617	264,298,345
Lease related	-	-	-	4,209,151	4,209,151
Total deferred inflows of resources	858,358	143,277	263,246,093	4,259,768	268,507,496
Fund Balance					
Nonspendable					
Prepaid items	15,760	-	-	2,785	18,545
Notes receivable	-	-	-	1,163,334	1,163,334
Restricted for					
Capital projects	-	3,968,956	-	-	3,968,956
Debt service	-	-	53,151,058	-	53,151,058
General government	-	-	-	758,255	758,255
Public safety	-	-	-	362,897	362,897
Public works/streets	-	-	-	341,610	341,610
Economic development	-	-	-	12,384,067	12,384,067
Committed					
Public Safety	-	-	-	172,625	172,625
Unassigned	20,230,014	-	-	-	20,230,014
Total fund balance	20,245,774	3,968,956	53,151,058	15,185,573	92,551,361
Total liabilities, deferred inflows of resources, and fund balance	\$ 22,305,844	\$ 11,033,259	\$ 318,709,371	\$ 20,579,899	\$ 372,628,373

City of West Fargo, North Dakota
Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position
December 31, 2022

Total Fund Balances – Governmental Funds	\$ 92,551,361
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	233,500,725
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Other assets are not available to pay for current-period expenditures and, therefore, are either not recognized as a receivable or are deferred in the funds.	264,298,345
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Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds.	12,215,842
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. In the current period these amounts are:

G.O. bonds	(1,795,000)
Special assessment bonds	(276,630,000)
Revenue bonds	(18,400,000)
Annual appropriation bonds	(9,820,000)
BND drawdown	(12,377,847)
Bond premium	(6,151,240)
Leases payable	(1,785,377)
Compensated absences	(2,153,912)
Accrued interest	(1,659,009)
Net pension liability	(27,491,308)
OPEB liability	(1,219,377)

Total Net Position – Governmental Activities	<u>\$ 243,083,203</u>
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City of West Fargo, North Dakota
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended December 31, 2022

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
General property taxes	\$ 10,676,521	\$ -	\$ 3,127,930	\$ 5,628,864	\$ 19,433,315
Special assessments	188,095	32,830	23,262,818	-	23,483,743
Charges for services	45,743	-	-	639,725	685,468
Licenses and permits	3,525,535	-	-	9,267	3,534,802
Intergovernmental	2,785,956	6,145,766	-	2,206,213	11,137,935
Fines and forfeitures	330,576	-	-	-	330,576
Sales tax	157,188	11,671,234	-	3,890,411	15,718,833
Other tax	1,885,326	-	-	383,297	2,268,623
Interest	256,744	43,479	407,003	217,385	924,611
Miscellaneous	433,482	663,038	30,860	468,309	1,595,689
Total revenues	20,285,166	18,556,347	26,828,611	13,443,471	79,113,595
Expenditures					
Current					
General government	7,824,660	384	3,459,394	7,498,739	18,783,177
Public safety	9,511,671	-	-	322,718	9,834,389
Public works	3,584,727	-	-	-	3,584,727
Culture and recreation	1,007,216	-	-	1,430,976	2,438,192
Miscellaneous	-	-	-	79,788	79,788
Capital outlay	2,715,359	26,298,357	-	1,209,044	30,222,760
Debt service					
Principal	73,080	-	17,581,318	256,107	17,910,505
Interest and fees	2,396	264,449	10,229,521	35,905	10,532,271
Total expenditures	24,719,109	26,563,190	31,270,233	10,833,277	93,385,809
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,433,943)	(8,006,843)	(4,441,622)	2,610,194	(14,272,214)
Other Financing Sources (Uses)					
Sale of assets	-	-	-	5,890	5,890
Bond proceeds	-	16,055,000	-	-	16,055,000
Premium on bonds	-	305,790	-	-	305,790
Lease proceeds	-	-	-	600,065	600,065
Transfers in	2,480,589	10,417,295	3,392,435	2,073,209	18,363,528
Transfers out	(5,769,134)	(8,026,665)	(415,273)	(4,152,456)	(18,363,528)
Total other financing sources (uses)	(3,288,545)	18,751,420	2,977,162	(1,473,292)	16,966,745
Net Change in Fund Balance	(7,722,488)	10,744,577	(1,464,460)	1,136,902	2,694,531
Fund Balance (Deficit), Beginning, as Restated (Note 10)	27,968,262	(6,775,621)	54,615,518	14,048,671	89,856,830
Fund Balance, Ending	\$ 20,245,774	\$ 3,968,956	\$ 53,151,058	\$ 15,185,573	\$ 92,551,361

City of West Fargo, North Dakota

Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities Year Ended December 31, 2022

Net Change in Fund Balances - Total Governmental Funds	\$ 2,694,531
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation/amortization expense. In the current period these amounts are:	
Capital outlay	29,283,375
Contribution of capital assets to proprietary fund	(1,518,623)
Depreciation/amortization expense	(12,401,147)
The net effect of the disposal of capital assets is to decrease net position.	(1,059,077)
Revenues in the statement of activities that do not provide current financial resources are deferred and not reported as revenues in the funds.	29,345,043
In the statement of activities compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.	(500,461)
In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense.	(4,119,612)
In the statement of activities OPEB obligations are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.	(141,973)
Interest payable is reported in the government wide statement of net position but is not recorded in the governmental funds.	(41,948)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. In the current period these amounts are:	
Bonds issued, net of related premiums	(16,360,790)
Leases issued	(600,065)
Lease retirement	329,187
Bond principal retirement	17,581,318
Amortization of bond premium	385,629
Change in Net Position of Governmental Activities	<u>\$ 42,875,387</u>

City of West Fargo, North Dakota

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
Year Ended December 31, 2022

	Original and Final Budget	Actual Amounts	Variance With Final Budget
Revenues			
General property taxes	\$ 10,202,601	\$ 10,676,521	\$ 473,920
Special assessments	310,000	188,095	(121,905)
Charges for services	25,000	45,743	20,743
Licenses and permits	5,186,370	3,525,535	(1,660,835)
Intergovernmental	2,075,500	2,785,956	710,456
Fines and forfeitures	467,670	330,576	(137,094)
Sales tax	-	157,188	157,188
Other tax	75,000	1,885,326	1,810,326
Interest	596,122	256,744	(339,378)
Miscellaneous	59,148	433,482	374,334
Total revenues	18,997,411	20,285,166	1,287,755
Expenditures			
Current			
General government	7,898,411	7,824,660	73,751
Public safety	9,790,325	9,511,671	278,654
Public works/streets	3,124,241	3,584,727	(460,486)
Culture and recreation	1,124,339	1,007,216	117,123
Capital outlay	1,025,050	2,715,359	(1,690,309)
Debt service			
Principal	-	73,080	(73,080)
Interest and fees	-	2,396	(2,396)
Total expenditures	22,962,366	24,719,109	(1,756,743)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,964,955)	(4,433,943)	(468,988)
Other Financing Sources (Uses)			
Transfers in	4,012,870	2,480,589	(1,532,281)
Transfers out	(47,915)	(5,769,134)	(5,721,219)
Total other financing sources and uses	3,964,955	(3,288,545)	(7,253,500)
Net Change in Fund Balance	\$ -	(7,722,488)	\$ (7,722,488)
Fund Balance, Beginning, as Restated (Note 10)		27,968,262	
Fund Balance, Ending		\$ 20,245,774	

City of West Fargo, North Dakota

Proprietary Funds
Statement of Net Position
December 31, 2022

	<u>Water & Sewer</u>	<u>Garbage</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 4,951,170	\$ 1,329,995	\$ 6,281,165
Restricted cash	1,129,566	-	1,129,566
Investments	6,819,325	1,491,541	8,310,866
Receivables			
Accounts	2,514,457	459,472	2,973,929
Accrued interest	9,735	3,166	12,901
Leases	287,340	-	287,340
Prepaid expenses	129,612	5,000	134,612
Total current assets	<u>15,841,205</u>	<u>3,289,174</u>	<u>19,130,379</u>
Capital assets			
Land	1,857,610	-	1,857,610
Buildings	2,660,603	1,174,031	3,834,634
Land improvements	3,751,796	-	3,751,796
Machinery and equipment	7,162,516	3,616,939	10,779,455
Infrastructure	434,197,853	-	434,197,853
Right to use leased assets	24,400	-	24,400
Less accumulated depreciation/amortization	<u>(130,202,832)</u>	<u>(1,857,884)</u>	<u>(132,060,716)</u>
Net capital assets	<u>319,451,946</u>	<u>2,933,086</u>	<u>322,385,032</u>
Total assets	<u>335,293,151</u>	<u>6,222,260</u>	<u>341,515,411</u>
Deferred Outflows of Resources			
Related to pensions	1,630,452	1,167,335	2,797,787
Related to OPEB	<u>78,307</u>	<u>56,065</u>	<u>134,372</u>
Total deferred outflows of resources	<u>1,708,759</u>	<u>1,223,400</u>	<u>2,932,159</u>

City of West Fargo, North Dakota

Proprietary Funds
Statement of Net Position
December 31, 2022

	Water & Sewer	Garbage	Total
Liabilities			
Current liabilities			
Accounts payable	\$ 646,322	\$ 178,113	\$ 824,435
Accrued interest payable	48,605	-	48,605
Accrued payroll	42,023	28,585	70,608
Due to other funds	348,181	296,423	644,604
Current maturities of long-term debt	842,351	13,149	855,500
Total current liabilities	1,927,482	516,270	2,443,752
Long-term debt (net of current portion)			
Bonds payable	8,810,000	-	8,810,000
Net pension liability	2,212,785	1,584,264	3,797,049
Net OPEB liability	121,598	87,059	208,657
Compensated absences payable	292,370	118,339	410,709
Total long-term debt	11,436,753	1,789,662	13,226,415
Total liabilities	13,364,235	2,305,932	15,670,167
Deferred Inflows of Resources			
Related to pensions	892,966	639,329	1,532,295
Related to OPEB	2,029	1,453	3,482
Related to leases	244,032	-	244,032
Total deferred inflows of resources	1,139,027	640,782	1,779,809
Net Position			
Net investment in capital assets	309,799,595	2,933,086	312,732,681
Restricted	1,129,566	-	1,129,566
Unrestricted	11,569,487	1,565,860	13,135,347
Total net position	\$ 322,498,648	\$ 4,498,946	\$ 326,997,594

City of West Fargo, North Dakota
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2022

	<u>Water & Sewer</u>	<u>Garbage</u>	<u>Total</u>
Operating Revenues			
Utility sales and service charges	\$ 13,650,493	\$ 5,227,162	\$ 18,877,655
Operating Expenses			
Distribution	8,049,998	-	8,049,998
Landfill and collections	-	2,737,992	2,737,992
Salaries and wages	2,643,130	1,755,700	4,398,830
Administration and general	1,291,491	602,686	1,894,177
Depreciation/amortization	11,175,689	385,982	11,561,671
Total operating expenses	<u>23,160,308</u>	<u>5,482,360</u>	<u>28,642,668</u>
Operating Loss	(9,509,815)	(255,198)	(9,765,013)
Nonoperating Revenues (Expenses)			
Interest income	74,084	21,476	95,560
Lease income	16,330	-	16,330
Loss on disposal of asset	-	(17,694)	(17,694)
Miscellaneous	468,220	(328)	467,892
Interest expense	(328,830)	(11,686)	(340,516)
Total nonoperating revenues (expenses)	<u>229,804</u>	<u>(8,232)</u>	<u>221,572</u>
Loss before Capital Contributions	(9,280,011)	(263,430)	(9,543,441)
Contribution of capital assets	<u>1,518,623</u>	<u>-</u>	<u>1,518,623</u>
Change in Net Position	(7,761,388)	(263,430)	(8,024,818)
Net Position, Beginning of Year, as Restated (Note 10)	<u>330,260,036</u>	<u>4,762,376</u>	<u>335,022,412</u>
Net Position, End of Year	<u>\$ 322,498,648</u>	<u>\$ 4,498,946</u>	<u>\$ 326,997,594</u>

City of West Fargo, North Dakota

Proprietary Funds

Statement of Cash Flows

Year Ended December 31, 2022

	Water & Sewer	Garbage	Total
Operating Activities			
Receipts from customers and users	\$ 13,082,390	\$ 5,158,257	\$ 18,240,647
Payments for employee costs	(2,309,370)	(1,506,836)	(3,816,206)
Payments to other vendors	(8,880,098)	(3,309,101)	(12,189,199)
Net cash from operating activities	1,892,922	342,320	2,235,242
Non-Capital Financing Activities			
Change in interfund balances	(63,672)	(93,108)	(156,780)
Miscellaneous income (expense)	468,220	(328)	467,892
Net cash from (used for) non-capital financing activities	404,548	(93,436)	311,112
Capital and Related Financing Activities			
Property and equipment additions	(501,972)	(611,752)	(1,113,724)
Receipts from lease receivables			
Principal	11,857	-	11,857
Interest	8,060	-	8,060
Payments on long-term debt			
Principal	(789,514)	-	(789,514)
Interest	(333,286)	(11,686)	(344,972)
Net cash used for capital and related financing activities	(1,604,855)	(623,438)	(2,228,293)
Investing Activities			
Purchase of investments	(6,819,325)	(1,491,541)	(8,310,866)
Interest from investments	56,289	18,310	74,599
Net cash used for investing activities	(6,763,036)	(1,473,231)	(8,236,267)
Change in Cash and Cash Equivalents	(6,070,421)	(1,847,785)	(7,918,206)
Cash and Cash Equivalents - Beginning of Year	12,151,157	3,177,780	15,328,937
Cash and Cash Equivalents - End of Year	\$ 6,080,736	\$ 1,329,995	\$ 7,410,731
Reconciliation to the Statement of Net Position			
Cash and Cash Equivalents	\$ 4,951,170	\$ 1,329,995	\$ 6,281,165
Restricted Cash	1,129,566	-	1,129,566
Total Cash and Cash Equivalents	\$ 6,080,736	\$ 1,329,995	\$ 7,410,731

City of West Fargo, North Dakota

Proprietary Funds

Statement of Cash Flows

Year Ended December 31, 2022

	<u>Water & Sewer</u>	<u>Garbage</u>	<u>Total</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (9,509,815)	\$ (255,198)	\$ (9,765,013)
Adjustments to reconcile operating loss to net cash from operating activities			
Depreciation/amortization	11,175,689	385,982	11,561,671
Changes in assets and liabilities			
Accounts receivable	(568,103)	(68,905)	(637,008)
Prepaid expenses	(129,612)	(5,000)	(134,612)
Deferred outflows related to pension and OPEB	(403,197)	(334,463)	(737,660)
Accounts payable	591,003	36,577	627,580
Accrued payroll	7,609	7,925	15,534
Compensated absences payable	83,639	22,481	106,120
Net pension and OPEB liability	1,437,873	1,060,902	2,498,775
Deferred inflows related to pension and OPEB	(792,164)	(507,981)	(1,300,145)
Net cash from operating activities	<u>\$ 1,892,922</u>	<u>\$ 342,320</u>	<u>\$ 2,235,242</u>
Supplemental Disclosure of Cash Flow Information			
Cash payments for interest	<u>\$ 337,742</u>	<u>\$ 11,686</u>	<u>\$ 349,428</u>
Supplemental Disclosure of Non-Cash Capital and Related Financing Activities			
Capital contributions	<u>\$ 1,518,623</u>	<u>\$ -</u>	<u>\$ 1,518,623</u>

City of West Fargo, North Dakota
Statement of Fiduciary Net Position – Custodial Fund
Year Ended December 31, 2022

	<u>Custodial Fund</u>
Assets	
Cash and cash equivalents	\$ 596,318
Investments	668,749
Accounts receivable	5,199
Interest receivable	<u>414</u>
Total assets	<u>1,270,680</u>
Liabilities	
Payables	<u>300</u>
Net Position	<u><u>\$ 1,270,380</u></u>

City of West Fargo, North Dakota
Statement of Changes in Fiduciary Net Position – Custodial Fund
Year Ended December 31, 2022

Additions	
Property taxes, special assessments, and other receipts collected for other governments	\$ 654,844
Deductions	
Payments of property taxes, special assessments, and other receipts to other governments	<u>661,227</u>
Change in Fiduciary Net Position	(6,383)
Net Position, Beginning of Year	<u>1,276,763</u>
Net Position, End of Year	<u><u>\$ 1,270,380</u></u>

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 City's financial statements include all funds for which the City is financially accountable.

The City is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Additionally, the City is not included in any other governmental reporting entity.

Component units are legally separate organizations for which elected officials of the primary government are financially accountable. The City is financially accountable if it appoints a voting majority of the organization's governing body and is either:

1. able to impose its will on that organization or
2. there is potential for the organization to provide specific financial benefits to or impose financial burdens on the City. The City may be financially accountable if an organization is fiscally dependent on the City.

There are no component units reported within these financial statements.

Government-Wide and Fund Financial Statements

The goal of government-wide financial statements is to present a broad overview of government's finances. The basic statements that form the government-wide financial statements are the statement of net position and the statement of activities. These two statements report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this rule are charges from the City's water and sewer utilities, and other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported from the various functions concerned. Governmental activities, which are normally financed through taxes and intergovernmental revenues, are reported separately from business-type activities, which are normally financed through user fees and charges for goods or services.

The statement of activities reports gross direct expenses by function reduced by program revenues. This results in a measurement of net revenue or expense for each of the government's activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues are directly associated with the function or business-type activity and include 1) charges for services and 2) operating or capital grants and contributions that are restricted to a particular function. Tax and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are prepared for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met. Although custodial funds have no measurement focus, they also use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Taxes, special assessments, intergovernmental revenue, permits, charges for services and investment income associated with the current fiscal period are the major revenues that are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent they are collected in 60 days. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

- *General Fund* – The general fund is the general operating fund of the City. All financial resources of the general government that are not required to be reported in another fund are accounted for in the general fund.
- *Capital Projects Fund* – This fund accounts 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).
- *Debt Service Fund* – This fund accounts for the resources accumulated and payments made for principal and interest on all general obligation and special assessment bonds of governmental funds. Revenue sources in this fund are restricted solely for debt retirement.

The City reports the following major proprietary funds:

- *Water & Sewer Fund* – This fund accounts for the provision of water utility service and the sanitary sewer service to the residents of the City.
- *Garbage Fund* – This fund accounts for the provision of garbage pickup and landfill services to the residents of the City.

Additionally, the City reports the following fund type:

- *Custodial Fund* – These funds account for assets by the City in a custodial capacity as an agent on behalf of others. The City's custodial funds are used to account for property taxes, special assessments, and other items collected on behalf of other governments.

Amounts reported as program revenues include the following: amounts received from those who purchase, use, or directly benefit from a program; amounts received from parties outside the City that are restricted to one or more specific programs; and earnings on investments that are legally restricted for a specific program. Revenues that do not meet the previous criteria are reported as general revenues, including all taxes.

Proprietary funds report operating revenues and expenses separately from nonoperating items. Operating revenues and expenses generally result from providing services or producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

Other Significant Accounting Policies**Budgets and Budgetary Accounting**

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. Thee 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).

All unexpended appropriations lapse at year-end.

Any changes in the total budget of each fund must be approved by a majority vote of the city commission.

Cash and Cash Equivalents, Restricted Cash, and Investments

Cash balances from all funds are combined and invested to the extent available in authorized investments. Earnings from such investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

The City considers cash equivalents to be certificates of deposit, money market funds, and other highly liquid investments with original maturities of three months or less.

Restricted cash consists of amounts restricted as required by bond agreements.

Investments of the City are reported at fair value based on the framework established by GASB Statement No. 72, *Fair Value Measurement and Application*.

Receivable and Credit Policy

Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. Utility receivables are charged a \$10 late fee, but other City receivables are not charged any late fees. There are no allowances for doubtful accounts recorded.

Lease Receivables

Lease receivables are recorded by the City as the present value of future lease payments expected to be received from the lessee during the lease term, reduced by any provision for estimated uncollectible amounts. Lease receivables are subsequently reduced over the life of the lease as cash is received in the applicable reporting period. The present value of future lease payments to be received are discounted based on a borrowing rate determined by the City.

Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historic cost is not available. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that would have been paid to acquire an asset with equivalent service potential on the date of the donation. The City maintains a threshold level of \$5,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the government-wide financial statements but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed, no salvage value is taken into consideration for depreciation purposes. Land is not depreciated.

Useful lives for capital assets are as follows:

Buildings and improvements	30-50 years
Land Improvements	30 years
Machinery and equipment	5-20 years
Infrastructure	20-40 years

Right to use leased assets are recognized at the lease commencement date and represent the City's right to use an underlying asset for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the lease asset into service. Right to use leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period varies from 1 to 5 years.

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 Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Lease liabilities represent the City's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present values of lease payments are discounted based on a borrowing rate determined by the City.

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.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The City has four items that qualify for reporting in this category. They are the contributions made to pension plans and the other postemployment benefit plan after the measurement date and prior to the fiscal year-end, changes in the net pension liability not included in pension expense, and changes in the other post employments benefits liability not included in OPEB expense, reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has four types of items that qualify for reporting in this category. The City reports unavailable revenues from property taxes and special assessments on the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item is deferred inflows related to leases where the City is the lessor and is reported in the governmental funds balance sheet and statement of net position. The deferred inflows of resources related to leases are recognized as an inflow of resources (revenue) on the straight-line basis over the term of the lease. The other items are changes in the net pension liability not included in pension expense and changes in the other post-employment benefits liability not included in OPEB expense reported in the government-wide statement of net position.

Fund Balance

The following classifications describe the relative strength of spending constraints:

- *Nonspendable Fund Balance* – represents amounts that cannot be spent due to form such as inventories, prepaids, long-term loans, and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned).
- *Restricted Fund Balance* – represents amounts that exist when constraints are placed on the use of resources that are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments (or) restrictions imposed by law through constitutional provisions or enabling legislation (i.e., Emergency fund). Restricted fund balances are shown by primary function on the balance sheet.
- *Committed Fund Balance* – represents amounts that can only be used for specific purposes pursuant to the constraints imposed by formal action of the City Commission. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it previously employed to commit those amounts. (Example would be legislation, resolution, or ordinance). (i.e., Sales tax ordinance, budget ordinance) Committed fund balances are shown by primary function on the balance sheet.
- *Assigned Fund Balance* – represents amounts the City intends to use for a specific purpose but do not meet the criteria to be classified as committed.
- *Unassigned Fund Balance* – represents the remaining residual balances that have not been restricted, committed, or assigned to specific purposes within the General Fund.

The City Commission establishes fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund.

When both restricted and unrestricted resources are available for use, it is the City's policy to use nonspendable resources first, restricted second, committed third, assigned fourth and unassigned last.

Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the net amount of assets, deferred inflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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 (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of \$10,000,000 per occurrence for general liability and automobile, and up to \$10,244,330 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.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Implementation of GASB Statement No. 87

As of January 1, 2022, the City adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain right to use leased assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The standard also requires lessors to recognize a lease receivable and deferred inflow of resources. The effect of the implementation of this standard on beginning net position is disclosed in Note 10 and the additional disclosures required by this standard are included in Notes 4, 5, and 6.

Note 2 - Deposits and Investments**Deposits**

In accordance with the North Dakota Century Code, the City maintains deposits at depository banks covered by Federal Depository Insurance. Century Code requires that all City deposits be protected by insurance, collateral, or surety bond. The market value of the collateral pledged must be equal to or greater than 110% of the deposits not covered by insurance or bonds. As of December 31, 2022, the City's deposits include savings accounts, money market funds, and certificates of deposit. At December 31, 2022, the City's carrying amount of deposits was \$53,364,606 and the bank balances were \$56,362,663. The City's deposits were secured by FDIC coverage of \$40,779,103 and pledged collateral of \$291,653,183.

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.

Investments

The City maintains pooled cash portfolios used by substantially all City funds using the pooled deposit and investment concept. Statutes authorize the City to invest in obligations of the U.S. Treasury Investments and U.S. agencies, bankers' acceptances, certain repurchase agreements, and commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. Beyond what is stated in the Century Code, the City does not have a formal policy governing investments.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Beyond what is stated in the Century Code, the City does not have a formal policy to further limit exposure to custodial credit risk. As of December 31, 2022, the City's deposits were either fully insured or properly collateralized and have no custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. North Dakota Century Code limits investing funds primarily in the short- and intermediate-term liquid securities of high credit quality to ensure adequate liquidity and to minimize the impact of changes in interest rates. Portfolios are structured so that securities mature concurrent with cash needs to meet anticipated demands. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes authorize investments in obligations of the U.S. Treasury Investments and U.S. agencies, bankers' acceptances, certain repurchase agreements, and commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. Beyond what is stated in the Century Code, the City does not have a formal policy to further limit exposure to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City places no limit on the amount the City may invest in any one issuer.

The following table presents the City's deposit and investment balances at December 31, 2022.

Investment Type	Credit Rating	Fair Value	Maturities (in Years)		
			N/A	< 1	1-5
Cash and Cash Equivalents					
Deposits	N/A	\$ 13,622,743	\$ 13,622,743	\$ -	\$ -
Petty cash	N/A	600	600	-	-
Certificates of deposit	N/A	39,741,263	-	39,741,263	-
Investments					
U.S. Treasury notes	AAA	59,846,471	-	20,089,273	39,757,198
		<u>\$ 113,211,077</u>	<u>\$ 13,623,343</u>	<u>\$ 59,830,536</u>	<u>\$ 39,757,198</u>

Fair Value

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs.

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the City has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in active markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology that are unobservable and significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

At December 31, 2022, the City had investments in U.S. Treasury notes of \$59,846,471 valued using Level 1 inputs.

Cash and investments are included on the basic financial statements as follows:

Cash and Cash Equivalents - Statement of Net Position	\$ 50,515,622
Restricted Cash - Statement of Net Position	2,252,666
Investments - Statement of Net Position	59,177,722
Cash and Cash Equivalents - Statement of Fiduciary Net Position	596,318
Investments - Statement of Fiduciary Net Position	668,749
	<hr/>
	<u>\$ 113,211,077</u>

Note 3 - Property Taxes and Special Assessments**Property Taxes**

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 are paid by February 15. After the due dates, the bill becomes delinquent, and penalties are assessed.

Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable and the portion not available within 60 days is fully offset by unavailable revenue because it is not available to finance current expenditures. The delinquent taxes receivable represents the past five years of uncollected tax levies.

Special Assessments

Special assessments are levied against the benefited properties for the assessable costs of special assessment improvement projects in accordance with state statutes. The assessments are collectible over a term of years generally consistent with the term of years of the related bond issue. Collection of annual installments (including interest) is handled by the county and remitted to the City at the same time property tax settlements are made. Property owners are allowed to prepay total future installments plus accrued interest without prepayment penalties. Special assessments are generally collected by the county and remitted to the City at the same time the tax settlements are made.

Note 4 - Leases**Lease Receivables and Deferred Inflows of Resources**Governmental Activities

The City has entered into a lease as lessor for the use of a parking garage. An initial lease receivable was recorded in the amount of \$4,526,521. As of December 31, 2022, the value of the lease receivable was \$4,415,375. The lessee is required to make fixed payments totaling \$200,000 per year, with the total annual payment amount increasing by the CPI-U rate annually beginning in the 11th year of the agreement. The lease has an interest rate of 1.851% based on the City's incremental borrowing rate. The value of the deferred inflow of resources as of December 31, 2022, was \$4,209,151, and the City recognized lease revenue of \$131,702 during the fiscal year.

Business-Type Activities

The City entered into a lease as lessor for the use of land and a water tower for a cellular antenna. An initial lease receivable was recorded in the amount of \$299,197. As of December 31, 2022, the value of the lease receivable was \$287,340. The lessee is required to make fixed monthly payments of \$1,650 per month, increasing by 10% at each renewal term, if exercised. The lease has an interest rate of 1.518% based on the City's incremental borrowing rate. The value of the deferred inflow of resources as of December 31, 2022, was \$244,032, and the City recognized lease revenue of \$16,330 during the fiscal year. The lessee has two extension options, each for 60 months.

The principal and interest payments that are expected to maturity are as follows:

Years Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2023	\$ 71,669	\$ 128,331	\$ 13,342	\$ 8,438
2024	73,566	126,434	13,725	8,055
2025	76,086	123,914	14,165	7,615
2026	78,401	121,599	14,596	7,184
2027	80,786	119,214	15,093	6,740
2028-2032	321,496	567,939	94,200	25,732
2033-2037	495,341	548,667	122,219	9,550
2038-2042	645,425	473,185	-	-
2043-2047	894,874	330,184	-	-
2048-2052	1,200,584	136,639	-	-
2053-2054	477,147	17,186	-	-
Total	<u>\$ 4,415,375</u>	<u>\$ 2,693,292</u>	<u>\$ 287,340</u>	<u>\$ 73,314</u>

Lease Liabilities and Right to Use Leased AssetsGovernmental Activities

The City has entered into four leases as lessee for the use of vehicles with lease terms ranging from 15 months to 53 months. The total initial lease liability recorded was \$1,386,191, with individual amounts ranging from \$9,226 to \$1,318,511. As of December 31, 2022, the total value of the lease liabilities was \$1,167,982. The City is required to make fixed annual or semi-annual payments in amounts ranging from \$6,288 to \$189,294 per year. The leases have interest rates ranging from 0.258% to 0.602% based on the City's incremental borrowing rate. The total value of the right to use assets and related accumulated amortization was \$1,087,218 and \$273,894, as of December 31, 2022, respectively.

The City has entered into six leases as lessee for the use of machinery and equipment with lease terms ranging from 15 months to 55 months. The total initial lease liability recorded was \$128,308, with individual amounts ranging from \$2,073 to \$72,411. As of December 31, 2022, the total value of the lease liabilities was \$53,785. The City is required to make fixed semi-annual, quarterly, or monthly payments in amounts ranging from \$972 to \$49,359 per year. The leases have interest rates ranging from 0.258% to 0.736% based on the City's incremental borrowing rate. The total value of the right to use assets and related accumulated amortization was \$112,410 and \$74,799, as of December 31, 2022, respectively.

On September 1, 2022, the City entered into a 60-month lease as Lessee for the use of a building for the West Fargo Public Library. An initial lease liability was recorded in the amount of \$600,065. As of December 31, 2022, the value of the lease liability was \$563,610. The City is required to make monthly fixed payments of \$10,033, which increase by 3% each year on September 1. The lease has an interest rate of 2.536% based on the City's incremental borrowing rate. The value of the right to use asset and related accumulated amortization was \$600,065 and \$40,004, as of December 31, 2022, respectively.

Business-Type Activities

The City has entered into a 15-month lease as Lessee for the use of a vehicle in the Water Fund. An initial lease liability was recorded in the amount of \$29,379. As of December 31, 2022, the value of the lease liability was \$9,865. The City is required to make fixed semi-annual payments of \$10,013. The lease has an interest rate of 0.258% based on the City's incremental borrowing rate. The value of the right to use asset and related accumulated amortization was \$24,400 and \$19,477, as of December 31, 2022, respectively.

The principal and interest payments that are expected to maturity for all leases are as follows:

<u>Years Ending December 31,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 326,278	\$ 49,245	\$ 9,865	\$ 149
2024	279,064	40,803	-	-
2025	290,674	32,707	-	-
2026	799,878	25,677	-	-
2027	89,483	851	-	-
Total	<u>\$ 1,785,377</u>	<u>\$ 149,283</u>	<u>\$ 9,865</u>	<u>\$ 149</u>

Note 5 - Capital Assets

Capital asset activity of the governmental activities for the year ended December 31, 2022 was as follows:

Governmental Activities	Beginning Balance, as Restated	Increases and Transfers	Decreases and Transfers	Ending Balance
Capital assets, not being depreciated				
Land	\$ 20,102,675	\$ -	\$ -	\$ 20,102,675
Construction in progress	27,779,268	24,912,204	8,905,711	43,785,761
Total capital assets not being depreciated	47,881,943	24,912,204	8,905,711	63,888,436
Capital assets, being depreciated				
Infrastructure	236,316,494	6,328,009	-	242,644,503
Buildings and improvements	26,205,203	-	-	26,205,203
Machinery and equipment	7,785,316	3,771,108	193,807	11,362,617
Total capital assets being depreciated	270,307,013	10,099,117	193,807	280,212,323
Less accumulated depreciation for				
Infrastructure	92,292,985	10,323,979	-	102,616,964
Buildings and improvements	3,728,579	726,623	-	4,455,202
Machinery and equipment	4,170,823	961,848	193,807	4,938,864
Total accumulated depreciation	100,192,387	12,012,450	193,807	112,011,030
Net capital assets being depreciated	170,114,626	(1,913,333)	-	168,201,293
Right to use leased assets being amortized				
Right to use leased building	-	600,065	-	600,065
Right to use leased equipment	112,410	-	-	112,410
Right to use leased vehicles	1,087,218	-	-	1,087,218
Total right to use leased assets being amortized	1,199,628	600,065	-	1,799,693
Less accumulated amortization for				
Right to use leased building	-	40,004	-	40,004
Right to use leased equipment	-	74,799	-	74,799
Right to use leased vehicles	-	273,894	-	273,894
Total accumulated amortization	-	388,697	-	388,697
Net right to use leased assets	1,199,628	211,368	-	1,410,996
Governmental activities capital assets, net	\$ 219,196,197	\$ 23,210,239	\$ 8,905,711	\$ 233,500,725

Decreases and transfers of construction in progress include \$586,612 relating to completed projects that were transferred to Cass Rural Water District. This amount represents water infrastructure of new developments within Cass Rural Water District's service territory, as required by a Cooperation agreement.

City of West Fargo, North Dakota

Notes to Financial Statements

December 31, 2022

Depreciation/amortization expense was charged to functions/programs of the governmental activities as follows:

Governmental Activities	
General government	\$ 12,018,268
Public safety	275,392
Public works	67,483
Culture and recreation	40,004
Total depreciation/amortization expense - governmental activities	<u>\$ 12,401,147</u>

Capital asset activity of the business-type activities for the year ended December 31, 2022 was as follows:

Business-Type Activities	Beginning Balance, as Restated	Increases and Transfers	Decreases and Transfers	Ending Balance
Capital assets, not being depreciated				
Land	\$ 1,857,610	\$ -	\$ -	\$ 1,857,610
Capital assets, being depreciated				
Buildings	3,834,634	-	-	3,834,634
Land improvements	3,751,796	-	-	3,751,796
Machinery and equipment	9,874,331	1,113,724	208,600	10,779,455
Infrastructure	432,679,230	1,518,623	-	434,197,853
Total capital assets being depreciated	<u>450,139,991</u>	<u>2,632,347</u>	<u>208,600</u>	<u>452,563,738</u>
Less accumulated depreciation for				
Buildings	822,176	78,244	-	900,420
Land improvements	3,751,796	-	-	3,751,796
Machinery and equipment	6,489,598	600,540	190,906	6,899,232
Infrastructure	109,626,381	10,863,410	-	120,489,791
Total accumulated depreciation	<u>120,689,951</u>	<u>11,542,194</u>	<u>190,906</u>	<u>132,041,239</u>
Net capital assets being depreciated	<u>329,450,040</u>	<u>(8,909,847)</u>	<u>17,694</u>	<u>320,522,499</u>
Right to use leased assets being amortized				
Right to use leased vehicles	24,400	-	-	24,400
Less accumulated amortization for				
Right to use leased vehicles	-	19,477	-	19,477
Net right to use leased assets	<u>24,400</u>	<u>(19,477)</u>	<u>-</u>	<u>4,923</u>
Business-type activities capital assets, net	<u>\$ 331,332,050</u>	<u>\$ (8,929,324)</u>	<u>\$ 17,694</u>	<u>\$ 322,385,032</u>

Depreciation/amortization expense was charged to functions/programs of the business-type activities as follows:

Business-Type Activities	
Water & sewer	\$ 11,175,689
Garbage	385,982
Total depreciation/amortization expense - business-type activities	<u>\$ 11,561,671</u>

Note 6 - Long-Term Debt

The following is a summary of changes in long-term debt of the City for the year ended December 31, 2022:

	Beginning Balance, as Restated	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
G.O. bonds	\$ 2,640,000	\$ -	\$ 845,000	\$ 1,795,000	\$ 880,000
Special assessment bonds	286,155,000	6,055,000	15,580,000	276,630,000	15,150,000
Revenue bonds	18,835,000	-	435,000	18,400,000	585,000
Annual appropriation bonds	-	10,000,000	180,000	9,820,000	330,000
BND drawdown	12,919,165	-	541,318	12,377,847	520,855
Bond premium	6,231,079	305,790	385,629	6,151,240	378,538
Leases payable	1,514,499	600,065	329,187	1,785,377	326,278
Compensated absences*	1,653,451	500,461	-	2,153,912	215,391
	<u>\$ 329,948,194</u>	<u>\$ 17,461,316</u>	<u>\$ 18,296,134</u>	<u>\$ 329,113,376</u>	<u>\$ 18,386,062</u>
Business-Type Activities					
Revenue bonds	\$ 10,380,000	\$ -	\$ 770,000	\$ 9,610,000	\$ 800,000
Leases payable	29,379	-	19,514	9,865	9,865
Compensated absences*	350,224	106,120	-	456,344	45,635
	<u>\$ 10,759,603</u>	<u>\$ 106,120</u>	<u>\$ 789,514</u>	<u>\$ 10,076,209</u>	<u>\$ 855,500</u>

*Change in compensated absences is presented as a net change.

Bonds Payable

General obligation bonds are recorded in the governmental activities in the government-wide statement and are backed by the full faith and credit of the City. These bonds are payable from the debt service fund primarily through property tax levies.

The City has issued numerous Refunding Improvement Bonds that were special assessment bonds. North Dakota state law requires that these be called refunding bonds because warrants are the first issuance that are refunded with the bond issuance. These bonds are repaid from the debt service fund through special assessments levied against the benefiting properties.

Annual appropriation bonds are special, limited obligations of the City payable from a standing appropriation in the City's annual budget which is subject to the right of the City to non-appropriate funds to pay the bonds in any future fiscal year (an "event of non-appropriation") as provided in the bond resolution. Subject to an event of non-appropriation, under the terms of the bond resolution, the general resources and legally available funds of the City are pledged to the payment of the bonds. The City anticipates, but is not obligated to, make payments on the bonds in whole or in part from revenues received from its capital improvements portion of the City's two percent Citywide Capital Improvements Sales Tax. Also, voters approved an additional one-half cent sales tax effective July 1, 2023, that will provide for another source of funding to make payments on these bonds. In the event of nonappropriation, the bonds will be paid from the amounts deposited to the bond reserve account. At December 31, 2022, the bond reserve account has a balance is \$1,049,884, which is reported as restricted cash. Principal and interest payments on these bonds are made from the debt service fund.

The City has General obligation revenue bonds that are recorded as a liability in the water and sewer fund and are payable from public utility revenues. The City has pledged future revenues, net of specified operating expenses, to repay these bonds. The debt and information related to the pledged revenues at December 31, 2022 are as follows:

	Pledged Revenue Source	2022		Approximate Amount of Revenue Pledged
		Principal and Interest Paid	Net Revenues	
Business-Type Activities				
2012 Refunding Improvement Bond	Water and Sewer Revenue	\$ 663,966	\$ 1,739,958	38.2%
2019 Refunding Improvement Bond	Water and Sewer Revenue	424,403	1,739,958	24.4%

City of West Fargo, North Dakota

Notes to Financial Statements

December 31, 2022

Bonds payable outstanding as of December 31, 2022, consist of the following:

	Interest Rate	Final Year of Maturity	Authorized and Issued	Outstanding
Governmental activities				
G.O. Bonds				
2009 General Obligation Arterial Street Bonds	2.50-4.35%	2024	\$ 10,000,000	\$ 1,795,000
Special Assessment Bonds				
2009 Municipal Improvement Bonds	2.00-5.50%	2039	530,000	385,000
2014A Refunding Improvement Bonds	2.00-3.625%	2038	17,750,000	10,900,000
2014B Refunding Improvement Bonds	2.00-5.00%	2039	20,460,000	13,830,000
2015A Refunding Improvement Bonds	2.00-5.00%	2040	28,180,000	18,775,000
2015B Refunding Improvement Bonds	2.00-5.00%	2040	24,470,000	18,395,000
2016A Refunding Improvement Bonds	1.50-4.50%	2041	27,140,000	19,845,000
2017A Refunding Improvement Bonds	3.00-5.00%	2042	36,860,000	31,490,000
2018A Refunding Improvement Bonds	4.50-5.00%	2023	9,275,000	575,000
2018B Refunding Improvement Bonds	3.50-5.00%	2043	30,230,000	27,100,000
2019A Refunding Improvement Bonds	2.00-4.00%	2024	7,905,000	4,640,000
2019B Refunding Improvement Bonds	2.625-4.00%	2036	55,105,000	49,220,000
2020A Refunding Improvement Bonds	2.00-4.00%	2041	66,430,000	61,580,000
2021A Refunding Improvement Bonds	2.00%	2034	7,060,000	6,520,000
2021B Refunding Improvement Bonds	0.25-2.10%	2034	8,545,000	7,320,000
2022A Refunding Improvement Bonds	3.75-5.00%	2047	6,055,000	6,055,000
Total special assessment bonds				276,630,000
Revenue Bonds				
2009 TIF District Bonds	2.75-4.50%	2025	570,000	145,000
2020 Taxable Gross Revenue Bonds	0.60-3.00%	2045	18,645,000	18,255,000
Total revenue bonds				18,400,000
Annual Appropriation Bonds				
2022 Public Safety Annual Appropriation Bonds	3.60-4.00%	2042	10,000,000	9,820,000
Total				\$ 306,645,000
Business-type activities				
Revenue Bonds				
2012 Refunding Improvement Bond	0.50-4.25%	2030	\$ 9,145,000	\$ 4,525,000
2019 Refunding Improvement Bond	2.00-3.00%	2034	5,905,000	5,085,000
Total				\$ 9,610,000

City of West Fargo, North Dakota

Notes to Financial Statements

December 31, 2022

The annual requirements to amortize all bonded debt outstanding as of December 31, 2022, are as follows:

Years Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2023	\$ 16,945,000	\$ 9,626,021	\$ 800,000	\$ 291,631
2024	16,300,000	9,082,304	835,000	263,881
2025	15,045,000	8,517,782	865,000	238,831
2026	14,990,000	7,952,249	895,000	210,180
2027	15,095,000	7,390,736	935,000	183,331
2028-2032	75,395,000	29,856,115	3,865,000	492,308
2033-2037	75,120,000	18,446,008	1,415,000	62,081
2038-2042	57,710,000	8,214,129	-	-
2043-2047	20,045,000	1,319,525	-	-
Total	<u>\$ 306,645,000</u>	<u>\$ 100,404,869</u>	<u>\$ 9,610,000</u>	<u>\$ 1,742,243</u>

BND Drawdown Payable

The City has entered into two drawdown agreements with the Bank of North Dakota to finance various improvement projects within the City. These loans are repaid from the debt service fund through special assessments levied against the benefiting properties. Drawdown agreements payable outstanding as of December 31, 2022, consist of the following:

	Interest Rate	Final Year of Maturity	Authorized and Issued	Outstanding
Governmental Activities				
Bank of North Dakota Drawdown	2.00%	2041	\$ 10,000,000	\$ 7,963,191
Bank of North Dakota Drawdown	2.00%	2043	5,000,000	4,414,656
				<u>\$ 12,377,847</u>

The annual requirements to amortize all Bank of North Dakota drawdowns outstanding as of December 31, 2022, are as follows:

Years Ending December 31,	Drawdown Agreement	
	Principal	Interest
2023	\$ 520,855	\$ 248,039
2024	531,272	237,622
2025	541,897	226,997
2026	552,735	216,159
2027	563,790	205,104
2028-2032	2,992,664	851,806
2033-2037	3,304,143	540,327
2038-2042	3,128,448	196,429
2043	242,043	5,104
Total	<u>\$ 12,377,847</u>	<u>\$ 2,727,587</u>

Leases Payable

Leases payable consists of lease liabilities as described in Note 4. Leases payable of the governmental activities are paid from the general, fire, forestry, and library funds. Leases payable of the business-type activities are paid from the water and sewer fund.

Compensated Absences

Compensated absences for governmental funds are recorded as a liability in the governmental activities in the government-wide statement. This liability matures only upon qualified retirements or terminations and primarily is paid out of the general fund. Smaller amounts have typically been liquidated by the nonmajor governmental funds from which the employee's wages are paid. Compensated absences for business-type activities are payable from the water and sewer and garbage funds.

Note 7 - Pension Plan

The City contributes to two separate pension plans which cover substantially all full-time employees and certain part-time employees. They are the North Dakota Public Employee Retirement System (NDPERS) Main System and the NDPERS Law Enforcement Retirement System.

For the year ended December 31, 2022, the City reported its proportionate share of net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the plans as follows:

	Deferred Outflows of Resources	Net Pension Liability	Deferred Inflows of Resources	Pension Expense
Main System	\$ 19,147,874	\$ 25,986,754	\$ 10,486,936	\$ 1,518,089
Law Enforcement System	7,104,510	5,301,603	3,049,017	1,323,524
Total all plans	<u>\$ 26,252,384</u>	<u>\$ 31,288,357</u>	<u>\$ 13,535,953</u>	<u>\$ 2,841,613</u>

North Dakota Public Employees Retirement System (Main System)**General Information about the Pension Plan**

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 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. For members hired on or after January 1, 2020, the 2.00% multiplier was replaced with a 1.75% multiplier. 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. For members hired on or after January 1, 2020, member contribution rates are 7% and employer contribution rates are 8.26% 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

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

At December 31, 2022, the City reported a liability of \$25,986,754 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2022, the City's proportion was 0.902297 percent, which was a decrease of 0.005499 percent from its proportion measured as of June 30, 2021.

City of West Fargo, North Dakota

Notes to Financial Statements

December 31, 2022

For the year ended December 31, 2022, the City recognized pension expense of \$1,518,089. At December 31, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 135,555	\$ 496,392
Changes of assumptions	15,540,462	9,634,226
Net difference between projected and actual investment earnings on pension plan investments	951,109	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,678,428	356,318
City contributions subsequent to the measurement date	842,320	-
	<u>\$ 19,147,874</u>	<u>\$ 10,486,936</u>

The \$842,320 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, 2023.

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

2023	\$ 2,245,815
2024	2,677,540
2025	495,781
2026	2,399,482

Actuarial Assumptions

The total pension liability in the July 1, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	3.5% to 17.75% including inflation
Investment rate of return	5.10%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the Sex-distinct Pub-2010 table for General Employees, with scaling based on actual experience. Respective corresponding tables were used for healthy retirees, disabled retirees, and active members. Mortality rates are projected from 2010 using the MP-2019 scale.

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%	6.00%
International Equity	21%	6.70%
Private Equity	7%	9.50%
Domestic Fixed Income	23%	0.73%
International Fixed Income	0%	0.00%
Global Real Assets	19%	4.77%
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 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 6.50%; the municipal bond rate is 3.69%; and the resulting Single Discount Rate is 5.10%.

Sensitivity of the City'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 5.10 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 (4.10 percent) or 1-percentage-point higher (6.10 percent) than the current rate:

	<u>1% Decrease (4.10%)</u>	<u>Current Discount Rate (5.10%)</u>	<u>1% Increase (6.10%)</u>
City's Proportionate Share of the net pension liability	\$ 34,300,728	\$ 25,986,754	\$ 19,161,270

Pension Plan Fiduciary Net Position

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

NDPERS Law Enforcement Retirement System (Law Enforcement System)**General Information about the Pension Plan**

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

The Law Enforcement System is a cost-sharing multiple-employer defined benefit pension plan that covers peace officers and correctional officers employed by participating political subdivisions. Effective August 1, 2015, the plan will include National Guard Security Officers and Firefighters. The Law Enforcement System 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 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. The Law Enforcement System has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Law Enforcement 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 (55) with three or more years of service. 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. For members first enrolled in the plan after December 31, 2019, the multiplier was reduced from 2.0% to 1.75%. The plan permits early retirement at ages 50-55 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 in the Law Enforcement 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 Law Enforcement 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 of disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member of the Law Enforcement System is not vested (is not 55 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 established as a percent of covered compensation. Member contribution rates are set by statute and employer contribution rates are set by the Board. Contribution rates for the Law Enforcement System are established as follows:

<u>Plan</u>	<u>Member Contribution Rate</u>	<u>Employer Contribution Rate</u>
Law Enforcement with Previous Service		
Political Subdivisions	5.50%	9.81%
State	6.00%	9.81%
National Guard	5.50%	9.81%
Law Enforcement without Previous Service	5.50%	7.93%

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

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

At December 31, 2022, the City reported a liability of \$5,301,603 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of covered payroll/contributions in the Law Enforcement System pension plan relative to the covered payroll/contributions of all participating Law Enforcement System employers. At June 30, 2022, the City's proportion was 6.457737 percent, which was an increase of 0.236017 from its proportion measured as of June 30, 2021.

City of West Fargo, North Dakota

Notes to Financial Statements

December 31, 2022

For the year ended December 31, 2022, the City recognized pension expense of \$1,323,524. At December 31, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,695,339	\$ 30,392
Changes of assumptions	4,526,082	3,018,625
Net difference between projected and actual investment earnings on pension plan investments	360,553	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	147,777	-
City contributions subsequent to the measurement date	374,759	-
	<u>\$ 7,104,510</u>	<u>\$ 3,049,017</u>

The \$374,759 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, 2023.

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

2023	\$ 890,995
2024	851,829
2025	827,100
2026	541,936
2027	338,137
Thereafter	230,737

Actuarial Assumptions

Actuarial assumptions. The total pension liability in the July 1, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	3.5% to 17.75% including inflation
Investment rate of return	5.10%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the Sex-distinct Pub-2010 table for General Employees, with scaling based on actual experience. Respective corresponding tables were used for healthy retirees, disabled retirees, and active members. Mortality rates are projected from 2010 using the MP-2019 scale.

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%	6.00%
International Equity	21%	6.70%
Private Equity	7%	9.50%
Domestic Fixed Income	23%	0.73%
International Fixed Income	0%	0.00%
Global Real Assets	19%	4.77%
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 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 6.50%; the municipal bond rate is 3.69%; and the resulting Single Discount Rate is 5.10%.

Sensitivity of the City'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 5.10 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 (4.10 percent) or 1-percentage-point higher (6.10 percent) than the current rate:

	1% Decrease (4.10%)	Current Discount Rate (5.10%)	1% Increase (6.10%)
City's Proportionate Share of the net pension liability	\$ 7,746,707	\$ 5,301,603	\$ 3,366,628

Pension Plan Fiduciary Net Position

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

Note 8 - Other Post-Employments Benefit 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. . Effective August 1, 2019, the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. 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. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

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. Effective August 1, 2019, the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. 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, 2022, the City reported a liability of \$1,428,034 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on the City's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2022, the City's proportion was 1.189721 percent, which was an increase of 0.064529 percent from its proportion measured as of June 30, 2021.

City of West Fargo, North Dakota

Notes to Financial Statements

December 31, 2022

For the year ended December 31, 2022, the City recognized OPEB expense of \$295,156. At December 31, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 33,854	\$ 12,280
Changes of assumptions	359,705	-
Net difference between projected and actual investment earnings on pension plan investments	192,280	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	198,924	11,556
City contributions subsequent to the measurement date	134,866	-
	<u>\$ 919,629</u>	<u>\$ 23,836</u>

The \$134,866 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2023.

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

2023	\$ 207,193
2024	197,395
2025	173,575
2026	182,764

Actuarial Assumptions

The total OPEB liability in the July 1, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Not applicable
Investment rate of return	5.75%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the Mortality Pub-2010 Healthy Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 103% for males and 101% for females. Pub-2010 Disabled Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 117% for males and 112% for females. Pub-2010 Employee Mortality table (for General Employees), sex-distinct, with rates multiplied by 92% for both males and females. Mortality rates are projected from 2010 using the MP-2019 scale.

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, 2021, are summarized in the following table:

Asset Class	Target	Long-Term
Large Cap Domestic Equities	33%	5.85%
Small Cap Domestic Equities	6%	6.75%
Domestic Fixed Income	35%	0.50%
International Equities	26%	6.25%

Discount Rate

The discount rate used to measure the total OPEB liability was 5.75%. The projection of cash flows used to determine the discount rate assumed plan member and statutory rates described in this report. 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.

Sensitivity of the City'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, 2022, calculated using the discount rate of 5.75%, 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 (4.75 percent) or 1-percentage-point higher (6.75 percent) than the current rate:

	1% Decrease (4.75%)	Current Discount Rate (5.75%)	1% Increase (6.75%)
City's Proportionate Share of the net OPEB liability	\$ 1,822,799	\$ 1,428,034	\$ 1,096,639

Note 9 - Interfund Receivables, Payables, Transfers, and Capital Contributions

Interfund receivables/payables are used to record accrued obligations between funds.

	Due from Other Funds	Due to Other Funds
General	\$ 980,479	\$ -
Capital Projects	798,140	-
Debt Service	1,347,800	2,312,220
Other Nonmajor Governmental Funds	628,545	798,140
Water & Sewer	-	348,181
Garbage	-	296,423
	<u>\$ 3,754,964</u>	<u>\$ 3,754,964</u>

A summary of the City's interfund transfers is as follows:

	Transfer In	Transfer Out
Governmental Funds		
General	\$ 2,480,589	\$ 5,769,134
Capital Projects	10,417,295	8,026,665
Debt Service	3,392,435	415,273
Non-major governmental	2,073,209	4,152,456
	<u>\$ 18,363,528</u>	<u>\$ 18,363,528</u>
Total transfers		

Transfers are made for funding various projects and operational expenses, meeting debt service requirements, and closing funds no longer used.

During the year ended December 31, 2022, the following capital contributions were made from the governmental activities to the proprietary funds:

	Transfer In	Transfer Out
Governmental Activities	<u>\$ -</u>	<u>\$ 1,518,623</u>
Water & Sewer Proprietary Fund	<u>\$ 1,518,623</u>	<u>\$ -</u>

Note 10 - Restatements**Adoption of New Standard**

As of January 1, 2022, the City adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The standard also requires lessors to recognize a lease receivable and deferred inflow of resources. Beginning net position and fund balance were restated to retroactively adopt the provisions of GASB Statement No. 87.

Corrections of Errors

During the year ended December 31, 2022, it was noted that a billing error resulted in understated accounts receivable and utility sales revenues in the water and sewer fund during several prior years. As a result, net position of the water and sewer fund and business-type activities were restated as of January 1, 2022.

During the year ended December 31, 2022, it was noted that certain prepayments of expenditures/expenses were treated as current period expenditures/expenses during prior years. As a result, fund balance of the general fund and net position of the governmental activities were restated as of January 1, 2022.

During the year ended December 31, 2022, it was noted that certain items were incorrectly capitalized during the prior year. As a result, net position of the governmental activities was restated as of January 1, 2022.

The effects of these adjustments to net position and fund balance are as follows:

	General Fund	Nonmajor Governmental Funds	Governmental Activities Net Position	Water and Sewer Fund Net Position	Business-type Activities Net Position
Balance - December 31, 2021, as previously reported	\$ 26,275,566	\$ 13,863,003	\$ 199,364,855	\$ 329,408,423	\$ 334,170,799
Adoption of new standard					
Recognition of right to use leased assets	-	-	1,199,628	24,400	24,400
Recognition of lease receivables	-	4,526,521	4,526,521	299,197	299,197
Recognition of lease liabilities	-	-	(1,514,499)	(29,379)	(29,379)
Recognition of deferred inflows of resources related to leases	-	(4,340,853)	(4,340,853)	(260,362)	(260,362)
Elimination of capital assets reclassified as right of use leased asset	-	-	(1,540,333)	(103,402)	(103,402)
Elimination of capital leases reclassified as lease liabilities	-	-	1,475,072	-	-
Corrections of errors					
Unbilled revenues	-	-	-	921,159	921,159
Prepaid expenditure/expense not recognized	1,692,696	-	1,692,696	-	-
Improperly capitalized asset	-	-	(655,271)	-	-
Balance - January 1, 2022, as restated	<u>\$ 27,968,262</u>	<u>\$ 14,048,671</u>	<u>\$ 200,207,816</u>	<u>\$ 330,260,036</u>	<u>\$ 335,022,412</u>

Note 11 - Commitments

Litigation and Potential Exposure – In the ordinary course of its business, the City is party to legal proceedings as a plaintiff or defendant. The financial impact of remaining actions is not determinable at December 31, 2022, but in the opinion of management and legal counsel the ultimate disposition of any or all of these proceedings will not have a material effect on the City's financial position.

Construction Commitments – As of December 31, 2022, the City has entered into contracts for various construction contracts for street improvements, sidewalks, the storm sewer system, and the water and sanitary systems. At December 31, 2022, construction in progress consisted of street improvements totaling \$21,035,471, with estimated costs to completion of \$30,968,437; storm sewer systems totaling \$5,593,366, with estimated costs to completion of \$5,725,769; fire hall totaling \$7,699,771, with estimated costs to completion of \$9,500,229; salt shed replacement totaling \$895,413, with estimated costs to completion of \$54,587; and water and sanitary systems of \$7,620,823, with estimated costs to completion of \$15,548,893. Estimated completion dates for these projects range from early 2023 through 2025.

Fire Department Debt Obligation – The Fire Department of the City previously operated as an independent nonprofit entity and has issued debt through various programs of the United States Department of Agriculture (USDA), which is not a legal debt obligation of the City and has not been reported as a long-term obligation within the City's financial statements. During the year ended December 31, 2022, the City expended \$832,848 on behalf of the Fire Department, fully satisfying this obligation.

Cass County Career Workforce Academy – The City has pledged \$600,000 towards the creation of the Cass County Career Workforce Academy, a partnership between the school districts of Fargo, West Fargo, Northern Cass and Central Cass and the North Dakota State College of Science. The Career Workforce Academy will provide education and job training opportunities for local students and community members. The City is committed to contribute \$120,000 annually for the years 2021 through 2025, with the money coming from revenues of the economic development sales tax levy. The City contributed \$120,000 during the year ended December 31, 2022.

Note 12 - Tax Exemptions and Abatements

The City provides tax exemptions and abatements through various programs including New Single-Family Homes, New Industry, Low Income Housing, Residential and Commercial Remodeling, and more. The amount of tax exemptions and abatements for the year ended December 31, 2022, was approximately \$700,649.

Note 13 - Joint Power Agreement with other Governmental Entities**Red River Regional Dispatch Center (RRRDC)**

In 2008, the City entered into a joint powers agreement with the City of Fargo, North Dakota, City of Moorhead, Minnesota, Clay County of Minnesota, and Cass County of North Dakota, to establish a framework that allows for the joint operation of dispatch functions by the named entities. By combining the communications and dispatch of these agencies, duplication of equipment and staff time is reduced or eliminated. The goal was to reduce the financial burden to the respective governments' taxpayers through the sharing of one communication center, as well as to improve communications services.

Effective January 1, 2015, the joint powers agreement was amended as a result of the countywide vote in November 2014, which ended the City of West Fargo and City of Fargo collections of emergency communication system fees on an individual city-wide basis. Cass County emergency fee collection, which is collected per user by the county, is expected to be sufficient to cover the contribution for the City of Fargo, West Fargo, and Cass County. Cass County has agreed to pay all valid billings from vendors of emergency service communication system funds for all users in Cass County.

Effective January 1, 2015, the cost share formula was amended as follows:

- City of Fargo – 0%
- City of Moorhead – 18.2%
- Cass County – 71.8%
- Clay County – 10%
- City of West Fargo – 0%

Members of the RRRDC may elect to withdraw from participation in the Agreement upon giving a six-month written notice. Additional financial information may be obtained by contacting: Attn: Director, Red River Regional Dispatch Center, 300 NP Avenue, Suite 206, Fargo, ND 58102.



Required Supplementary Information
December 31, 2022

City of West Fargo, North Dakota

City of West Fargo, North Dakota

Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions

Main System

December 31, 2022

Schedule of Employer's Share of Net Pension Liability Last 10 Fiscal Years*

Measurement Date	Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	0.902297%	\$ 25,986,754	\$ 10,474,195	248.10%	54.47%
2021	0.907796%	\$ 9,461,963	\$ 10,279,796	92.04%	78.26%
2020	0.761637%	\$ 23,961,263	\$ 8,401,775	285.19%	48.91%
2019	0.739412%	\$ 8,666,444	\$ 7,691,139	112.68%	71.66%
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%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Schedule of Employer's Contributions Last 10 Fiscal Years *

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
2022	\$ 788,885	\$ 870,463	\$ (81,578)	\$ 10,474,195	8.31%
2021	\$ 758,090	\$ 724,144	\$ 33,946	\$ 10,279,796	7.04%
2020	\$ 594,919	\$ 587,156	\$ 7,763	\$ 8,401,775	6.99%
2019	\$ 559,959	\$ 643,072	\$ (83,113)	\$ 7,691,139	8.36%
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%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions

2022

Changes of benefit terms

The interest rate earned on member contributions decreased from 6.50 percent to 6.00 percent effective January 1, 2023 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020, will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System increased from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019, or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2020.

Changes of assumptions

The investment return assumption was updated from 7.00% to 6.50% beginning with the actuarial valuation as of July 1, 2022. All other actuarial assumptions used in the actuarial valuation as of July 1, 2022, were based on an experience review for the period from July 1, 2014, to July 1, 2019, and were adopted for first use commencing with the actuarial valuation as of July 1, 2020.

2021

Changes of benefit terms

The interest rate earned on member contributions decreased from 7.00 percent to 6.50 percent effective January 1, 2021 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020, will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System increased from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019, or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2020.

Changes of assumptions

All actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2020.

2020

Changes of benefit terms

The interest rate earned on member contributions will decrease from 7.00 percent to 6.50 percent effective January 1, 2021 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020, will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019, or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2019.

Changes of assumptions

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019, valuation:

- The investment return assumption was lowered from 7.5% to 7.0%
- The assumed rate of price inflation was lowered from 2.5 to 2.25 percent for the July 1, 2020, valuation
- The assumed rate of total payroll growth was updated for the July 1, 2020, valuation
- Mortality table updates were made for the July 1, 2020, valuation

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2019.

2019

Changes of benefit terms

The interest rate earned on member contributions will decrease from 7.25 percent to 7.00 percent effective January 1, 2020 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020, will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019, or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

Changes of assumptions

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019, valuation:

- The investment return assumption was lowered from 7.75% to 7.50%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

2018

Changes of benefit terms

None

Changes of assumptions

Amounts reported in 2019 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.

2017

Changes of benefit terms

None

Changes of assumptions

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2017, 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.

2016

Changes of benefit terms

None

Changes of assumptions

Amounts reported in 2017 reflect actuarial assumption changes effective July 1, 2016, 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.

2015

Changes of benefit terms

None

Changes of assumptions

Amounts reported in 2016 reflect actuarial assumption changes effective July 1, 2015, 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.

City of West Fargo, North Dakota

Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions

Law Enforcement System

December 31, 2022

Schedule of Employer's Share of Net Pension Liability

Last 10 Fiscal Years*

Measurement Date	Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	6.457737%	\$ 5,301,603	\$ 4,181,134	126.80%	57.48%
2021	6.221720%	\$ 1,031,033	\$ 3,828,442	26.93%	87.10%
2020	6.713186%	\$ 4,400,352	\$ 3,046,702	144.43%	53.12%
2019	7.335787%	\$ 872,434	\$ 2,955,732	29.52%	84.95%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Schedule of Employer's Contributions

Last 10 Fiscal Years *

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
2022	\$ 420,266	\$ 429,602	\$ (9,336)	\$ 4,181,134	10.27%
2021	\$ 340,370	\$ 362,007	\$ (21,637)	\$ 3,828,442	9.46%
2020	\$ 325,271	\$ 298,950	\$ 26,321	\$ 3,046,702	9.81%
2019	\$ 275,994	\$ 130,217	\$ 145,777	\$ 2,955,732	4.41%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions

2022

Changes of benefit terms

The interest rate earned on member contributions decreased from 6.50 percent to 6.00 percent effective January 1, 2023 (based on the adopted decrease in the investment return assumption). New Public Safety members who are hired on or after January 1, 2020, will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019, or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2020.

Changes of assumptions

The investment return assumption was updated from 7.00% to 6.50% beginning with the actuarial valuation as of July 1, 2022. All other actuarial assumptions used in the actuarial valuation as of July 1, 2022, were based on an experience review for the period from July 1, 2014, to July 1, 2019, and were adopted for first use commencing with the actuarial valuation as of July 1, 2020.

2021

Changes of benefit terms

The interest rate earned on member contributions decreased from 7.00 percent to 6.50 percent effective January 1, 2021 (based on the adopted decrease in the investment return assumption). New Public Safety members who are hired on or after January 1, 2020, will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019, or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2020.

Changes of assumptions

All actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2020.

2020

Changes of benefit terms

The interest rate earned on member contributions will decrease from 7.00 percent to 6.50 percent effective January 1, 2021 (based on the adopted decrease in the investment return assumption). New Public Safety members who are hired on or after January 1, 2020, will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019, or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2019.

Changes of assumptions

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019, valuation:

- The investment return assumption was lowered from 7.5% to 7.0%
- The assumed rate of price inflation was lowered from 2.5 to 2.25 percent for the July 1, 2020, valuation
- The assumed rate of total payroll growth was updated for the July 1, 2020, valuation
- Mortality table updates were made for the July 1, 2020, valuation

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2019.

City of West Fargo, North Dakota
Schedule of Employer's Share of Net OPEB Liability and Schedule of Employer's Contributions
December 31, 2022

**Schedule of Employer's Share of Net OPEB Liability
Last 10 Fiscal Years***

Measurement Date	Employer's Proportionate Share (Percentage) of the Net OPEB Liability (Asset)	Employer's Proportionate Share (Amount) of the Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability as a Percentage of its Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	1.189721%	\$ 1,428,034	\$ 12,282,738	11.63%	56.28%
2021	1.125192%	\$ 625,801	\$ 12,267,498	5.10%	76.63%
2020	0.916280%	\$ 770,773	\$ 10,445,327	7.38%	63.38%
2019	0.954142%	\$ 766,354	\$ 10,646,871	7.20%	71.66%
2018	0.814772%	\$ 641,668	\$ 8,915,372	7.20%	61.89%
2017	0.706287%	\$ 558,681	\$ 7,640,904	7.31%	59.78%

*GASB Statement No. 75 require ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

**Schedule of Employer's Contributions
Last 10 Fiscal Years ***

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
2022	\$ 149,495	\$ 162,023	\$ (12,528)	\$ 12,282,738	1.32%
2021	\$ 147,520	\$ 144,106	\$ 3,414	\$ 12,267,498	1.17%
2020	\$ 122,711	\$ 126,102	\$ (3,391)	\$ 10,445,327	1.21%
2019	\$ 123,823	\$ 118,095	\$ 5,728	\$ 10,646,871	1.11%
2018	\$ 104,572	\$ 97,561	\$ 7,011	\$ 8,915,372	1.09%
2017	\$ 88,820	\$ 86,124	\$ 2,696	\$ 7,640,904	1.13%

*GASB Statement No. 75 require ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions

2022

Changes of benefit terms

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2020.

Changes of assumptions

The investment return assumption was updated from 6.50% to 5.75% beginning with the actuarial valuation as of July 1, 2022. All actuarial assumptions and the actuarial cost method are un-changed from the last actuarial valuation as of July 1, 2021.

2021

Changes of benefit terms

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2020.

Changes of assumptions

All actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2020.

2020

Changes of benefit terms

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2019.

Changes of assumptions

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2020, valuation:

- The investment return assumption was lowered from 7.25% to 6.50%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2019.

2019

Changes of Benefit Terms

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

Changes of assumptions

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019, valuation:

- The investment return assumption was lowered from 7.50% to 7.25%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

2018

Changes of Benefit Terms

None

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.



Other Supplementary Information
December 31, 2022

City of West Fargo, North Dakota

City of West Fargo, North Dakota
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-Through Entity Identifying Number	Expenditures
Department of Agriculture Passed through North Dakota Forest Service Urban and Community Forestry Program	10.675	2022-ATBTP	\$ 19,120
Department of Interior Passed through the Bureau of Reclamation WaterSMART (Sustain and Manage America's Resources for Tomorrow)	15.507	Unknown	183,000
Department of the Treasury Passed through North Dakota Office of Management and Budget COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	Unknown	2,774,746
Department of Homeland Security Passed through North Dakota Department of Emergency Management Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4553DR-ND	<u>3,725</u>
Total Federal Financial Assistance			<u>\$ 2,980,591</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of the City of West Fargo, North Dakota (the City) under programs of the federal government for the year ended December 31, 2022. The information is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or fund balance, or cash flows of the City.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The City does not draw for indirect administrative expenses and has not elected to use the 10% de minimus cost rate.



Additional Reports
December 31, 2022

City of West Fargo, North Dakota



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and City Council
City of West Fargo, North Dakota

We have audited, 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 (*Government Auditing Standards*), 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 (the City), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 18, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001, 2022-002, 2022-003, 2022-004, and 2022-005, that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 financial statements. 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's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

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

Fargo, North Dakota
March 18, 2024



Independent Auditor's Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Honorable Mayor and City Council
City of West Fargo, North Dakota

Report on Compliance for the Major Federal Program

Opinion on the Major Program

We have audited the City of West Fargo, North Dakota's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2022. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-006, 2022-007, and 2022-008 to be material weaknesses.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota
March 18, 2024

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	No
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	No
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes

Identification of major programs:

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing</u>
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

**2022-001 Material Journal Entries
Material Weakness**

Criteria – A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements.

Condition – During the course of our engagement, we proposed numerous material audit adjustments which would not have been identified as a result of the City’s existing internal controls, and therefore could have resulted in a material misstatement of the City’s financial statements. These adjustments include the recognition of the changes in the net pension and net OPEB liabilities and related deferred inflows and outflows of resources under GASB Statements No. 68 and 75; the implementation of GASB Statement No. 87, *Leases*; the deferral of grant proceeds received but not yet earned, and to beginning fund balance amounts not agreeing to the previously issued financial statements.

Cause – The City does not have an internal control system designed to identify all necessary adjustments.

Effect – This control deficiency could result in a material misstatement to the financial statements that would not be prevented or detected.

Recommendation – A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisory levels.

View of Responsible Officials – There is no disagreement with the audit finding.

2022-002 Preparation of Financial Statements, including the Schedule of Expenditures of Federal Awards
Material Weakness

Criteria – A good system of internal accounting control contemplates an adequate system an adequate system for internally preparing the City’s financial statements, including the schedule of expenditures of federal awards.

Condition – The City does not have an internal control system designed to provide for the preparation of the financial statements, including the schedule of expenditures of federal awards, being audited. The auditors were requested to, and did, draft the financial statements, including the schedule of expenditures of federal awards and accompanying notes to the financial statements. This included formulating the proposal of necessary adjusting journal entries to convert the fund financial statements in accordance with GASB Statements No. 34, 68, 75, and 87.

Cause – The City does not have an internal control system designed to provide for the preparation of the financial statements, including the schedule of expenditures of federal awards, being audited.

Effect – The disclosures in the financial statements could be incomplete.

Recommendation – It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

View of Responsible Officials – There is no disagreement with the audit finding. Due to cost constraints, the City will continue to have the auditor’s draft the financial statements, including the schedule of expenditures of federal awards and accompanying notes to the financial statements.

2022-003 Segregation of Duties
Material Weakness

Criteria – A good system of internal control requires an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the authorization (approval), custody of assets (check signers), record keeping and reconciliation functions. Additionally, appropriate checks and balances should be present when processing and approving payroll functions.

Condition – The City does not have enough staff to adequately separate duties in cash receipts, cash disbursements, payroll and related liabilities, and general ledger maintenance and reconciliation. Certain employees have the ability to perform incompatible responsibilities such as new vendor creation, check writing, and payroll changes.

Cause – There is a limited amount of office employees involved in the internal control process. Additionally, the City experienced turnover and vacancies in several positions within the accounting and finance department during the year ended December 31, 2022, and throughout the audit period.

Effect – Inadequate segregation of duties could adversely affect the City's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions. Additionally, inadequate controls over payroll functions could lead to improper or unapproved payroll disbursements.

Recommendation – The accounting functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the City. Segregation of authorization, custody of assets, record keeping, account reconciliations, and payroll functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

Views of Responsible Officials – There is no disagreement with the audit finding.

**2022-004 Material Restatement for Corrections of Errors
Material Weakness**

Criteria – An effective system of internal control provides for the detection and correction of errors on a timely basis.

Condition – Restatements were made for material utility billing errors resulting in understated accounts receivables and utility revenues in prior years, unrecorded prepaid expenses/expenditures resulting in understated prepaid expenses/expenditures and overstated expenses/expenditures in prior years, and improperly capitalized capital assets in the prior year, resulting in overstated capital assets and depreciation expense in the prior year.

Cause – The City does not have an internal control system designed to verify the accuracy of utility billing rates, utility usage amounts inputs, and capital asset additions.

Effect – The City is exposed to risk of loss of revenues from incorrect billings. The City's financial statements may have material misstatements that would not be identified and corrected on a timely basis.

Recommendation – The City should review its internal control processes surrounding the utility billing function and ensure that there are adequate controls for verifying the accuracy of utility billing rates and usage. The City should review its internal control processes surrounding prepaid expenses/expenditures and capital asset additions and ensure that there are adequate controls for identifying prepaid expenses/expenditures and capital asset additions.

Views of Responsible Officials – There is no disagreement with the audit finding.

2022-005 Lack of Timely Bank Reconciliations
Material Weakness

Criteria – A good system of internal accounting control contemplates an adequate system for the timely completion of the monthly bank reconciliations.

Condition – During the course of our engagement, it was noted that monthly bank reconciliations were not being completed in a timely manner. During the planning phase of the audit, it was discovered that reconciliations were approximately six months behind. The December 31, 2022 bank reconciliations were not completed until August 2023.

Cause – The City does not have an internal control system designed to ensure the timely completion of the monthly bank reconciliations.

Effect – This deficiency could result in a misstatement to the financial statements that would not be prevented or detected in a timely manner.

Recommendation – A process should be put in place to ensure that the monthly bank reconciliations are done timely, likely in a timeframe where they are completed within two weeks of month-end.

Views of Responsible Officials – There is no disagreement with the audit finding.

Section III – Federal Award Findings and Questioned Costs

**2022-006 Department of the Treasury, Passed through North Dakota Office of Management and Budget
Federal Financial Assistance Listing 21.027
COVID-19 – Coronavirus State and Local Fiscal Recovery Funds**

**Activities Allowed or Unallowed
Material Weakness in Internal Control over Compliance**

Criteria – A good system of internal accounting control contemplates an adequate system for review of the allocation of payroll expenditures to federal awards.

Condition – During the course of our engagement, we noted that the City has no formal review process for the allocation of payroll costs to federal awards, which could result in a material misstatement of the City's schedule of expenditures of federal awards.

Cause – The City does not have an internal control system designed to review the allocation of payroll costs to federal awards.

Effect – This deficiency could result in a misstatement to the financial statements and noncompliance with federal awards that would not be prevented or detected.

Questioned Costs – None reported.

Context/Sampling – A non-statistical sample of 60 transactions out of a population over 250 total transactions were selected for testing, which accounted for \$2,217,102 of \$2,774,746 of federal program expenditures.

Repeat Finding from Prior Year(s) – No.

Recommendation – A thorough review and reconciliation of the allocation of payroll costs to federal awards should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

Views of Responsible Officials – There is no disagreement with the audit finding.

**2022-007 Department of the Treasury, Passed through North Dakota Office of Management and Budget
Federal Financial Assistance Listing 21.027
COVID-19 – Coronavirus State and Local Fiscal Recovery Funds**

**Procurement, Suspension, and Debarment
Material Weakness in Internal Control Over Compliance**

Criteria – Uniform Guidance and 2 CFR sections 200.318 through 200.326 set forth the procurement standards non-federal entities other than states must follow when operating federal programs and the procurement procedures required.

Condition – In our testing of procurement, suspension, and debarment it was identified that the City did not have a written policy on procurement that satisfied the requirements of 2 CFR sections 200.318 through 200.326.

Cause – Lack of oversight, awareness, or understanding of all of the specific requirements under the Uniform Guidance and applicable CFR sections, and controls were not adequately designed to ensure compliance with all of these requirements.

Effect – A lack of compliant policies increases the overall risk of non-compliance.

Questioned Costs – None reported.

Context/Sampling – Overall procurement policy.

Repeat Finding from Prior Years – Yes, prior year finding 2021-003.

Recommendation – We recommend that management establish a written policy that is in compliance with all of the procurement requirements for federal programs as identified in 2 CFR sections 200.318 through 200.326 and maintain adequate supporting documentation and records to document history and methods of procurement and the procedures performed to comply with these CFR sections.

Views of Responsible Officials – There is no disagreement with the audit finding.

**2022-008 Department of the Treasury, Passed through North Dakota Office of Management and Budget
Federal Financial Assistance Listing 21.027
COVID-19 – Coronavirus State and Local Fiscal Recovery Funds**

**Reporting
Material Weakness in Internal Control over Compliance**

Criteria – Recipients of federal financial assistance through the Coronavirus State and Local Fiscal Recovery Funds program were required to submit an annual Project and Expenditure Report showing amounts expended in the current period and the cumulative expenditures for the award.

Condition – The amounts reported as expended in the current period and cumulative expenditures for the award did not agree with the amounts supported by the City's accounting records.

Cause – The City does not have an internal control system designed to provide for the accurate completion and review of the Project and Expenditure Report.

Effect – The Project and Expenditure Report that was submitted does not accurately report the amounts expended during the current period and cumulative expenditures under the award.

Questioned Costs – None reported.

Context/Sampling – The entire population of 1 report was selected for testing.

Repeat Finding from Prior Year(s) – No.

Recommendation – The City should review its internal control over compliance processes surrounding the reporting function to ensure that reports are accurately prepared and reviewed for agreement with the accounting records before they are submitted.

Views of Responsible Officials – There is no disagreement with the audit finding.



Management's Response to Auditor's Findings:
Summary Schedule of Prior Audit Findings and
Corrective Action Plan
December 31, 2022

Prepared by Management of
City of West Fargo, North Dakota

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West Fargo, ND 58078

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westfargond.gov

Finding 2021-001 Material Journal Entries

Initial Fiscal Year Finding Occurred: 2019

Finding Summary: During the course of the engagement numerous material audit adjustments were proposed by Eide Bailly LLP.

Status: Ongoing. See finding 2022-001.

Finding 2021-002 Preparation of Financial Statements

Initial Fiscal Year Finding Occurred: 2018

Finding Summary: The auditor assists management in preparing the financial statements that are presented, including note disclosures.

Status: Ongoing. See finding 2022-002.

Finding 2021-003 Procurement, Suspension, and Debarment

Federal Agency Name: Department of Transportation

Pass-Through Entity: State of North Dakota Department of Transportation

Assistance Listing Number: 20.205

Program Name: Highway Planning and Construction

Initial Fiscal Year Finding Occurred: 2021

Finding Summary: The City did not have a written policy on procurement that satisfied the requirements of 2 CFR sections 200.318 through 200.326.

Status: Ongoing. See finding 2022-007



**Finding 2022-001 Material Journal Entries
Material Weakness**

Finding Summary: During the course of the engagement, the auditor proposed numerous material audit adjustments which would not have been identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements. These adjustments include the recognition of the changes in the net pension and net OPEB liabilities and related deferred inflows and outflows of resources under GASB Statements No. 68 and 75; the implementation of GASB Statement No. 87, *Leases*; the deferral of grant proceeds received but not yet earned, and to beginning fund balance amounts not agreeing to the previously issued financial statements.

Corrective Action Plan: A thorough review and reconciliation of accounts in each fund will take place prior to the beginning of the audit. The City has established an internal control policy to document the monthly review of the financial statements by the City Commission.

Responsible Individuals: Dustin Scott, City Administrator

Anticipated Completion Date: Ongoing

**Finding 2022-002 Preparation of Financial Statements, including Schedule of Expenditures of Federal
Awards
Material Weakness**

Finding Summary: The City does not have an internal control system designed to provide for the preparation of the financial statements, including the schedule of expenditures of federal awards, being audited. The auditors were requested to, and did, draft the financial statements, including the schedule of expenditures of federal awards and accompanying notes to the financial statements. This included formulating the proposal of necessary adjusting journal entries to convert the fund financial statements in accordance with GASB Statements No. 34, 68, 75, and 87.

Corrective Action Plan: It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements and accompanying notes. We requested that our auditors, Eide Bailly LLP, prepare the financial statements and the accompanying notes to the financial statements as a part of their annual audit. We have designated a member of management to review the drafted financial statements and accompanying notes, including the schedule of expenditures of federal awards.

Responsible Individuals: Dustin Scott, City Administrator

Anticipated Completion Date: Ongoing



**Finding 2022-003 Segregation of Duties
Material Weakness**

Finding Summary: The City does not have enough staff to adequately separate duties in cash receipts, cash disbursements, payroll and related liabilities, and general ledger maintenance and reconciliation. Certain employees have the ability to perform incompatible responsibilities such as new vendor creation, check writing, and payroll changes.

Corrective Action Plan: The City experienced significant turnover within the accounting and finance department during the year. When the department is fully staffed, positions will be evaluated to ensure that no one individual has incompatible responsibilities.

Responsible Individuals: Dustin Scott, City Administrator

Anticipated Completion Date: December 31, 2023

**Finding 2022-004 Material Restatement for Correction of Errors
Material Weakness**

Finding Summary: Restatements were made for material utility billing errors resulting in understated accounts receivables and utility revenues in prior years, unrecorded prepaid expenses/expenditures resulting in understated prepaid expenses/expenditures and overstated expenses/expenditures in prior years, and improperly capitalized capital assets in the prior year, resulting in overstated capital assets and depreciation expense in the prior year.

Corrective Action Plan: The City will review its internal controls surrounding utility billings, capital asset additions, and prepaid expenditures/expenses to ensure that these account balances are complete and accurate.

Responsible Individuals: Dustin Scott, City Administrator

Anticipated Completion Date: December 31, 2023



Finding 2022-005 Lack of Timely Bank Reconciliations
Material Weakness

Finding Summary: During the course of the engagement, it was noted that monthly bank reconciliations were not being completed in a timely manner. During the planning phase of the audit, it was discovered that reconciliations were approximately six months behind. The December 31, 2022 bank reconciliations were not completed until August 2023.

Corrective Action Plan: The City will review its bank reconciliation processes to ensure that they are completed in a timely manner, ideally within two weeks of month-end.

Responsible Individuals: Dustin Scott, City Administrator

Anticipated Completion Date: December 31, 2023

Finding 2022-006 Activities Allowed or Unallowed
Material Weakness in Internal Control Over Compliance

Federal Agency Name: Department of Treasury

Pass-Through Entity: North Dakota Office of Management and Budget

Assistance Listing Number: 21.027

Program Name: COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

Finding Summary: During the course of the engagement, it was noted that the City has no formal review process for the allocation of payroll costs to federal awards, which could result in a material misstatement of the City's schedule of expenditures of federal awards.

Corrective Action Plan: The City will review its internal control processes over compliance to ensure that payroll costs allocated to federal awards are adequately reviewed.

Responsible Individuals: Dustin Scott, City Administrator

Anticipated Completion Date: December 31, 2023



**Finding 2022-007 Procurement, Suspension, and Debarment
Material Weakness in Internal Control Over Compliance**

Federal Agency Name: Department of Treasury

Pass-Through Entity: North Dakota Office of Management and Budget

Assistance Listing Number: 21.027

Program Name: COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

Finding Summary: In the testing of procurement, suspension, and debarment it was identified that the City did not have a written policy on procurement that satisfied the requirements of 2 CFR sections 200.318 through 200.326.

Corrective Action Plan: The City has adopted a procurement policy satisfying the requirements of 2 CFR sections 200.318 through 200.326 as of January 8, 2024.

Responsible Individuals: Dustin Scott, City Administrator

Anticipated Completion Date: January 8, 2024

**Finding 2022-008 Reporting
Material Weakness in Internal Control Over Compliance**

Federal Agency Name: Department of Treasury

Pass-Through Entity: North Dakota Office of Management and Budget

Assistance Listing Number: 21.027

Program Name: COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

Finding Summary: The amounts reported as expended in the current period and cumulative expenditures for the award did not agree with the amounts supported by the City's accounting records.

Corrective Action Plan: The City will thoroughly review the Project and Expenditure Report before submission. Subsequent reporting for this award corrected the amounts previously reported.

Responsible Individuals: Dustin Scott, City Administrator

Anticipated Completion Date: December 31, 2023

