

*In the opinion of Bond Counsel, the interest to be paid on the Bonds is not includable in gross income of the recipient for United States or State of North Dakota income tax purposes (other than the franchise tax measured by net income imposed on financial institutions by North Dakota Century Code, Chapters 57-35.3) See "TAX EXEMPTION: contained herein.*

## PRELIMINARY OFFICIAL STATEMENT

(Dated October 1, 2012)

**FARGO PUBLIC SCHOOL DISTRICT No. 1**  
**CASS COUNTY, NORTH DAKOTA**  
**\$25,425,000\* Limited Tax Refunding Bonds, Series 2012**

BONDS DATED: DATE OF DELIVERY

PRINCIPAL DUE: MAY 1, AS BELOW

The \$25,425,000\* Limited Tax Refunding Bonds, Series 2012 (the "Bonds") are being issued by the Fargo Public School District No. 1, North Dakota (the "District") pursuant to the provisions of Section 21-03-07, 21-03-09 and 21-03-14 of the North Dakota Century Code, for the purpose of refunding the Limited Tax Bonds, Series 2004B (the "Refunded Bonds"). The Bonds are limited obligations of the District payable from the building fund levy, which may be levied upon all taxable property located in the District at the rate of 26.4 mills (see "Security and Source of Payment" herein).

The Bonds will be issued as fully registered Bonds without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases may be made in book entry form only, in the principal amount of \$5,000, and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. (See "Book Entry system" herein). Principal on the Bonds is payable annually, commencing on May 1, 2013, and interest, payable semiannually on each May 1 and November 1 commencing May 1, 2013, at the rates set forth below, will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein.

The following principal payments will be due on May 1 followed by its corresponding year, commencing May 1, 2013:

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2013	\$1,430,000			2019	\$2,650,000		
2014	\$2,010,000			2020	\$2,770,000		
2015	\$2,160,000			2021	\$2,880,000		
2016	\$2,290,000			2022	\$2,990,000		
2017	\$2,415,000			2023	\$1,295,000		
2018	\$2,535,000						

The Bonds maturing in 2021 and thereafter shall be subject to redemption and prepayment, at the option of the District, on May 1, 2020, and any date thereafter, by lot within any maturity, at par plus accrued interest.

**NOT BANK QUALIFIED:** The Bonds will not be designated as "Qualified Tax-Exempt Obligations."

**LEGAL OPINION:** Arntson Stewart Wegner PC, Fargo North Dakota

**PAYING AGENT/REGISTRAR:** U.S. Bank National Association, St. Paul, Minnesota

(THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION).





# FARGO PUBLIC SCHOOL DISTRICT No. 1

CASS COUNTY, NORTH DAKOTA

**\$24,425,000\* Limited Tax Refunding Bonds, Series 2012**

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## **FARGO PUBLIC SCHOOL DISTRICT No. 1**

### **DISTRICT BOARD MEMBERS and ADMINSTRATIVE CABINET**

<b><u>Board Member</u></b>	<b><u>Position</u></b>	<b><u>Term Expires</u></b>
Jim Johnson	President	2016
Paul Meyers	Vice President	2016
John Strand	Member	2016
Robin Nelson	Member	2016
Linda Coates	Member	2014
Rick Steen	Member	2014
Dinah Goldenberg	Member	2014
Rusty Papachek	Member	2014
Kris Wallman	Member	2014

<b><u>Administrators</u></b>	<b><u>Position</u></b>
Jeff Schatz	Superintendent
Bob Grosz	Assistant Superintendent
Nancy Jordheim	Assistant Superintendent
Broc Lietz	Business Manager
AnnMarie Campbell	Executive Assistant

#### **Arntson Stewart Wegner PC**

Bond Counsel  
Fargo, North Dakota

#### **OS Advisors Inc.**

Financial Advisor  
Fargo, North Dakota

#### **U.S. Bank National Association**

Paying Agent  
St. Paul, Minnesota

#### **U.S. Bank National Association**

Escrow Agent  
St. Paul, Minnesota



## INTRODUCTION TO THE OFFICIAL STATEMENT

*The following information is furnished solely to provide limited introductory information regarding the \$25,425,000\* Limited Tax Refunding Bonds, Series 2012 of Fargo Public School District No. 1 (the "District"), and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the appendices hereto.*

<b>Issuer:</b>	Fargo Public School District No. 1, North Dakota	
<b>Authority for Issuance:</b>	The Bonds are being issued pursuant to Section 21-03-07, 21-03-09 and 21-03-14 of the North Dakota Century Code.	
<b>Security:</b>	The Bonds will be payable solely from the 20 mill levy authorized by North Dakota Century Code Sections 57-15-16 and 57-15-17 and the 15 mill levy authorized by North Dakota Century Code Section 15.1-09-49 (together the "School Building Fund Levy").	
<b>Purpose:</b>	<p>The proceeds of the Bonds will be used for the purpose of (i) effecting an advanced refunding of the outstanding maturities of the District's Limited Tax Bonds, Series 2004B, dated June 1, 2004 (the "Refunded Bonds") and (ii) paying cost of issuance related to the issuance of the Bonds.</p> <p>The purpose of the Refunded Bonds was used to implement the first phase of the long-range facilities plan including the construction of a new middle school and a new elementary school, including gymnasiums, and remodeling of or additions to other school buildings and to furnish and equip the facilities.</p>	
<b>Principal Payable:</b>	Annually on May 1, commencing on May 1, 2013.	
<b>Interest Payable:</b>	Semi-annually on May 1 and November 1, commencing May 1, 2013.	
<b>Redemption Provisions:</b>	Bonds maturing in years 2021 and thereafter shall be subject to redemption and prepayment, at the option of the District, on May 1, 2020, and any date thereafter, in any order of maturities and by lot within any maturity, at par plus accrued interest.	
<b>Denominations:</b>	Individual purchases may be made in \$5,000 or multiples thereof of a single maturity.	
<b>Form:</b>	The Bonds will be issued as book-entry only securities through Depository Trust Company ("DTC").	
<b>Record Date:</b>	The 15 <sup>th</sup> day of the month preceding the payment date.	
<b>Tax Status:</b>	The Bonds are generally exempt from federal income and state income taxes (see "Tax Exemption and Related Considerations" herein).	
<b>Bank Qualification:</b>	The Bonds will <u>not</u> be designated "Qualified Tax-Exempt Obligations".	
<b>Professional Consultants:</b>	<i>Financial Advisor:</i>	OS Advisors Inc. Fargo, North Dakota
	<i>Bond Counsel:</i>	Arntson Stewart Wegner PC Fargo, North Dakota
	<i>Paying Agent/Registrar:</i>	U.S. Bank National Association St. Paul, Minnesota

\*Subject to Change



## INTRODUCTION TO THE OFFICIAL STATEMENT (continued)

*Escrow Agent:* U.S. Bank National Association  
St. Paul, Minnesota

**Legal Matters:** Validity, tax exemption, and legal matters incident to the authorization and issuance of the Bonds are subject to the opinion of Arntson Stewart Wegner PC, Bond Counsel. The opinion will be substantially in the form set forth in Appendix B attached hereto.

**Dated Date/Delivery Date:** The Bonds will be available for delivery on or about November 1, 2012.\*

**Limitations on Offering or Reoffering Securities:** No dealer, broker, salesperson or other person has been authorized by the District, the Financial Advisor or the Underwriters to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such information and representations must not be relied upon as having been authorized by the District, the Financial Advisor or the Underwriters. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Questions regarding the Bonds or the Official Statement can be directed to and additional copies of the Official Statement, the District's financial reports and the Resolution may be obtained from OS Advisors Inc., 1310 South Ninth Street, Fargo, North Dakota 58103 (218/230-4300 – phone, 701/205-3906 - fax), the District's financial advisor.

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## DESCRIPTION OF THE BONDS

### ***Introduction***

The purpose of this Official Statement (including all appendices) is to set forth certain information relating to the sale of the Bonds to be issued by the District. All references to and summaries of certain provisions of the laws of the State of North Dakota and any other documents referred to herein do not purport to be complete and are qualified in their entirety by reference to the complete provisions thereof.

### ***Authority and Purpose***

The Bonds are being issued by the District pursuant to and full conformity with the Constitution and laws of the State of North Dakota, including Chapters 21-03-07, 21-03-09 and 21-03-14 of the North Dakota Century Code, as amended. The purpose of the Limited Tax Refunding Bonds, Series 2012 is to advance refund the 2013-2023 maturities of the District's Limited Tax Bonds, Series 2004B.

<u>Dated</u>	<u>Type of Bond</u>	<u>Maturities Outstanding</u>	<u>Maturities Refunded</u>	<u>Amount Refunded</u>	<u>Call Date</u>	<u>Call Price</u>
6/1/2004	Limited Tax	2013-2023	2013-2023	\$23,470,000	5/1/14	100%

The Limited Tax Bonds, Series 2004B were issued to implement the first phase of the long-range facilities plan including the construction of a new middle school and a new elementary school, including gymnasiums, and remodeling of or additions to other school buildings and to furnish and equip the facilities.

### ***Security and Source of Payment***

The Bonds, unless paid from other sources, are payable as to both principal and interest from the School Building Fund Levy to which the District has irrevocably pledged that portion of the tax levies authorized by North Dakota Century Code 57-15-16, 57-15-17 and 15.1-09-49 necessary for such principal and interest payments. The Bonds are payable solely from the School Building Fund Levy.

The District's taxable valuation for taxes payable in 2012 is \$252,845,970 (See Table 18 herein). A 26.4 mill levy based upon this valuation, if collected in full, would produce \$6,675,134 annually. The maximum annual debt service payable from the School Building Fund Levy in the period during which the Bonds will be outstanding is \$6,242,400 in January 1, 2024 (See Table 11 herein). Thus the lowest projected debt service coverage under these assumptions is 1.07X. The School Building Fund Levy may not be repealed or discontinued so long as the Bonds or other debt payable from the proceeds of the School Building Fund Levy are outstanding.

### ***Additional Bonds***

The District reserves the right to issue additional bonds payable from the School Building Fund Levy, provided such tax levies will be sufficient for the payment of all principal and interest, as the same become due, on the Bonds previously issued against the special levy and such additional bonds to be issued against the special levy.

### ***Redemption Provisions***

#### **Optional Redemption**

Bonds maturing in 2021 and thereafter shall be subject to redemption and prepayment, at the option of the District, on May 1, 2020, and any date thereafter, in any order of maturities and by lot within any maturity, at par plus accrued interest. Notice of redemption shall be given by registered mail to the registered owner of the Bonds not less than 30 days prior to such redemption date.



## Mandatory Sinking Fund Redemption

The purchaser may consolidate consecutive maturities of the Bonds into one or more term bonds having a stated maturity on the last maturity so consolidated and such term bonds shall be redeemed on the dates and the amounts shown on the cover for the maturities so consolidated.

The following principal payments will be due on May 1 followed by its corresponding year, commencing May 1, 2013:

2013 - \$1,430,000*	2016 - \$2,290,000*	2019 - \$2,650,000*	2022 - \$2,990,000*
2014 - \$2,010,000*	2017 - \$2,415,000*	2020 - \$2,770,000*	2023 - \$1,295,000*
2015 - \$2,160,000*	2018 - \$2,535,000*	2021 - \$2,880,000*	

## Interest Computation

Interest on the Bonds is payable semi-annually on each May 1 and November 1, commencing May 1, 2013, to registered owners of the Bonds appearing of record in the bond register as of the close of business on the fifteenth (15<sup>th</sup>) day (whether or not a business day) of the calendar month next preceding such interest payment date (the "Record Date"). Interest on the Bonds will be computed on a 360-day year and a 30-day month basis. Payments coming due on a non-business day will be paid the following business day.

## Sources and Uses of Funds

Table 1 presents the preliminary estimated sources and used of funds for the Bonds is shown below:

**Table 1**  
**Sources and Uses of Funds**

<b>Sources of Funds</b>	
<u>Par Amount of Bonds</u>	<u>\$0.00</u>
<b>Total Sources</b>	<b>\$0.00</b>
<b>Use of Funds</b>	
Deposit to Escrow Fund	\$0.00
Cost of Issuance**	0.00
<u>Rounding Amount</u>	<u>0.00</u>
<b>Total Uses</b>	<b>\$0.00</b>

*\*\*Includes paying agent fee, various attorneys' fees, Advising fees, Underwriters fees, and other miscellaneous fees and expenses related to the Limited Tax Refunding Bonds, Series 2012*

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## **Book-Entry Only System**

The information contained in the following paragraphs of this subsection “Book-Entry Only System” has been extracted from a schedule prepared by Depository Trust Company (“DTC”) entitled “SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY ONLY ISSUANCE.” The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the District believes to be reliable, but the District take no responsibility for the accuracy thereof.

1. The Depository Trust Company (“DTC”), New York, New York will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered certificate will be issued for the aggregate principal amount of (of that security) and will be deposited with DTC.
2. DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations (“Direct Participants”). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.
3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Certificate (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.
4. To facilitate subsequent transfers, all Bonds deposited by Participants with DTC will be registered in the name of DTC’s partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. will effect no change in beneficial ownership. DTC will have no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records will reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.
5. Redemption notices shall be sent to Cede & Co. If less than all of the Obligations within an issue are being redeemed DTC’s practice is determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
6. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.



7. Neither DTC or Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC will mail an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer or the Agent, disbursements of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.
9. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the District. Under such circumstances, in the event that a successor securities depository is not obtained, certificates for the Bonds are required to be printed and delivered.
10. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

### **Continuing Disclosure**

So that information will be available in order to assist the Underwriters in complying with SEC Rule 15c2-12 (the "Rule"), pursuant to the Bond Resolution, the District has entered into an undertaking (the "Undertaking") for the benefit of the beneficial owners of the Bonds. The Undertaking requires the District to provide certain financial information and operating data relating to the District by no later than 180 days following the end of the District's fiscal year (the "Annual Report"), commencing with the fiscal year ended June 30, 2013, and to provide notices of certain events enumerated in the Rule for the benefit of the holders of the Bonds. The Annual Report is to be filed with the MSRB through its Electronic Municipal Market Access system (EMMA) at [www.emma.msrb.org](http://www.emma.msrb.org). The notices of material event are to be filed with MSRB. The specific nature of the Undertaking is set forth in the Continuing Disclosure Certificate to be executed and delivered by the District at the time the Bonds are delivered in substantially the form attached hereto as Appendix C.

The District has never failed to comply in all material respects with any previous undertakings under the Rule to provide annual reports or notices of material events. A failure by the District to comply with the Undertaking will not constitute an event of default on the Bonds (although holders will have any available remedy at law or in equity). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

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## DISTRICT INFORMATION

### **Description of the District and Area**

The District is located in the City of Fargo, North Dakota (the “City”), the largest city in North Dakota and the county seat for Cass County. The City was organized in 1875 and operates under a home rule charter. The City is governed by a Mayor and four City Commissioners, who serve four-year terms. The City is home to 105,549 residents as of the 2010 census and is laid out over 49 square miles of land. The City sits between West Fargo and Moorhead which is across the Red River in Minnesota. The City is served by two interstate highways, Interstate 94 running east & west and Interstate 29 running north & south.

This District includes primarily the City of Fargo. The Fargo Public Schools was first established in 1872 and employs a staff of approximately 1,716 permanent employees of which approximately 946 are teachers. As of the 2011 – 2012 school year, the District served 10,611 students. The District’s facilities include three high schools, an alternative community school, three middle-level schools, twelve grade schools, three regional treatment facilities, and the Trollwood Performing Arts School. The community benefits from five post-secondary institutions which serve the educational needs of the community.

### **Enrollment Trends**

Table 2 presents historical enrollments for the District for the last 5 years and its current enrollment for its school year of 2012-2013.

**Table 2**  
**Enrollments**

<u>Year</u>	<u>Enrollment</u>
2012/13*	10,860
2011/12	10,611
2010/11	10,462
2009/10	10,462
2008/09	10,459
2007/08	10,514

\*As of September 2012

Source: Fargo Public Schools

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## Governance

The District operates and is provided governance under a nine person Board who are elected for four-year terms without term limits. The Board meets on second and fourth Tuesday of each month at 5:30 p.m. in the Board Room of the Administration Building unless otherwise posted. The Board has developed eight committees focused on: Calendar, Communications, Community Development, Governance, Governmental Affairs, Health Insurance, Negotiations, and Planning. Below is a list of the current board members and the administrative cabinet for the District.

<b><u>Board Member</u></b>	<b><u>Position</u></b>	<b><u>Term Expires</u></b>
Jim Johnson	President	2016
Paul Meyers	Vice President	2016
John Strand	Member	2016
Robin Nelson	Member	2016
Linda Coates	Member	2014
Rick Steen	Member	2014
Dinah Goldenberg	Member	2014
Rusty Papachek	Member	2014
Kris Wallman	Member	2014

<b><u>Administrators</u></b>	<b><u>Position</u></b>
Jeff Schatz	Superintendent
Bob Grosz	Assistant Superintendent
Nancy Jordheim	Assistant Superintendent
Broc Lietz	Business Manager
AnnMarie Campbell	Executive Assistant

## Pension Plans

### **North Dakota Teachers' Fund For Retirement**

The District contributes to the North Dakota Teachers fund for Retirement (TFFR); a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. TFFR provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with chapter 15-39.1 of the North Dakota Century Code. TFFR issues a publicly available financial report that includes financial statements and required supplementary information for TFFR. The report is located on the following website, [www.nd.gov/rio](http://www.nd.gov/rio), or may be obtained by writing to Teacher's Fund for Retirement, P.O. Box 7100, Bismarck, North Dakota, 58507-71003.

Plan members are required to contribute 9.75% of their annual covered salary and the District is required to contribute 10.75% of the teacher's salary. The contribution requirements of plan members and the District are established and may be amended by the State legislature. The District's required and actual contributions to TFFR for the fiscal years ending June 30, 2011, 2010, and 2009 were \$5,104,030, \$4,558,136 and \$4,327,724, respectively, equal to the required contributions for the year.

*(The remainder of this page is intentionally left blank.)*



## **North Dakota Public Employees Retirement System**

The District contributes to the North Dakota Public Employees' Retirement System (NDPERS); a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. NDPERS provides for retirement, disability and death benefits. Benefit and contribution provisions are administered in accordance with Chapter 54-53 of the North Dakota Century Code. NDPERS issues a publicly available financial report that includes financial statements and required supplementary information for NDPERS. That report may be obtained by writing to NDPERS, 400 E. Broadway, Suite 505, P.O. Box 1214, Bismarck, North Dakota, 58502-1214 or on the NDPERS website at [www.nd.gov/ndpers](http://www.nd.gov/ndpers).

Plan members are required to contribute 5% of their annual salary. The school district is required to contribute 5.12% of the employee's share. In addition, the District is required to contribute 1.14% of each participating employee's gross wage to a prefunded retiree health insurance program. The contribution requirements of plan members and the school district are established and may be amended by the State legislature. The District's required and actual contributions to NDPERS for the fiscal years ending June 30, 2011, 2010, and 2009 were \$906,852, \$838,320, and \$794,935, respectively, equal to the required contributions for the year.

## ***Post Retirement Benefits***

### **Group Health Plan**

In addition to TFFR and NDPERS, the District provides post retirement health care benefits, in accordance with Board Policy 5450, to all full time employees who retired prior to June 30, 2001. To be eligible for the plan an employee who retires before the age of 65 and after their 55th birthday must have 15 years of continuous service prior to the date of retirement. An employee who reaches the Rule of 85 as defined by TFFR or Public Employee Retirement System prior to his/her 55th birthday will be treated in the same manner as employees who have reached the age of 55 for the purpose of Board Policy 5450. The employee may retain membership in the District's group health and life insurance plans until age 65 with premiums paid by the District with the retiree contributing to the cost of the premiums at the employee participation level in effect for all active employees. Expenditures for post-retirement health care benefits are recognized as retirees report claims. Currently 11 retirees remain covered under the plan. The District has estimated a cost of \$140,000 for the post-employment benefit for the retiree's health plan. This amount has been designated in the Internal Service Fund. Also the District has designated \$50,000 of the fund for workers compensation coverage.

### **Early Retirement Agreement**

The District offers early retirement payments to employees under Administrative Policy 5452 "Longevity Recognitions." Under Administrative Policy 5452 a regular District employee will be eligible for a one-time payment based in the number of accumulated sick leave days, not to exceed 180 days, at a rate of 1/180 of the MA lane, step 4. Administrators may accumulate up to 246 days at a rate of 1/246 of the MA + 45 lane, step 4, of the Teacher's Salary Schedule. At 15 years of service this payment will be 80% of that amount. For each subsequent year the payment will increase 2% through the 25th year of service, at which time the employee will receive 100% of that payment. To be eligible for the plan an employee must have 15 years of continuous service to the District, and have been determined eligible for full retirement benefits from either NDPERS or TFFR. For the year ended June 30, 2011 the District had 46 employees who received this benefit for a cost to the District of \$1,611,398.

## ***Labor Agreements***

Fargo Public School District's current labor agreements are for the school years 2011 – 2012 and 2012 – 2013. The District will start negotiating its new labor contracts in January/February of 2013.



## **Recent Developments**

In June of 2012 the Fargo Public Schools made a \$286,000 bond payment to for bonds issued by Clay County for the construction of Trollwood Performing Arts School in Moorhead, Minnesota ("TPAS"). Subsequently in August of 2012 the District paid off the Clay County Bonds in the amount of approximately \$1.8 million. The District as part of a negotiated agreement with Bluestem Center for the Arts, the operating entity of TPAS, had agreed to help cover any operating shortfalls. Bluestem was unable to raise sufficient donations to cover future bond payments.

In addition to the dollars that the District has used to pay off the debt of TPAS, the District also has a Note Receivable from Bluestem in the amount of \$2,774,000. Currently the entire amount of \$2,774,000 is classified as an Allowance for Doubtful Accounts on the District's financials.

Bluestem is currently no longer operating and the District has agreed to operate TPAS until a suitable management company can be found. Currently, the District has budgeted \$250,000 for the current school year for the general operations of the facility. The District will continue to explore ways to recover dollars invested in TPAS.

The District has also budgeted for up to \$2.0 million in its current school year for an addition to Centennial Elementary School. The District at this time has budgeted to use reserves on hand to pay for the addition.

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## ECONOMIC AND DEMOGRAPHIC INFORMATION

### **Population**

Table 3 shows the population statistics for the City and Cass County as recorded in the past four censuses.

**Table 3**  
**Population Statistics**

<u>Year</u>	<u>City of Fargo</u>	<u>% Growth</u>	<u>Cass County</u>	<u>% Growth</u>
2010	105,549	16.5%	149,778	21.6%
2000	90,599	22.2%	123,138	19.7%
1990	74,111	20.7%	102,874	16.6%
1980	61,383	15.0%	88,247	19.8%
1970	53,365	14.4%	73,653	10.0%

Source: United States Census Bureau, [www.census.gov](http://www.census.gov).

### **Business and Industry**

Major employers in the Fargo-Moorhead area are shown below in Table 4 below.

**Table 4**  
**Principal Employers**

<u>Employer</u>	<u>Business Sector</u>	<u>Employees</u>
Sanford Health	Healthcare	6,739
North Dakota State University	Education	2,401
Fargo Public Schools	Education	1,638
Blue Cross Blue Shield of N.D./Noridian	Insurance, Medicare/Medicaid Claims	1,345
Case New Holland	Farm & Construction Equipment	1,055
US Bank Service Center	Customer Service	975
Essentia Health	Healthcare	967
Fargo VA Medical Center	Healthcare	870
Microsoft	Software Development	869
West Fargo Public Schools	Education	786
City of Fargo	Government	773
Concordia	Education	750
Minnesota State University Moorhead	Education	735
Moorhead Public Schools	Education	675
Phoenix International Corp.	Electronic Systems	657

Source: Greater Fargo/Moorhead Economic Development Corporation, [www.gfmedc.com](http://www.gfmedc.com)

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## Labor Force and Unemployment Statistics

Table 5 presents annualized average labor force and unemployment rates for the Fargo/Moorhead Metropolitan Statistical Area, and unemployment rates for Cass County, North Dakota and the United State for the past seven years. Information for the State of North Dakota and the United States has been seasonally adjusted.

**Table 5**  
**Unemployment Rates**

<u>Year</u>	<u>Fargo/Moorhead MSA</u>		<u>Cass County</u>	<u>North Dakota</u>	<u>United States</u>
	<u>Labor Force</u>	<u>Unemployment Rate</u>	<u>Unemployment Rate</u>	<u>Unemployment Rate</u>	<u>Unemployment Rate</u>
2011	121,228	3.9%	4.1%	3.5%	8.9%
2010	120,760	4.1%	4.0%	3.8%	9.6%
2009	121,239	4.3%	4.1%	4.1%	9.3%
2008	121,088	2.9%	3.3%	3.1%	5.8%
2007	118,747	2.8%	3.3%	3.1%	4.6%
2006	115,417	2.7%	3.6%	3.2%	4.6%
2005	113,111	2.9%	3.8%	3.4%	5.1%

Source: Job Service North Dakota

## Retail Sales/Buying Income

Table 6 presents statistics comparing the median household effective buying income (“EBI”) and per capita retail sales for the Fargo/Moorhead Metropolitan Statistical Area and for the State of North Dakota for the years 2007 through 2011 as reported in the “Survey of Buying Power/Effective Buying Income Statistics” by Nielsen/Claritas.

**Table 6**  
**Retail Sales/Buying Income**

<u>Year</u>	<u>Effective Buying Income</u>		<u>Per Capita Retail Sales</u>	
	<u>Fargo, ND-MN Metro</u>	<u>State of North Dakota</u>	<u>Fargo, ND-MN Metro</u>	<u>State of North Dakota</u>
2011	\$ 37,723	\$ 36,353	\$ 19,345	\$ 19,678
2010	38,526	37,390	18,408	18,018
2009	37,370	36,655	18,954	19,072
2008	39,215	37,348	20,792	19,842
2007	35,918	36,981	27,475	18,941

Source: Nielsen/Claritas

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## Taxable Sales

Table 7 lists the taxable sales for City of Fargo, Cass County and the State of North Dakota for the years 2007 through 2011.

**Table 7**  
**Taxable Sales**

	<u>City of Fargo</u>	<u>Cass County</u>	<u>North Dakota</u>
2011	\$ 2,228,976,663	\$2,541,766,101	\$16,587,630,185
2010	\$ 2,015,873,567	\$2,290,398,965	\$12,194,928,043
2009	\$ 1,947,114,460	\$2,210,554,224	\$10,289,960,483
2008	\$ 2,010,648,831	\$2,291,371,821	\$10,749,047,358
2007	\$ 1,901,722,132	\$2,167,366,912	\$9,097,173,428

Source: North Dakota State Tax Office

## Transportation

Transportation is provided by local and interstate trucking lines, local bus lines, trains, and local airports. Amtrak provides passenger rail services east and west from the downtown Fargo depot and BNSF Railway Company serves as the world's largest intermodal freight carrier. Local airports in Fargo/Moorhead are Hector International Airport, and Moorhead Municipal Airport. The Hector International Airport is served by Delta Airlines, Allegiant Air, American Eagle and United Express.

## Medical Facilities

Residents of the Fargo/Moorhead area have access to two regional medical centers – Sanford Health and Essentia Health, a Veterans Administration Hospital, as well as a wide array of nursing homes, clinics, and independent practitioners.

The recent merger between Fargo-based MeritCare Health System and Sioux Falls-based Sanford Health created one of the country's largest integrated health care systems. The newly-formed entity expands services, research, education and access to care in the region. Both Sanford Health and Essentia Health provide exceptional general and specialty services, as well as acute care in cancer and cardiovascular health.

Specialized, state-of-the-art offerings include:

- Roger Maris Cancer Center
- Multiple Sclerosis MS Center
- Parkinson's Clinic
- Eating Disorder Institute
- Sanford Heart Center
- Essentia Health Cancer Center
- Pediatric Cardiology Clinic





## FINANCIAL SUMMARY

2011 Market Value (100%):			\$ 5,537,703,891
2011 Assessed Value (50%):			\$ 2,768,851,946
2011 Taxable Value:			\$ 260,244,248
Limited Tax Debt:			\$ 68,425,000*
General Obligation Debt:			\$ 60,000
Lease Obligations:			\$ 22,675,000
Overlapping General Obligation Debt			\$ 214,335,185
Population 2010 Census:			105,549
Area:			49 square miles
<b>Debt Ratios</b>			
	<u>Total</u>	Debt Per Capita <u>(105,549)</u>	% of Market <u>Value</u>
Direct Debt	\$ 91,160,000*	\$ 863.67	1.65%
<u>Overlapping Debt</u>	<u>214,335,185</u>	<u>2,030.67</u>	<u>3.87%</u>
Total	\$ 305,495,185*	\$ 2,894.34	5.52%

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*\*Subject to Change*

## DISTRICT INDEBTEDNESS

### *General Obligation Debt*

Table 8 and 9 below summarize the District's outstanding general obligation debt as of June 30, 2012:

**Table 8**  
**General Obligation Debt by Issue**

<u>Date</u>	<u>Issue</u>	<u>Original Amount</u>	<u>Outstanding Maturities</u>	<u>Interest Rate</u>	<u>Outstanding Amount</u>
4/1/2006	Certificate of Indebtedness	1,485,000	03/2013	3.80%	\$60,000
Total					\$60,000

<u>Year Ending June 30</u>	<u>Certificate of Indebtedness</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$60,000	\$2,280
2014	-	-
2015	-	-
2016	-	-
2017 – 2021	-	-
2022- 2026	-	-
2027 -2031	-	-
<b>Total</b>	<b>\$60,000</b>	<b>\$2,280</b>

### *Limited Tax Debt*

Table 10 below summarizes the District's outstanding Limited Tax debt and Table 11 on the next page provides an annual maturity schedule for such debt as of June 30, 2012.

**Table 10**  
**Limited Tax Debt by Issue**

<u>Date</u>	<u>Issue</u>	<u>Original Amount</u>	<u>Outstanding Maturities</u>	<u>Interest Rate</u>	<u>Outstanding Amount</u>
12/27/2007	Limited Tax School Building	\$ 10,000,000	2026-2027	4.30%	\$ 10,000,000
1/3/2008	Limited Tax School Building	33,000,000	2013-2026	4.00%-5.00%	33,000,000
11/1/2012	Limited Tax School Building	25,425,000*	2013-2023	This Issue	<u>25,425,000*</u>
Total					\$68,425,000*

*\*Subject to Change*

**Table 11**  
**Limited Tax Debt**  
**Annual Maturity Schedule**

<u>Year</u>	<u>Outstanding</u>		<u>This Issue*</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2013	\$1,255,000	\$1,923,638	\$1,430,000	-	-
2014	1,810,000	1,862,338	2,010,000	-	-
2015	1,760,000	1,790,938	2,160,000	-	-
2016	1,720,000	1,721,338	2,290,000	-	-
2017	1,685,000	1,653,238	2,415,000	-	-
2018	1,665,000	1,584,156	2,535,000	-	-
2019	1,660,000	1,512,463	2,650,000	-	-
2020	1,660,000	1,439,838	2,770,000	-	-
2021	1,675,000	1,365,838	2,880,000	-	-
2022	1,705,000	1,285,525	2,990,000	-	-
2023	3,555,000	1,154,025	1,295,000	-	-
2024	5,310,000	932,400	-	-	-
2025	5,580,000	660,150	-	-	-
2026	5,850,000	391,690	-	-	-
2027	<u>6,110,000</u>	<u>131,365</u>	-	-	-
Total	\$43,000,000	\$19,408,936	\$25,425,000	\$	\$

### **Lease Commitments**

The District leases several facilities from the Fargo School District Building Authority. The District is making annual lease payments to the Authority in amounts sufficient to pay bond principal and interest payments. The District's obligation to make lease payments is subject to annual appropriation by the Board. Table 12 below summarizes the District's outstanding lease commitments by issue as of the issuance of the Bonds. Table 13 on the next page provides an annual maturity schedule for the District's outstanding lease payments.

**Table 12**  
**Lease Commitments by Issue**

<u>Date</u>	<u>Pledged Facility</u>	<u>Original Amount</u>	<u>Outstanding Maturities</u>	<u>Interest Rate</u>	<u>Outstanding Amount</u>
2/1/2005	South High and Kennedy Elementary	\$ 23,005,000	2013-2017	4.0%	\$ 2,125,000
4/5/2006	Jefferson Elementary	3,600,000	2012-2016	3.875%-4.05%	1,480,000
4/1/2009	Davies High School Swimming Pool	3,400,000	2013-2024	4.40%-5.20%	3,015,000
5/26/2009	North High School	19,650,000	2013-2020	2.50%-4.00%	<u>16,055,000</u>
Total					\$22,675,000

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*\*Subject of Change*

**Table 13**  
**Lease Commitments**  
**Annual Maturity Schedule**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,340,000	\$ 844,871	\$ 3,184,871
2014	2,545,000	771,083	3,316,083
2015	2,725,000	683,923	3,408,923
2016	2,955,000	588,538	3,543,538
2017	2,760,000	483,178	3,243,178
2018	2,480,000	391,363	2,871,363
2019	2,720,000	291,203	3,011,203
2020	2,975,000	180,903	3,155,903
2021	275,000	59,823	334,823
2022	285,000	46,073	331,073
2023	300,000	31,680	331,680
2024	<u>315,000</u>	<u>16,380</u>	<u>331,380</u>
	\$ 29,110,000	\$ 5,387,178	\$ 61,174,472

### ***Other Leases***

**Operating Leases** - The District has entered into various lease agreements. The Krider building has been leased from T.S. McLaughlin for vehicle and equipment storage, maintenance and a portion of the building is used for the District's print shop. Riverwood Park is being leased for playing fields for football practices and non-varsity football games. Total cost for all the leases were \$112,379 for the year ended June 30, 2012. The future minimum lease payments are as follows:

<u>Year Ending June 30</u>	<u>Krider Building</u>	<u>Riverwood Park</u>	<u>Total</u>
2013	\$104,856	\$ 323	\$105,179
2014	104,856	324	105,180
2015	104,856	324	105,180
2016	104,856	324	105,180
2017-2021	52,428	1,617	54,045
2022-2026	-	1,617	1,617
2027-2031	-	108	108
<b>Total</b>	<b>\$471,852</b>	<b>\$5,606</b>	<b>\$483,689</b>

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## Debt Limitations

According to Article X, Section 15 of the North Dakota Constitution and Section 21-03-04 of the North Dakota Century Code, North Dakota School Districts may not become indebted for any purpose in excess of 5% of their assessed value except that a school district by a majority vote of the qualified voters voting upon the question at a general or special election, may increase such limitation of indebtedness five percent on such assessed value beyond the five percent limit. The District's debt limit has been increased to 10%. Section 57-02-01(16) of the North Dakota Century Code defines "Assessed Value" as 50% of the true and full value of the property. Table 14 shows the debt limit computation for the District.

**Table 14**  
**Debt Limit Computation**

Assessed Value	\$ 2,768,851,946
Limit Percentage	<u>10%</u>
Authorized Debt Limit (100%)	\$ 276,885,195
Debt Subject to Limit (24.73%)	<u>68,485,000*</u>
Debt Margin (75.27%)	\$ 208,400,195*

## Overlapping Debt

There are four taxing jurisdictions which overlap the District and which had general obligation debt outstanding as of June 30, 2012. Table 15 sets forth the general obligation debt for those jurisdictions and the amount of their debt allocable to the District.

**Table 15**  
**Overlapping Debt**

	2011 Taxable Value	General Obligation Debt(1)	% of Debt Allocable to the District	Portion of Allocable to the District
Cass County	\$496,726,180	\$ 7,540,000	50.9%	\$ 3,837,860
City of Fargo	332,779,107	261,510,000	76.0%	198,747,600
Fargo Park District	332,779,107	11,330,000	76.0%	8,610,800
Southeast Cass Water Resource District	440,034,950	5,459,000	57.5%	<u>3,138,925</u>
Total				\$ 214,335,185

- (1) Includes certificates of participation, annual appropriation lease revenue bonds, and bond payable from a limited tax. Excludes debt supported by revenues, state loans, and mortgage-back securities.

## Future Financing

The District does not expect to issue any additional debt within the next six months.

\* Subject to Change

## FINANCIAL INFORMATION

### **Financial Reports**

This District's financial reports are audited by an independent accountant each year. Copies of the District's audited financial reports for the years ended June 30, 2011 and earlier are available on with the MSRB through its Electronic Municipal Market Access system (EMMA) at [www.emma.msrb.org](http://www.emma.msrb.org). or upon request from OS Advisors, Inc., the District's financial advisor.

### **Results of Operations**

Financial data summarized in this Official Statement has been compiled from the District's Financial Statements and presented in a format to facilitate year-to-year comparison. Table 16 below presents the 2012-2013 approved General Fund Budget. Table 17 on the next page summarizes the statement of revenues, expenditures and changes in fund balance for the fiscal years ended June 30, 2011 through 2009.

**Table 16**  
**2012-2013 Approved Budget**

<b>Revenue</b>	<b>Amount</b>
Property Taxes	\$ 51,798,678
State per Pupil Aid	47,148,569
Other	<u>24,207,237</u>
<b>Total Revenues</b>	<b>\$ 123,154,484</b>
<b>Expenditures</b>	
Salaries	\$ 72,167,597
Benefits	23,844,505
Purchased Services	10,985,647
Supplies and Materials	6,741,796
Other	<u>9,572,539</u>
<b>Total Expenditures</b>	<b>\$ 123,312,084</b>

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**Table 17**  
**Combined Statement of Revenues, Expenditures and**  
**Changes in Fund Balance for the General Fund**  
**(Year Ended June 30)**

	<b>2011</b> <b><u>Audited</u></b>	<b>2010</b> <b><u>Audited</u></b>	<b>2009</b> <b><u>Audited</u></b>
<b>Revenues:</b>			
Local Sources	\$ 53,150,275	\$ 53,251,648	\$ 67,474,582
State Sources	70,130,430	54,428,093	39,360,104
Federal Sources	13,882,861	18,993,133	8,182,023
Other Sources	<u>183,863</u>	<u>187,050</u>	<u>130,191</u>
Total Revenues	<u>\$ 137,347,429</u>	<u>\$ 126,859,924</u>	<u>\$ 115,146,900</u>
<b>Expenditures:</b>			
Instruction			
Regular	\$ 58,681,429	\$ 53,506,567	\$ 54,166,536
Special Education	19,494,477	18,711,628	16,408,759
Vocational Education	10,026,475	8,750,883	4,332,996
Adult Education	625,248	594,320	602,929
Support Services			
Pupil Services	3,757,304	3,312,139	3,127,608
Instructional Staff Services	5,293,051	4,311,156	4,498,130
General Administrative Services	2,399,784	2,126,938	2,079,881
School Administrative Services	7,426,131	7,093,086	6,571,095
Business Services	2,361,221	2,104,354	3,558,850
Operations and Maintenance	9,460,194	10,671,449	10,604,093
Pupil Transportation Services	1,820,292	1,731,004	1,437,344
Extracurricular	141,585	135,821	210,244
Community Services	234,438	199,417	163,128
Capital Outlays	3,328,212	2,137,979	--
Debt Service			
Principal	234,000	422,221	482,878
Interest	<u>8,892</u>	<u>22,914</u>	<u>41,675</u>
Total Expenditures	<u>\$ 125,333,733</u>	<u>\$ 115,831,876</u>	<u>\$ 110,414,481</u>
<b>Excess Of Revenues Over (Under)</b>			
<b>Expenditures</b>	<u><b>\$ 12,013,696</b></u>	<u><b>\$ 11,028,048</b></u>	<u><b>\$ 4,732,419</b></u>
<b>Other Financing Sources (Uses)</b>			
Transfers In	\$ 830,451	\$ 803,743	\$ 807,837
Transfers Out	(8,390,090)	(7,551,425)	(6,980,121)
Sale of Capital Assets	<u>8,629</u>	<u>28,648</u>	<u>3,925</u>
Total Other Financing Sources (Uses)	\$ (7,551,010)	\$ (6,719,034)	\$ (6,168,359)
<b>Net Change in Fund Balance</b>	<b>\$ 4,462,686</b>	<b>\$ 4,309,014</b>	<b>\$ (1,435,940)</b>
<b>Fund Balance – Beginning of Year</b>	<u><b>\$ 30,656,022</b></u>	<u><b>\$ 26,347,008</b></u>	<u><b>\$ 27,782,948</b></u>
<b>Fund Balance – End of Year</b>	<u><b>\$ 35,118,708</b></u>	<u><b>\$ 30,656,022</b></u>	<u><b>\$ 26,347,008</b></u>



## PROPERTY VALUATIONS AND TAXES

### **Market and Assessed Values**

The County Assessor's office establishes an estimated market value on all properties. The assessed value is computed at 50% of estimated market value. The taxable value is then computed in the following manner: on residential property the taxable value is 9% of the assessed value; on commercial property the taxable value is 10% of the assessed value. Table 18 below shows the market value, assessed value and taxable value of taxable property in the District for assessment year 2010. Table 19 shows the trend in property valuations over the last five years.

**Table 18**  
**Property Values in the District**  
**2011 Assessment Year**

	<u>Market Value</u> <u>100%</u>	<u>Assessed Value</u> <u>50%</u>	<u>Equalization</u> <u>Factor</u>	<u>Taxable</u> <u>Value</u>
Real Property				
Residential	\$ 3,620,701,378	\$ 1,810,350,689	9%	\$ 162,931,562
Agricultural	13,067,700	6,533,850	10%	653,385
Commercial	1,871,362,400	935,681,200	10%	93,568,120
Utilities				
Railroad	5,393,440	2,696,720	10%	269,672
Other Utilities	56,430,180	28,215,090	10%	2,821,509
Less:				
Captured Tax Increment Value	--	--		<u>(7,398,278)</u>
Total	\$ 5,566,955,098	\$ 2,783,477,549		\$ 252,845,970

Source: Cass County Auditor

**Table 19**  
**Trend in Valuations in the District\***

#### Valuation Trends in the Fargo School District

<u>Year</u>	<u>Estimated Market Value</u>	<u>Assessed Value</u>	<u>Taxable Value</u>
2011	5,537,703,891	2,768,851,946	260,244,248
2010	5,419,308,701	2,709,654,351	255,562,235
2009	5,296,025,821	2,648,012,911	249,466,881
2008	5,130,305,850	2,565,152,925	241,961,324
2007	5,008,926,250	2,504,463,125	236,551,016
2006	4,686,564,250	2,343,282,125	221,866,441

\*Excluding increment value

Source: Cass County Auditor

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After final equalization by assessing authorities in September of each year, the County Auditor calculates mill rates and spreads taxes. The resulting taxes are payable on the following January 1.

Taxes are collected by the County in two semiannual installments, and the receipts are distributed by the County to the local government entities. A discount of five percent is given on the tax bill if the entire payment is made by February 15. Discounts given are subtracted from the levy amount by the County Auditor. If taxes are not paid by March 1, a three percent penalty is charged with the penalty being raised on May 1 to six percent, on July 1 to nine percent, and on October 15 to twelve percent.

North Dakota residents over 65 years of age whose income is less than \$10,000 receive a homestead property tax credit. The credit is subtracted from their tax bill. Local government entities are reimbursed by the State of North Dakota for all homestead credits. Therefore, the District, as well as other local government entities, has no loss in tax revenues from the credit.

### **Property Tax Levies and Collections**

Table 20 shows the District's tax levies and collections for collection year 2007 through 2012 in Cass County.

**Table 20**  
**Tax Collections in the District**

<b>Collection Year</b>	<b>Amount of Levy</b>	<b>Net Levy (95% of Levy)</b>	<b><u>Collected First Year</u></b>		<b><u>Collected As 6-30-12</u></b>	
			<b><u>Amount</u></b>	<b><u>% of Net Levy</u></b>	<b><u>Amount</u></b>	<b><u>% of Net Levy</u></b>
2012	57,755,414	54,867,643	52,462,082	95.6%	52,462,081	95.6%
2011	56,718,713	53,882,777	53,689,709	99.6%	53,978,825	100.2%
2010	55,368,801	52,600,361	52,421,103	99.7%	53,047,590	100.9%
2009	71,851,787	68,259,197	67,728,652	99.2%	68,789,521	100.8%
2008	71,002,393	67,452,274	67,027,471	99.4%	67,806,011	100.5%
2007	68,602,651	65,172,519	65,199,057	100.0%	65,865,912	101.1%

Source: Cass County Auditor

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## Principal Taxpayers

A list of the nine taxpayers in the District with the highest taxable valuations for the 2011 assessment for taxes payable in 2012 is presented in Table 21 below.

**Table 21**  
**Principal Taxpayers**

<b><u>Taxpayer</u></b>	<b><u>Taxable Value</u></b>	<b><u>% of Total Taxable Value</u></b>
Northern States Power	\$ 2,745,411	1.1%
Meritcare Medical Group	954,055	0.4%
Case Equipment Corp	941,615	0.4%
The Waterford at Harwood Groves, LLC	932,210	0.4%
Sanford Hospital	833,085	0.3%
Innovis Health LLC	826,505	0.3%
Wal-Mart Real Estate Business Trust	790,345	0.3%
Inreit Properties LLLP	736,655	0.3%
Matrix Properties Corp	724,295	0.3%
Total Taxable Value - 2011	\$ 260,244,248	3.80%

Source: Cass County Auditor

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## RELATED TAX CONSIDERATIONS

Interest on the Bonds is not an item of tax preference for federal alternative minimum tax purposes, but it is included in adjusted current earnings of corporations for purposes of the federal alternative minimum tax. Section 86 of the Code requires recipients of certain social security and railroad retirement benefits to take interest on the Bonds into account in determining the taxability of such benefits. Passive investment income, including interest on the Bonds, may be subject to taxation under section 1375 of the Code, for an S corporation that has accumulated earnings and profits at the close of the taxable year, if more than 25 percent of its gross receipts are passive investment income. Section 265 of the Code denies deductions for interest on indebtedness incurred or continued to purchase or carry the Bonds (see “BANK QUALIFICATION” below for provisions relating to certain financial institutions). Indebtedness may be allocated to the Bonds for this purpose even though not directly traceable to the purchase of the Bonds. In the case of an insurance company subject to the tax imposed by section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under section 832(b)(5) of the Code must be reduced by an amount equal to 15 percent of the interest on the Bonds that is received or accrued during the taxable year. Interest on the Bonds may be included in the income of a foreign corporation for purposes of the branch profits tax imposed by section 884 of the Code, and is included in net investment income of foreign insurance companies under section 842(b) of the Code.

Because of the Code’s basis reduction rules for amortizable bond premium, Bondholders who acquire Bonds at a premium may be required to recognize taxable gain upon sale of the Bonds, even if the Bonds are sold for an amount equal to or less than their original cost.

North Dakota, like many other states, generally taxes interest on Bonds of governmental issuers in other states. In January 2006, the Kentucky Court of Appeals held, in *Davis v. Department of Revenue*, that the state’s exemption of interest on its own bonds and those of its political subdivisions and its taxation of interest on the bonds of other states and their political subdivisions unlawfully discriminates against interstate commerce. The Kentucky Supreme Court declined to review this decision. Kentucky tax officials petitioned the United States Supreme Court to review the *Davis* decision, and on May 21, 2007, the petition was granted. In 1994, the Ohio Court of Appeals had reached the opposite conclusion on this legal issue, upholding a similar Ohio statute, in *Shaper v. Tracy*. The District cannot predict the impact that the pending case or its outcome will have on the exemption of interest on the Bonds under North Dakota law or on the market value of the Bonds.

THE FOREGOING IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF COLLATERAL TAX CONSEQUENCES ARISING FROM OWNERSHIP OR DISPOSITION OF THE BONDS OR RECEIPT OF INTEREST ON THE BONDS. PROSPECTIVE PURCHASERS OR BONDHOLDERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO COLLATERAL TAX CONSEQUENCES AND APPLICABLE STATE AND LOCAL TAX RULES IN STATES OTHER THAN NORTH DAKOTA.

## RATING

The Series 2012 Bonds have been rated “Aa3” by Moody’s Investors Service (“Moody’s”). Such rating reflects only the views of Moody’s at the time such rating was given, and the Board makes no representation as to the appropriateness of such rating. An explanation of the significance of such rating may be obtained only from Moody’s. There is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely if, in the judgment of Moody’s circumstances so warrant. A downward revision or withdrawal of the rating may have an adverse effect on the marketability or market price of the Bonds.

## LITIGATION

There is no litigation now pending or, to the knowledge of District officials, threatened which questions the validity of the Bonds or of any proceedings of the District taken with respect to the issuance or sale thereof.

## TAX EXEMPTION

In the opinion of Arntson Stewart Wegner PC, Fargo, North Dakota, Bond Counsel, under existing law, the interest on the bonds is excluded from gross income of the owners for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 (the “Code”) that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements.

Interest on the Bonds is excluded from gross income for North Dakota income tax purposes (other than the franchise tax imposed on financial institutions under Chapters 57-35.3 of the North Dakota Century Code). Bond Counsel expresses no opinion regarding other state or federal tax consequences arising with respect to the Bonds.

Prospective purchasers of the Bonds should be aware that (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of a holder’s interest expense allocated to interest on the Bonds, except with respect to certain financial institutions (within the meaning of Section 265(b)(5) of the Code) (See “Qualified Tax-Exempt Bonds” below), (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income and (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Bonds.

Certain provisions of the Internal Revenue Code of 1986, as amended (the “Code”), however, impose continuing requirements that must be met after the issuance of the Bonds in order for interest thereon to be and remain not includable in federal gross income and in North Dakota taxable net income of individuals, estates and trusts. These requirements include, but are not limited to, provisions regarding the use of Bond proceeds and the facilities financed with such proceeds; restrictions on the investment of Bond proceeds and other amounts; and provisions requiring that certain investment earnings be rebated periodically to the federal government. Noncompliance with such requirements may cause interest on the Bonds to be includable in federal gross income or in North Dakota taxable net income retroactively to their date of issue. Compliance with the Tax Covenants will satisfy the current requirements of the Code with respect to exemption of interest on the Bonds. No provision has been made for redemption of or for an increase in the interest rate on the Bonds in the event that interest on the Bonds becomes includable in federal gross income or in North Dakota taxable net income.

### **BANK QUALIFICATION**

In the opinion of Bond Counsel, the Bonds are **not** eligible for designation, and the District will **not** designate the Bonds as “Qualified Tax-Exempt Bonds” for purposes of Section 265 of the Internal Revenue Code of 1986 relating to the ability of certain financial institutions to deduct from income for federal income tax purposes, 80% of that portion of such financial institutions’ interest expense allocable to interest on the Bonds.

### **CERTIFICATION**

The District will furnish, upon request, a statement to the effect that this Official Statement to the best of their knowledge and belief, as of the date of delivery, is true and correct in all material respects and does not contain any untrue statements of a material fact or omit to state a material fact necessary in order to make the statements made herein, in the light of the circumstances in which they were made, not misleading.

### **FINANCIAL ADVISOR**

The District has retained OS Advisors of Fargo, North Dakota, as financial advisor (the “Financial Advisor”) in connection with the issuance of the Bonds. In preparing the Official Statement, the Financial Advisor has relied upon governmental officials, and other sources that have access to relevant data to provide accurate information for the Official Statement, and the Financial Advisor has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. The Financial Advisor is not a public accounting firm and has not been engaged by the District to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities and therefore will not participate in the underwriting of the Bonds.

### **CONTINUING DISCLOSURE**

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (the “Rule”), the District shall covenant pursuant to a Resolution adopted by the Governing Body to enter into an undertaking (the “Undertaking”) for the benefit of holders of the Bonds to provide certain financial information and operating data relating to the District, and to provide notices of the occurrence of certain events enumerated in the Rule to the Municipal Securities Rulemaking Board. The details and terms of the Undertaking, as well as the information to be contained in the requested report or the notices of certain events are set forth in the Continuing Disclosure Certificate to be executed and delivered by the District at the time the Bonds are delivered (See Appendix C).

### **LEGAL MATTERS**

Legal matters incident to the authorization and issuance of the Bonds are subject to the opinion of Arntson Stewart Wegner P.C., Bond Counsel, as to validity and tax exemption. Bond Counsel has not participated in the preparation of this Official Statement except for information under the headings “Tax Exemption” and “Legal Matters”.

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## MISCELLANEOUS

Any statements made in this official statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement has been duly authorized by the District.

### **FARGO PUBLIC SCHOOL DISTRICT No. 1, NORTH DAKOTA**

By: /s/\_\_\_\_\_

Broc Leitz

Assistant Superintendent – Business Services

## ***Appendix A – Financial Statement***

# **OFFICE OF STATE AUDITOR**

## **AUDIT REPORT**

### **BOARD OF EDUCATION OF THE CITY OF FARGO FARGO, NORTH DAKOTA**

**FOR THE YEAR ENDED JUNE 30, 2010**





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BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

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For the Year Ended June 30, 2010

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**BOARD OF EDUCATION OF THE CITY OF FARGO**Table of Contents - Continued

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BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

For the Year Ended June 30, 2010

SCHOOL BOARD

Dan Fremling	President
Rick Steen	Vice-President
Laura Carley	Board Member
Don Faulkner	Board Member
Dinah Goldenberg	Board Member
Jim Johnson	Board Member
Paul Meyers	Board Member
Robin Nelson	Board Member
John Strand	Board Member

ADMINISTRATION

Dr. Rick Buresh	Superintendent
Shirley Johnson	Superintendent - Secretary
Dr. Robert Grosz	Assistant Superintendent - Instruction
Daniel Huffman	Assistant Superintendent – Business Services
Nancy Jordheim	Assistant Superintendent – Human Resources

STATE AUDITOR

ROBERT R. PETERSON

Phone (701) 328-2241

Fax (701) 328-1406



Local Government Division:

FARGO OFFICE

MANAGER – DAVID MIX

Phone: (701) 239-7252 Fax: (701) 239-7251

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

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INDEPENDENT AUDITOR'S REPORT

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Board of Education of the City of Fargo  
Fargo, North Dakota 58102-4514

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Board of Education of the City of Fargo, North Dakota, as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board of Education of the City of Fargo's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of the City of Fargo, North Dakota, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2010, on our consideration of the Board of Education of the City of Fargo, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 14 and 42 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of Education of the City of Fargo, North Dakota's basic financial statements. The schedule of fund activity, combining nonmajor fund financial statements, and budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is also not a required part of the basic financial statements. The schedule of fund activity, combining nonmajor fund financial statements, budgetary comparison schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Bob Peterson".

Robert R. Peterson  
State Auditor

October 28, 2010

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BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2010

---

As management of the Fargo Public School District, we offer readers of the financial statements this narrative overview and analysis of the financial activities of the Fargo Public Schools for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished. The intent of this discussion and analysis is to look at the district's financial performance as a whole.

**FINANCIAL HIGHLIGHTS**

- The assets of the Fargo Public School District exceeded its liabilities at the close of the most recent fiscal year by \$129,212,205 (Net Assets). Of this amount, \$43,045,612 (Unrestricted net assets) may be used to meet ongoing obligations.
- The Fargo Public School District's total net assets increased by \$8,778,077 as a result of the current year's operation.
- The Fargo Public School District's total revenues from all sources were \$139,898,462. Total expenses were \$131,120,385.
- At the close of the current fiscal year, The Fargo Public School District's governmental funds reported combined ending fund balances of \$60,668,907, a decrease of \$19,582,840 in comparison with the prior year. Approximately 82.2% or \$49,889,837 is available for spending through an unreserved fund balance.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Fargo Public School District's basic financial statements. The Fargo Public School District's basic financial statements are comprised of three components:

1. Government-Wide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements

These financial statements are organized so the reader can more clearly understand the Fargo Public School District as a whole.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

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

The Statement of Activities presents information showing how the school district's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the school district that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
Management's Discussion and Analysis - Continued

Figure 1, summarizes the major features of the district's financial statements, including portions of the district's activities covered and the types of information they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

Figure 1 Major Features of the Government-Wide and Fund Financial Statements			
	Government-Wide Statements	Fund Financial Statements	
		Governmental	Proprietary Funds
Scope	Entire District	The activities of the district that are not Proprietary or Fiduciary, such as Food Service.	Activities the district operates similar to private Business – <input type="checkbox"/> Internal Service Fund
Required Financial Statements	<input type="checkbox"/> Statement of Net Assets <input type="checkbox"/> Statement of Activities	<input type="checkbox"/> Balance Sheet <input type="checkbox"/> Statement of revenues, expenditures and changes in fund balance	<input type="checkbox"/> Statement of Net Assets <input type="checkbox"/> Statement of revenues, expenses and changes in fund net assets <input type="checkbox"/> Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual Accounting and Economic Resource Focus	Modified accrual accounting and current financial resources focus	Accrual Accounting and Economic Resource Focus
Type of Asset/Liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be consumed and liabilities paid during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Fargo Public School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Fargo Public School District can be divided into three groups: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

**Proprietary Funds.** The Fargo Public School District maintains a proprietary fund to account for the financing of a self-insurance program available to employees. This account is used to accumulate and allocate costs internally on a cost-reimbursement basis.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of specific groups. Fiduciary funds are not reflected in the government-wide financial statement because the resources of these funds are not available to support the Fargo Public School District.

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
Management's Discussion and Analysis - Continued

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of the district's financial position. The district's net assets of \$129,212,205 are segregated into three categories. Invested in capital assets (net of related debt), restricted assets and unrestricted. Net assets invested in capital assets, net of related debt, represents 44% of the district's net assets. These assets are not available for future spending. Although the Fargo Public School District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets are not used to liquidate these liabilities. Restricted net assets represent 23% of the district's resources that are subject to external restrictions on how they may be used. Unrestricted net assets represent the remaining 33% of resources. The unrestricted net assets are available to meet the district's ongoing obligations. With an increase in net assets of \$8,778,077 in the current fiscal year, and an increase of \$3,096,605 in unrestricted assets, we believe our financial position has improved since fiscal year 2009.

BOARD OF EDUCATION OF THE CITY OF FARGO NET ASSETS		
<u>Assets:</u>	2010	2009
Current and other assets	\$ 95,155,284	\$107,142,704
Capital assets (net of depreciation)	162,079,200	139,173,440
Total Assets	\$257,234,484	\$246,316,144
<u>Liabilities:</u>		
Current Liabilities	\$ 11,035,284	\$ 6,826,638
Long Term Liabilities	116,986,995	119,055,378
Total Liabilities	\$128,022,279	\$125,882,016
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	\$ 56,685,376	\$ 26,649,021
Restricted	29,481,217	53,836,100
Unrestricted	43,045,612	39,949,007
Total Net Assets	\$129,212,205	\$120,434,128

A majority of the increase in capital assets resulted from construction in progress at the future Davies high school. Current liabilities increased because of increases in both contracts payable and accounts payable associated with construction. Long term liabilities decreased with the reduction in bonds payable and Investment in capital assets, net of related debt, increased primarily from construction in progress.

Governmental activities increased the Fargo Public School District's net assets by \$8,778,077. Key elements of this increase are as follows:

BOARD OF EDUCATION OF THE CITY OF FARGO CHANGES IN NET ASSETS		
<b>Revenues</b>	2010	2009
Program Revenues:		
Charges for Services	\$ 7,716,795	\$ 7,690,838
Operating Grants and Contributions	47,139,468	12,012,393
General Revenues		
Taxes	54,968,457	74,181,235
State Aid	28,327,217	37,201,876
Interest and Other Revenue	1,660,877	2,173,254
Gain on the Sale of Assets	85,648	819,257
Total Revenues	\$139,898,462	\$134,078,853

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**BOARD OF EDUCATION OF THE CITY OF FARGO**  
Management's Discussion and Analysis - Continued

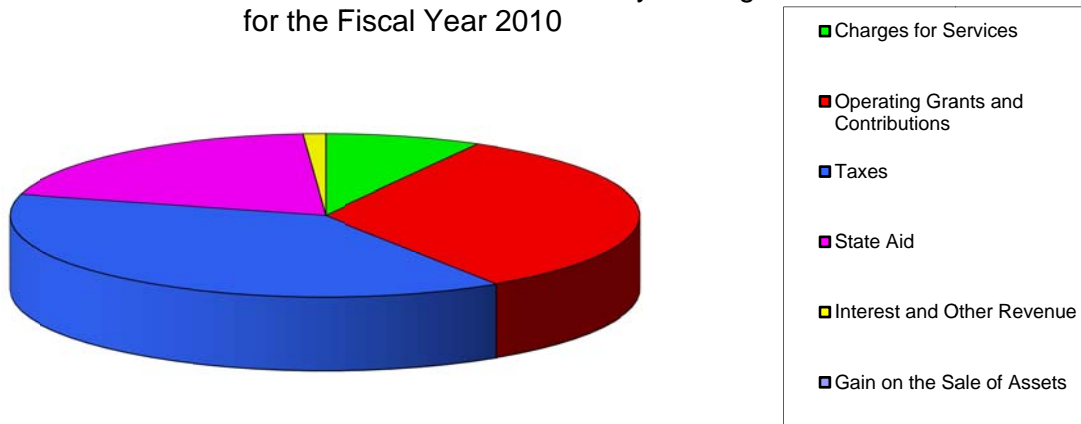
**BOARD OF EDUCATION OF THE CITY OF FARGO**  
**CHANGES IN NET ASSETS**

<b>Expenses</b>	<b>2010</b>	<b>2009</b>
Instruction	\$ 85,160,367	\$ 78,522,586
Support Services:		
Pupil Services	3,323,058	3,123,163
Instructional Staff Services	4,322,592	4,492,561
General Administrative Services	2,380,671	1,937,535
School Administrative Services	7,206,001	6,921,512
Business Services	2,153,490	3,469,619
Operations and Maintenance	10,657,072	10,627,262
Pupil Transportation Services	1,731,073	1,437,196
Extracurricular Services	3,324,665	3,010,004
Other Capital Outlays	1,121,710	-
Food Services	4,767,394	4,542,929
Community Services	199,854	162,974
Interest on Long-Term Debt	4,772,438	5,479,057
Total Expenses	131,120,385	123,726,398
Change in Net Assets	8,778,077	10,352,455
Net Assets – July 1	120,434,128	110,081,673
Net Assets – June 30	\$129,212,205	\$120,434,128

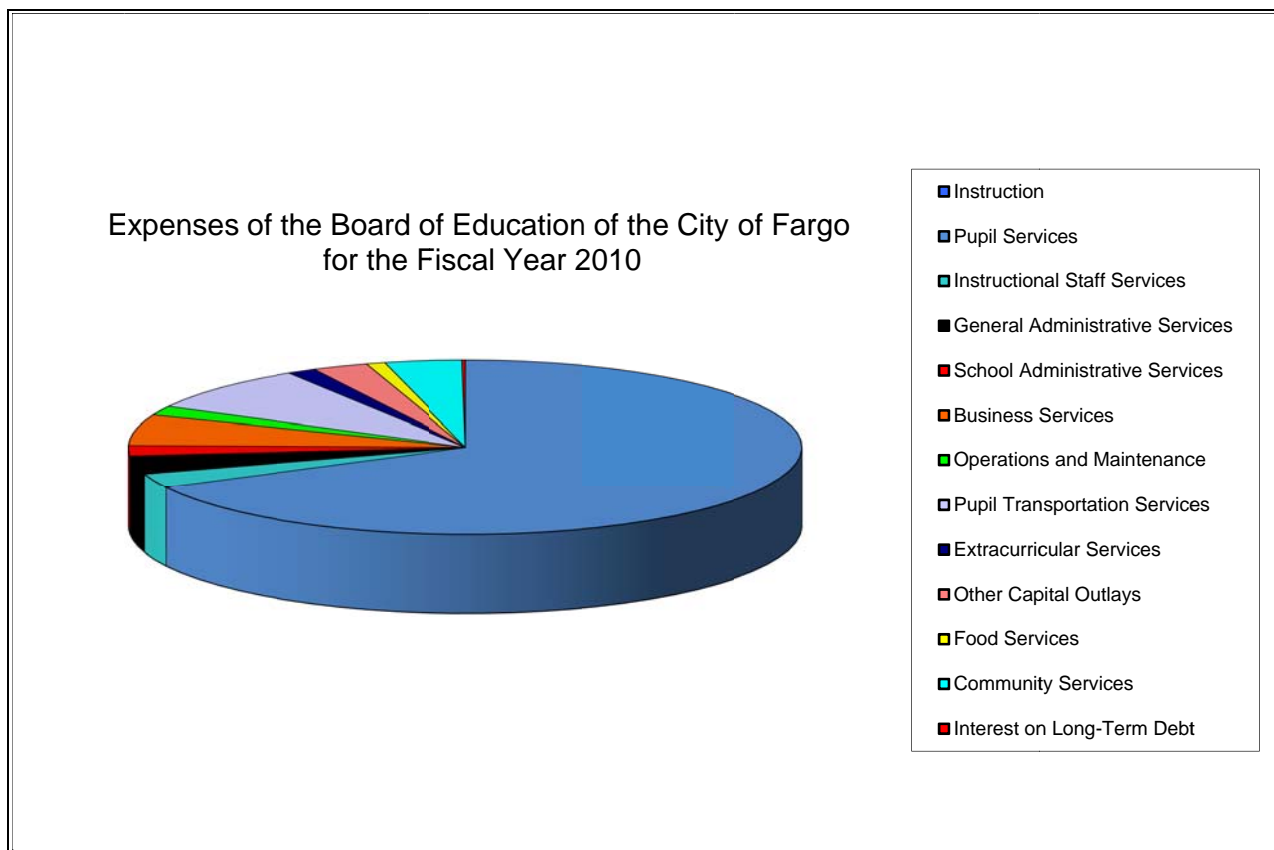
Property tax revenue decreased in 2010 by 25.9%. This is a result of a 75 mill decrease in property taxes. The decrease in property tax collections was essentially offset by an increase through a grant from the state of North Dakota for tax relief. Operating grants and contributions were also increased by Federal and State grants for education stabilization and stimulus funds.

Property taxes constituted 39.3%, state aid 20.2%, operating grants/contributions 33.7%, and other revenues made up the remaining 6.8% of the total revenues of the governmental activities of the District for the 2010 fiscal year. Instruction comprises 64.9% of the district's governmental expenses, while support services account for 35.1%.

**Revenues of the Board of Education of the City of Fargo  
for the Fiscal Year 2010**







The district's funding pattern has shifted over the past twenty years to rely more heavily on property taxes than state sources. Property tax revenue is derived from a combination of levies based on both market value as well as net tax capacity. The cost of all governmental activities this year was \$131,120,385 compared to \$123,726,398 for the year ended June 30, 2009.

- Some of the cost was paid for by the users of the district's programs. (\$7,716,795).
- The Federal and State governments subsidized certain programs with grants and contributions (\$47,139,468 for operating purposes).
- Most of the district's general revenues (\$85,042,199) and increase in net assets, however, were funded by district taxpayers and the taxpayers of the State of North Dakota.
- This portion of governmental activities was paid for with \$54,968,457 in property taxes, \$28,327,217 in state aid based on the statewide education aid formula and \$1,746,525 with investment earnings and other general revenues.

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
Management's Discussion and Analysis - Continued

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
**NET COST OF GOVERNMENTAL ACTIVITIES**  
June 30, 2010

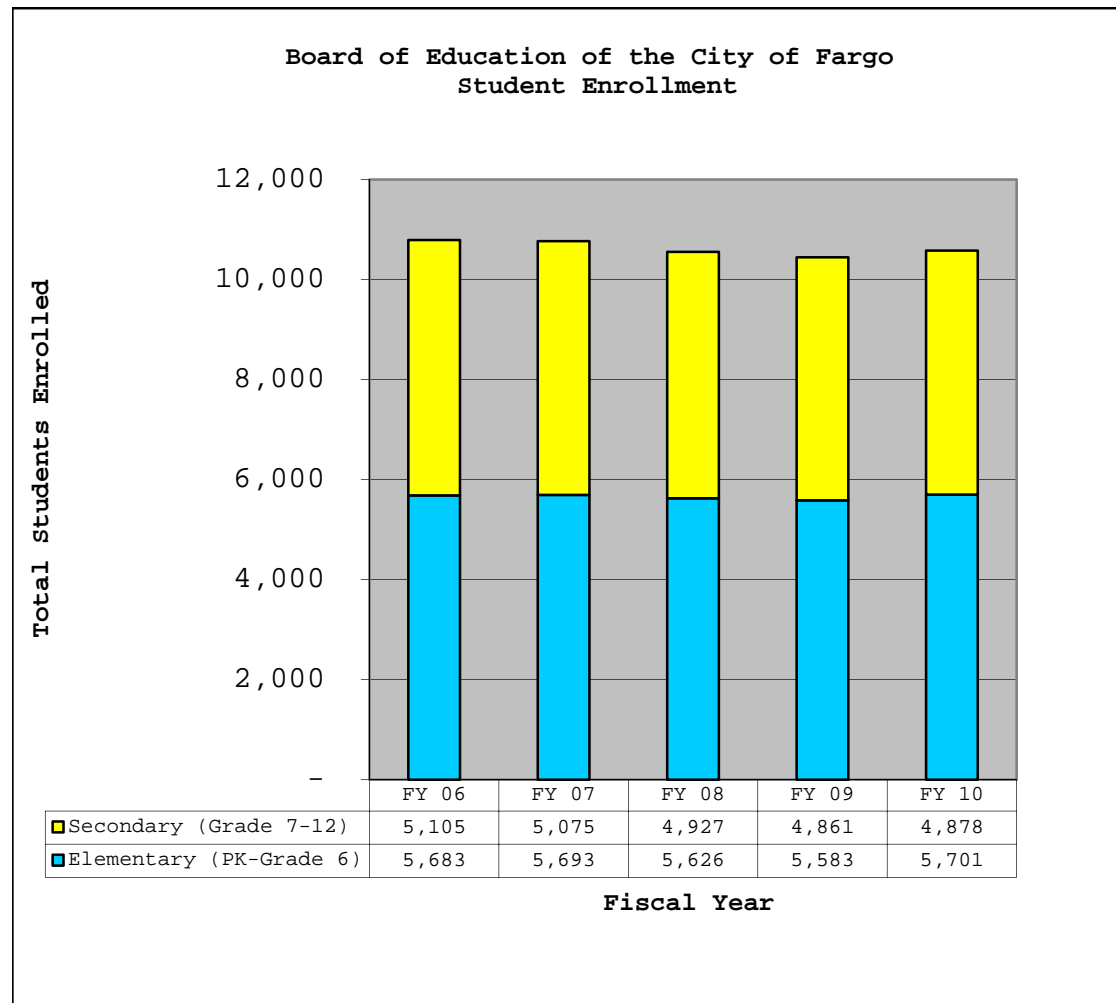
	2010		2009	
	Total Cost of Service	Net Cost of Services	Total Cost of Service	Net Cost of Services
Regular Instruction	\$ 56,096,788	\$(13,274,750)	\$56,338,738	\$(48,470,444)
Special Education	19,495,843	(15,142,051)	17,099,280	(12,658,289)
Vocational Education	8,943,435	(8,153,360)	4,462,976	(3,785,288)
Adult Education	624,301	(280,447)	621,592	208,572
Pupil Services	3,323,058	(2,906,614)	3,123,163	(3,045,654)
Instructional Staff Services	4,322,592	(4,322,592)	4,492,561	(4,492,561)
General Admin Services	2,380,671	(2,380,644)	1,937,535	(1,937,428)
School Admin Services	7,206,001	(7,206,001)	6,921,512	(6,921,512)
Business Services	2,153,490	(2,068,764)	3,469,619	(3,181,732)
Operations & Maint.	10,657,072	(10,472,807)	10,627,262	(10,452,720)
Pupil Transp. Service	1,731,073	(1,143,663)	1,437,196	(1,023,322)
Extracurricular	3,324,665	(3,324,665)	3,010,004	(3,010,004)
Other Capital Outlays	1,121,710	(1,121,710)	-	-
Food Service Outlays	4,767,394	506,238	4,542,929	389,246
Community Services	199,854	(199,854)	162,974	(162,974)
Interest Expense	4,772,438	(4,772,438)	5,479,057	(5,479,057)
<b>TOTAL</b>	<b>\$131,120,385</b>	<b>\$(76,264,122)</b>	<b>\$123,726,398</b>	<b>\$(104,023,167)</b>

The "Net Cost of Services" column is calculated by subtracting total program revenues from the expenses of each function. If the expenses of the district's functions surpass the program revenues, negative numbers result in the Statement of Activities, representing a net expense or net cost to the general public. These functions are generally dependent upon general-purpose revenues, including tax dollars. When program revenues exceed expenses, the resulting number is positive, representing net revenue to the general public, sometimes available to offset other program costs. The "positive" or "negative" numbers merely indicate whether a particular function relies on general revenues for financing or is a net contributor to the resources of the district. Because the district relies on property taxes and state aid as its primary funding sources, the total net cost of services will be a negative number.

**GENERAL FUND**

The General Fund includes the primary operations of the district in providing educational services to students from pre-school through grade 12. Over the last five years, the district's total student population has dropped from 10,788 to 10,579. Fiscal year 2010 saw a 135 student increase in enrollment. Because of continuing strong development of new residential areas and the planned construction of a new high school, we anticipate that the total number of students will increase slightly or remain stable in the future.

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
Management's Discussion and Analysis - Continued



The following schedule presents a summary of General Fund revenues.

	Year Ended June 30, 2010	Year Ended June 30, 2009	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Local Sources	\$ 53,251,648	\$ 67,474,582	\$(14,222,934)	(21.08)%
State Sources	54,428,093	39,360,104	15,067,989	38.28%
Federal Sources	18,993,133	8,182,023	10,811,110	132.13%
Other Sources	187,050	130,191	56,859	43.67%
<b>Total General Fund Revenue</b>	<b>\$126,859,924</b>	<b>\$115,146,900</b>	<b>\$11,713,024</b>	<b>10.17%</b>

During fiscal year 2010 the total General Fund revenue increased by \$11,713,024, or 10.17% from the previous year. Basic general education revenue is determined by a state per student funding formula and consists of a mix of property taxes and state aid revenue.

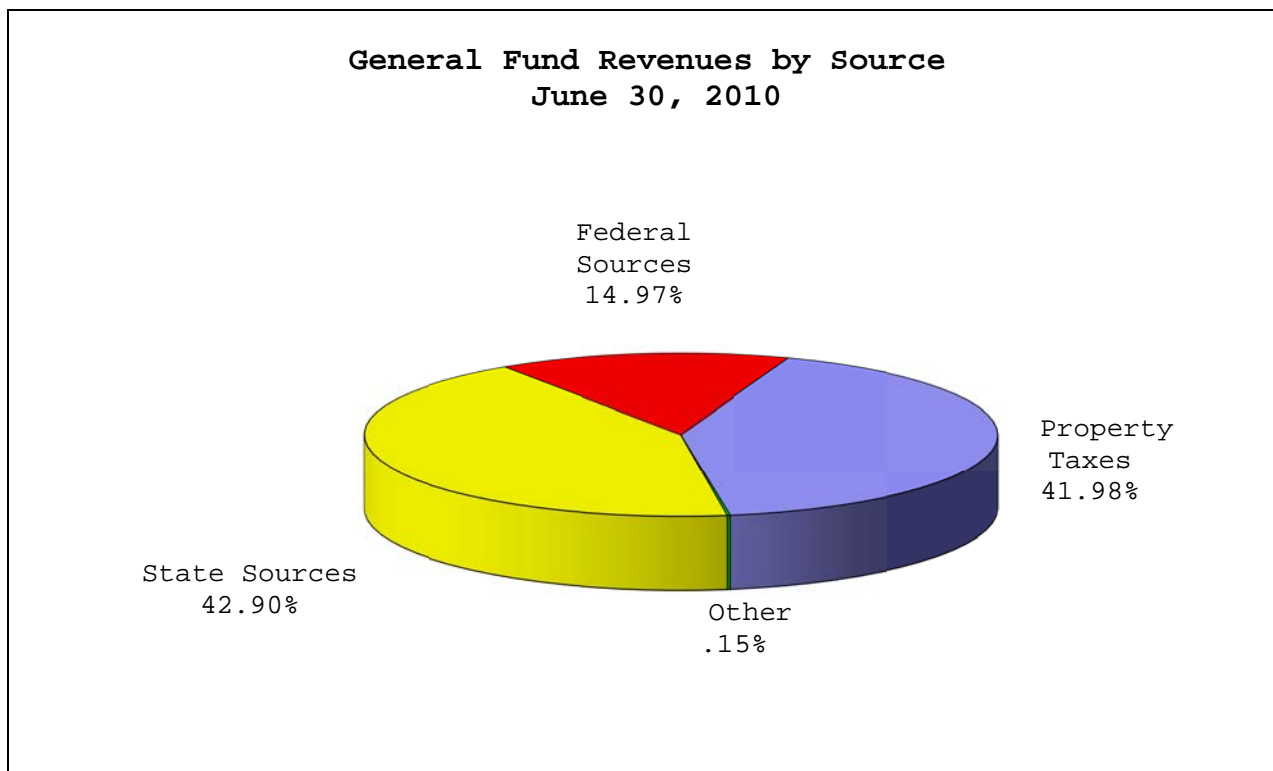
**BOARD OF EDUCATION OF THE CITY OF FARGO**  
Management's Discussion and Analysis - Continued

The following schedule presents a summary of General Fund expenditures.

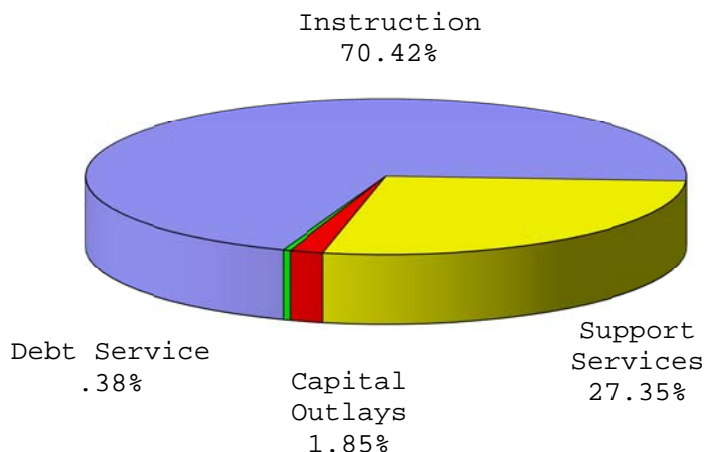
	Year Ended June 30, 2010	Year Ended June 30, 2009	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Instruction	\$ 81,563,398	\$ 75,511,220	\$6,052,178	8.01%
Support Services	31,685,364	32,250,373	(565,009)	(1.75)%
Capital Outlays	2,137,979	2,128,335	9,644	45%
Debt Service	445,135	524,553	(79,418)	(15.14)%
<b>Total General Fund Expenditures</b>	<b>\$115,831,876</b>	<b>\$110,414,481</b>	<b>\$5,417,395</b>	<b>4.91%</b>

Total General Fund expenditures increased \$5,417,395 or 4.91% from the previous year. In fiscal year 2010, instruction expenditures increased because of planned employee raises and increased benefit costs. The District will continue to look at various cost containment measures and monitor rising health insurance premiums.

In fiscal year 2010, General Fund revenues exceeded expenditures \$4,309,014 (after other financing sources/uses), resulting in a total fund balance that increased to \$30,656,022.



**General Fund Expenditures by Use  
June 30, 2010**



**GENERAL FUND BUDGETARY HIGHLIGHTS**

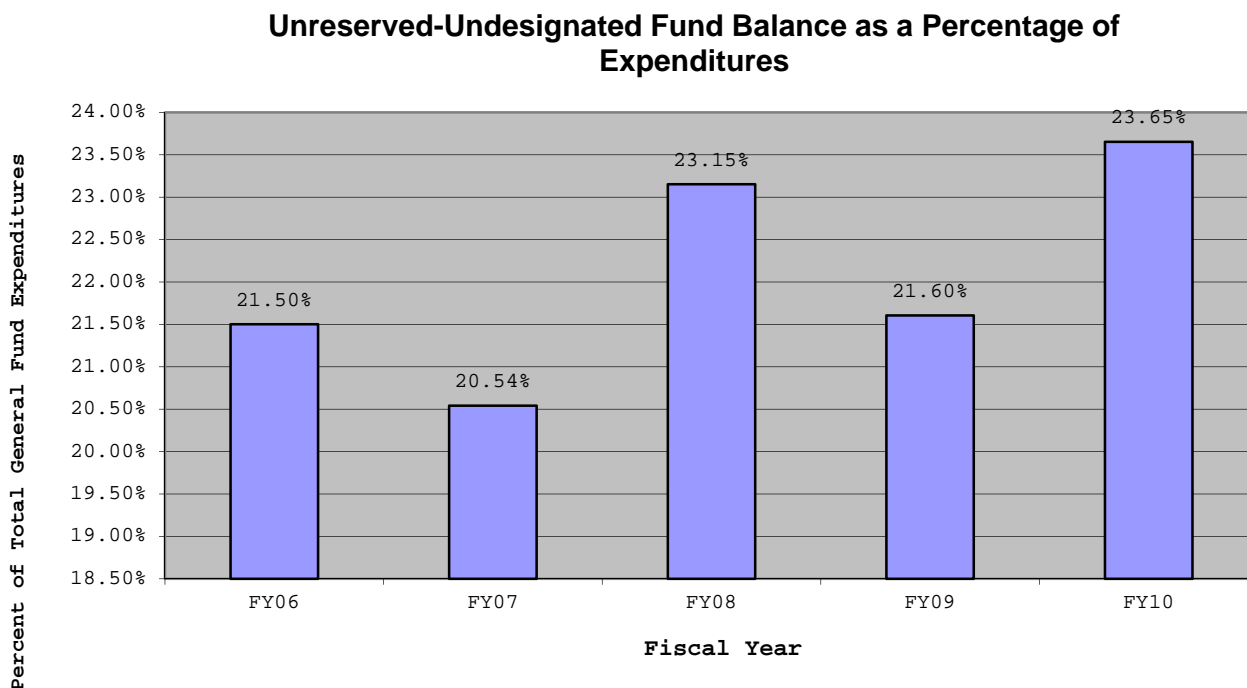
Differences between the original and final amended budget were relatively minor. Revenues were increased by \$4,338,286, and expenditures were increased by \$4,566,921. During the year, however, revenues were less than the final budgetary amount by \$16,745,984 (11.66%) and expenditures were less than the final budgetary estimate by \$20,867,492 (15.27%). The most significant variances were lower than expected state revenues and instructional costs but increased support services costs.

**SUMMARY OF GENERAL FUND CHANGES**

**LAST TEN FISCAL YEARS**

School Year	Beginning Balance July 1	Revenues	Expenditures	Other Financing Uses and Residual Equity Transfers In	Ending Balance June 30
2000-2001	7,201,071	79,347,053	76,149,594	(2,011,035)	8,387,495
2001-2002	8,387,495	83,527,338	75,492,824	(3,160,958)	13,261,051
2002-2003	13,261,051	89,590,260	82,328,653	(3,943,339)	16,579,319
2003-2004	16,579,319	92,912,623	85,165,193	(3,859,527)	20,467,222
2004-2005	20,467,222	98,308,354	91,984,806	(3,911,183)	22,879,587
2005-2006	22,879,587	103,873,065	97,701,269	(3,865,135)	25,186,248
2006-2007	25,186,248	108,442,734	103,833,289	(4,077,431)	25,718,262
2007-2008	25,718,262	112,477,359	105,771,454	(4,641,219)	27,782,948
2008-2009	27,782,948	115,146,900	110,414,481	(6,168,359)	26,347,008
2009-2010	26,347,008	126,859,924	115,831,876	(6,719,034)	30,656,022

The following graph shows the General Fund unreserved-undesignated fund balance as a percentage of expenditures for the last five fiscal years.



The graph above is one of the best measures of overall financial health. The unreserved-undesignated fund balance of \$27,397,028 at June 30, 2010 represents 23.65% of annual general fund expenditures. The Board of Education of the City of Fargo established a 10% fund balance goal several years ago to help with financial stability. It substantially modified that goal to 15% and has surpassed it since fiscal year 2002. This level provides sufficient unreserved-undesignated resources to avoid short-term cash flow borrowing for the district.

### Capital Asset and Debt Administration

**Capital Assets.** As of June 30, 2010, the Fargo Public School District had \$162,079,200 invested in capital assets. This investment includes land and land improvements, buildings and improvements, equipment and vehicles, and construction in progress.

BOARD OF EDUCATION OF THE CITY OF FARGO CAPITAL ASSETS (NET OF DEPRECIATION)		
	2010	2009
Land and Land Improvements	\$ 12,369,502	\$ 12,369,502
Buildings and Improvements	117,771,088	117,982,170
Vehicles and Equipment	2,600,855	2,735,516
Construction in Progress	29,337,755	6,086,252
Total Capital Assets	\$162,079,200	\$139,173,440

Construction in progress increased \$23.25 million causing an overall increase of 16.5% in capital assets as a result of construction at the future Davies High School which is scheduled to be completed in 2011. More detailed information about capital assets can be found in Note 11 to the financial statements.

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
Management's Discussion and Analysis - Continued

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**Long-Term Debt.** At the end of the current fiscal year, the district had \$115,785,493 in outstanding debt. Of this amount, \$102,388,196 is long-term debt due after one year. The remaining \$13,397,297 is a current liability due within one year. The Fargo Public School District decreased its existing debt obligations by \$1,929,613 (1.6%). The key factor for this decrease is the reduction in bonds payable. Due to other agencies increased substantially as the result of a one-time State grant that will be spent in fiscal year 2011. More detailed information about the district's long-term liabilities is presented in Note 18 to the financial statements.

BOARD OF EDUCATION OF THE CITY OF FARGO OUTSTANDING GENERAL LONG-TERM DEBT		
	2010	2009
General Obligation Bonds Payable	\$ 69,930,000	\$ 72,010,000
Certificates of Indebtedness Payable	405,000	814,293
Special Assessments Payable	1,245,195	1,315,233
Building Authority Revenue Bonds Payable	35,330,000	40,375,000
Compensated Absences Payable	486,028	461,465
Sick Leave Longevity Payable	2,677,796	2,342,273
PTO Payable	321,882	377,876
Due to Other Agencies	5,389,592	18,966
Total	\$115,785,493	\$117,715,106

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

During the twenty years prior to 2009-2010, the burden for financing education in North Dakota has steadily and continually shifted from state sources to local sources. The 2009 Legislative Session made a significant change in this direction. This session committed state resources to school districts that resulted in a 75 mill reduction in local mill levies and will fund that portion with state resources. Over the past ten years, the taxable value of real property in the district has increased an average of 6.0%. It increased 3.1% for 2009-2010 and is projected to increase 1.8% for 2010-2011.

In addition, as a result of a lawsuit filed against the State of North Dakota, a new funding formula emerged from the 2007 legislative session. State resources should now fund a much more significant portion of education costs. This was the first significant change in the formula since the 1970's. There is still work to be done on this new formula, but it is a positive step in resolving the funding issues in North Dakota and in this school district. The current discussion of the North Dakota Commission on Education Improvement is continuing to focus on the adequacy component of the formula.

Several years ago, during long term planning processes, we established goals related to our general operations. A fund balance goal, to help with financial stability was established at ten percent. That goal was substantially modified to 15%, and has been reached and surpassed with a current fund balance of 23.65%. We also wanted mill levy increases to be minimal or even decline over time. The mill levy was lowered by 4.04 mills in 2002-2003, 3.64 mills in 2003-04, .65 mills in 2004-2005, by .93 mills in 2005-2006, by 9.60 mills in 2006-2007, by 9.03 mills in 2007-2008, by 3.22 mills in 2008-2009, by 75.00 mills in 2009-2010 and is projected to remain constant in 2010-2011. This totals a mill levy decrease of 106.11 mills over the past eight years.

In addition this district set the following long-term objectives related to our operations.

1. This district will strive to maintain a salary and benefit package that attracts and retains the quality staff we have in the district. Our teacher compensation package ranks first in the state and our recent efforts to improve that package should keep the district at the top of the compensation comparison in the state.
2. This district will monitor existing debt and refinance when rates are favorable. Over the past several years all of the existing debt that could be refinanced has been restructured to realize cost savings.

The Fargo school district will be looking towards the future as we prepare to update both the long-range facility plan and the long-range financial plan. The long-range facility plan details the configuration for educational facilities in the district and identifies the projects that need short-term and long-term decisions. This plan, as well as the long-range financial plan, includes the anticipated financial impact on the district. The Board decided in 2003-2004 to build a middle school to replace Agassiz and a new elementary school, Kennedy elementary, in southwest Fargo. Twenty eight (\$28) million dollars in bonds were sold to finance these two projects. In addition, changes to Longfellow Elementary were completed in 2005-06 and a decision to replace an aging Jefferson Elementary was finalized. A new Jefferson Elementary opened in the fall of 2007. A decision on the future use of Discovery was made with it to serve as a 6-8 grade middle school beginning in the fall of 2006, and the Davies High School construction is well underway with a projected opening date for the fall of 2011. Bonds totaling forty three (\$43) million dollars were sold during 2007-2008 to finance this project. Each of these documents will continue to be updated so that appropriate data will be available to the Board as planning for the future is reviewed. The curriculum review processes will drive our facility planning and financial needs, so that our educational priorities can be met first and the quality education provided by this district can continue well into the future.

While the current financial condition of the district is strong, careful planning and financial stewardship must be followed to ensure that stability remains in future years.

#### **Requests for Information**

This financial report is designed to provide a general overview of the Fargo Public School District's finances for all our citizens, taxpayers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Fargo Public Schools District Office  
Business Manager  
415 4th Street North  
Fargo, North Dakota 58102



BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

STATEMENT OF NET ASSETS  
June 30, 2010 and 2009

	Governmental Activities	
	2010	2009
<b>ASSETS:</b>		
Cash and Investments	\$ 53,560,029	\$ 44,628,403
Investment with Fiscal Agent	25,133,743	44,076,351
Accounts Receivable	8,025	32,161
Taxes Receivable	4,330,621	5,610,420
Intergovernmental Receivable	3,390,884	4,787,465
Due from County Treasurer	538,249	320,512
Due from Building Authority	-	-
Due from Future Builders	2,752,522	1,986,128
Inventories	223,691	224,234
Contracts Receivable	4,144,731	4,259,191
Interest Receivable	5,111	16,986
Bond Costs - Unamortized	1,067,678	1,200,853
Capital Assets (Not Being Depreciated):		
Land	12,369,502	12,369,502
Construction in Progress	29,337,755	6,086,252
Capital Assets (Net of Accumulated Depreciation):		
Buildings and Improvements	117,771,088	117,982,170
Equipment and Vehicles	2,600,855	2,735,516
Total Capital Assets	<u>\$ 162,079,200</u>	<u>\$ 139,173,440</u>
Total Assets	<u>\$ 257,234,484</u>	<u>\$ 246,316,144</u>
<b>LIABILITIES:</b>		
Accounts Payable	\$ 2,925,295	\$ 1,274,399
Salaries and Benefits Payable	4,242,024	3,765,280
Contracts Payable	2,143,698	202,931
IBNR Claims	868,035	650,996
Unearned Revenues	93,852	88,772
Interest Payable	762,380	844,260
Long-Term Liabilities:		
Due Within One Year:		
Due to Other Agencies	5,389,592	18,966
Bonds Payable	7,645,000	7,125,000
Special Assessments Payable	72,705	70,038
Certificate of Indebtedness Payable	290,000	409,293
Due After One Year:		
Certificate of Indebtedness Payable	115,000	405,000
Bonds Payable	97,615,000	105,260,000
Special Assessments Payable	1,172,490	1,245,195
Compensated Absences	486,028	461,465
Bond Premium - Unamortized	1,201,502	1,340,272
Sick Leave Longevity Payable	2,677,796	2,342,273
PTO Payable	321,882	377,876
Total Liabilities	<u>\$ 128,022,279</u>	<u>\$ 125,882,016</u>
<b>NET ASSETS:</b>		
Invested in Capital Assets, net of Related Debt	\$ 56,685,376	\$ 26,649,021
Restricted For:		
Capital Projects	26,114,095	50,464,637
Debt Service	3,367,122	3,371,463
Unrestricted	43,045,612	39,949,007
Total Net Assets	<u>\$ 129,212,205</u>	<u>\$ 120,434,128</u>

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

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2010 (Summarized Comparative Totals 2009)

	2010				2009
Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets	Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants and Contributions		
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$ 56,096,788	\$ 2,672,519	\$ 40,149,519	\$ (13,274,750)	\$ (48,470,444)
Special Education	19,495,843	855,520	3,498,272	(15,142,051)	(12,658,289)
Vocational Education	8,943,435	144,061	646,014	(8,153,360)	(3,785,288)
Adult Education	624,301	-	343,854	(280,447)	208,572
Support Services:					
Pupil Services	3,323,058	416,444	-	(2,906,614)	(3,045,654)
Instructional Staff Services	4,322,592	-	-	(4,322,592)	(4,492,561)
General Administrative Services	2,380,671	27	-	(2,380,644)	(1,937,428)
School Administrative Services	7,206,001	-	-	(7,206,001)	(6,921,512)
Business Services	2,153,490	84,726	-	(2,068,764)	(3,181,732)
Operations and Maintenance	10,657,072	184,265	-	(10,472,807)	(10,452,720)
Pupil Transportation Services	1,731,073	3,590	583,820	(1,143,663)	(1,023,322)
Extracurricular	3,324,665	-	-	(3,324,665)	(3,010,004)
Other Capital Outlays	1,121,710	-	-	(1,121,710)	-
Food Service Outlays	4,767,394	3,355,643	1,917,989	506,238	389,246
Community Services	199,854	-	-	(199,854)	(162,974)
Debt Service:					
Interest Expense	4,772,438	-	-	(4,772,438)	(5,479,057)
Total Governmental Activities	<u>\$ 131,120,385</u>	<u>\$ 7,716,795</u>	<u>\$ 47,139,468</u>	<u>\$ (76,264,122)</u>	<u>\$ (104,023,167)</u>
<u>General Revenues:</u>					
Taxes:					
Property Taxes; Levied for General Purposes				\$ 46,848,300	\$ 66,509,438
Property Taxes; Levied for Debt Service				7,367,474	6,999,520
Other Tax Revenue				752,683	672,277
State Aid not Restricted to Specific Program:					
Per Pupil Aid				28,327,217	37,201,876
Interest Income and Other Revenue				1,660,877	2,173,254
Gain on the Sale of Assets				85,648	819,257
Total General Revenues				<u>\$ 85,042,199</u>	<u>\$ 114,375,622</u>
Change in Net Assets				<u>\$ 8,778,077</u>	<u>\$ 10,352,455</u>
Net Assets - July 1, 2009				<u>\$ 120,434,128</u>	<u>\$ 110,081,673</u>
Net Assets - June 30, 2010				<u>\$ 129,212,205</u>	<u>\$ 120,434,128</u>

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

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

BALANCE SHEET-GOVERNMENTAL FUNDS  
June 30, 2010 (Summarized Comparative Totals 2009)

	MAJOR FUNDS			Other	Total Governmental Funds	
	General Fund	Capital Projects	Debt Service	Governmental Funds	2010	2009
<u>ASSETS</u>						
Cash and Investments	\$ 36,229,309	\$ 4,038,873	\$ -	\$ 2,911,531	\$ 43,179,713	\$ 33,955,492
Investment with Fiscal Agent	-	21,766,621	3,367,122	-	25,133,743	44,076,351
Interest Receivable	5,111	-	-	-	5,111	16,986
Accounts Receivable	7,324	-	-	701	8,025	32,161
Taxes Receivable	3,775,420	555,201	-	-	4,330,621	5,610,420
Intergovernmental Receivable	3,390,884	-	-	-	3,390,884	4,787,465
Due from County Treasurer	467,704	70,545	-	-	538,249	320,512
Contracts Receivable	-	4,144,731	-	-	4,144,731	4,259,191
Due from Future Builders	2,752,522	-	-	-	2,752,522	1,986,128
Inventories	208,797	-	-	14,894	223,691	224,234
Total Assets	<u>\$ 46,837,071</u>	<u>\$ 30,575,971</u>	<u>\$ 3,367,122</u>	<u>\$ 2,927,126</u>	<u>\$ 83,707,290</u>	<u>\$ 95,268,940</u>
<u>LIABILITIES AND FUND BALANCES</u>						
<u>Liabilities:</u>						
Accounts Payable	\$ 2,685,329	\$ -	\$ -	\$ 8,536	\$ 2,693,865	\$ 1,071,633
Salaries and Benefits Payable	4,236,311	-	-	5,713	4,242,024	3,765,280
Due to Other Agencies	5,389,592	-	-	-	5,389,592	18,966
Contracts Payable	94,397	2,049,301	-	-	2,143,698	202,931
Deferred Contracts Payable	-	4,144,731	-	-	4,144,731	4,259,191
Deferred Revenues	3,775,420	555,201	-	93,852	4,424,473	5,699,192
Total Liabilities	<u>\$ 16,181,049</u>	<u>\$ 6,749,233</u>	<u>\$ -</u>	<u>\$ 108,101</u>	<u>\$ 23,038,383</u>	<u>\$ 15,017,193</u>
<u>Fund Balances:</u>						
Reserved for Inventories	\$ 208,797	\$ -	\$ -	\$ 8,223	\$ 217,020	\$ 221,565
Reserved for Contracts Receivable	-	4,144,731	-	-	4,144,731	4,259,191
Reserved for Loans Receivable	2,752,522	-	-	-	2,752,522	1,986,128
Reserved for Facility Maintenance	297,675	-	-	-	297,675	297,675
Reserved for Debt Service	-	-	3,367,122	-	3,367,122	44,076,351
Unreserved, reported in:						
General Fund	27,397,028	-	-	-	27,397,028	23,854,248
Special Revenue Funds	-	-	-	2,810,802	2,810,802	2,483,801
Capital Projects Funds	-	19,682,007	-	-	19,682,007	3,072,788
Total Fund Balances	<u>\$ 30,656,022</u>	<u>\$ 23,826,738</u>	<u>\$ 3,367,122</u>	<u>\$ 2,819,025</u>	<u>\$ 60,668,907</u>	<u>\$ 80,251,747</u>
Total Liabilities and Fund Balances	<u>\$ 46,837,071</u>	<u>\$ 30,575,971</u>	<u>\$ 3,367,122</u>	<u>\$ 2,927,126</u>	<u>\$ 83,707,290</u>	<u>\$ 95,268,940</u>

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

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BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
June 30, 2010

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Total *Fund Balances* for Governmental Funds \$ 60,668,907

Total net assets reported for government activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.

Cost of Capital Assets	\$ 204,054,995	
Less Accumulated Depreciation	(41,975,795)	
Net Capital Assets		162,079,200

Property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenues in the funds. 4,330,621

Contracts receivable are amounts due from the park district which will be collected in future years. They are reported as deferred revenue in the governmental funds. 4,144,731

Interest payable on long-term debt is not accrued in the governmental fund statements until due, but is recorded as an expense on the statement of net assets. (762,380)

Long-term liabilities applicable to the School District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets. Balances at June 30, 2010 are:

Bonds Payable	\$ (105,260,000)	
Certificate of Indebtedness	(405,000)	
Sick Leave Longevity	(2,677,796)	
PTO Payable	(321,882)	
Unamortized Bond Premium	(1,201,502)	
Deferred Charge for Issue Costs	1,067,678	
Special Assessments	(1,245,195)	
Compensated Absences	(486,028)	
Total Long-Term Liabilities		(110,529,725)

An internal service fund is used by the School District to charge the cost of medical insurance, worker's compensation insurance and unemployment claims to individual functions. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. Internal service fund net assets are:

9,280,851

Total Net Assets of Governmental Activities \$ 129,212,205

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

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2010 (Summarized Comparative Totals 2009)

	MAJOR FUNDS			Other	Total Governmental	
	General	Capital Projects	Debt Service	Governmental Funds	2010	2009
<b>Revenues:</b>						
Local Sources	\$ 53,251,648	\$ 8,744,712	\$ 1,108	\$ 3,694,427	\$ 65,691,895	\$ 80,104,170
State Sources	54,428,093	-	-	53,785	54,481,878	39,401,092
Federal Sources	18,993,133	-	-	1,856,031	20,849,164	9,726,642
Other Sources	187,050	-	-	-	187,050	130,191
<b>Total Revenues</b>	<b>\$ 126,859,924</b>	<b>\$ 8,744,712</b>	<b>\$ 1,108</b>	<b>\$ 5,604,243</b>	<b>\$ 141,209,987</b>	<b>\$ 129,362,095</b>
<b>Expenditures:</b>						
<b>Current:</b>						
<b>Instruction:</b>						
Regular	\$ 53,506,567	\$ -	\$ -	\$ -	\$ 53,506,567	\$ 54,166,536
Special Education	18,711,628	-	-	-	18,711,628	16,408,759
Vocational Education	8,750,883	-	-	-	8,750,883	4,332,996
Adult Education	594,320	-	-	-	594,320	602,929
<b>Support Services:</b>						
Pupil Services	3,312,139	-	-	-	3,312,139	3,127,608
Instructional Staff Services	4,311,156	-	-	-	4,311,156	4,498,130
General Administration Services	2,126,938	-	-	-	2,126,938	2,079,881
School Administration Services	7,093,086	-	-	-	7,093,086	6,571,095
Business Services	2,104,354	-	-	-	2,104,354	3,558,850
Operations and Maintenance	10,671,449	-	-	-	10,671,449	10,604,093
Pupil Transportations Services	1,731,004	-	-	-	1,731,004	1,437,344
Extracurricular	135,821	-	-	3,184,739	3,320,560	3,018,401
Food Service Outlays	-	-	-	4,734,496	4,734,496	4,494,448
Community Services	199,417	-	-	-	199,417	163,128
<b>Capital Outlays</b>	<b>2,137,979</b>	<b>25,180,974</b>	<b>-</b>	<b>-</b>	<b>27,318,953</b>	<b>5,739,241</b>
<b>Debt Service:</b>						
Principal	422,221	3,260,000	3,852,000	-	7,534,221	26,365,878
Interest	22,914	592,058	4,239,346	-	4,854,318	5,535,761
Bond Costs	-	-	2,986	-	2,986	389,536
<b>Total Expenditures</b>	<b>\$ 115,831,876</b>	<b>\$ 29,033,032</b>	<b>\$ 8,094,332</b>	<b>\$ 7,919,235</b>	<b>\$ 160,878,475</b>	<b>\$ 153,094,614</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ 11,028,048</b>	<b>\$ (20,288,320)</b>	<b>\$ (8,093,224)</b>	<b>\$ (2,314,992)</b>	<b>\$ (19,668,488)</b>	<b>\$ (23,732,519)</b>
<b>Other Financing Sources (Uses):</b>						
Transfers In	\$ 803,743	\$ 3,772,463	\$ 8,094,331	\$ 2,797,608	\$ 15,468,145	\$ 34,444,482
Transfers Out	(7,551,425)	(7,751,272)	(5,448)	(160,000)	(15,468,145)	(34,444,482)
Premium on the Sale of Bonds	-	-	-	-	-	354,711
Sale of Bonds	-	-	-	-	-	23,050,000
Sale of Capital Assets	28,648	57,000	-	-	85,648	823,182
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (6,719,034)</b>	<b>\$ (3,921,809)</b>	<b>\$ 8,088,883</b>	<b>\$ 2,637,608</b>	<b>\$ 85,648</b>	<b>\$ 24,227,893</b>
<b>Net Change in Fund Balances</b>	<b>\$ 4,309,014</b>	<b>\$ (24,210,129)</b>	<b>\$ (4,341)</b>	<b>\$ 322,616</b>	<b>\$ (19,582,840)</b>	<b>\$ 495,374</b>
<b>Fund Balance - July 1</b>	<b>\$ 26,347,008</b>	<b>\$ 48,036,867</b>	<b>\$ 3,371,463</b>	<b>\$ 2,496,409</b>	<b>\$ 80,251,747</b>	<b>\$ 79,756,373</b>
<b>Fund Balance - June 30</b>	<b>\$ 30,656,022</b>	<b>\$ 23,826,738</b>	<b>\$ 3,367,122</b>	<b>\$ 2,819,025</b>	<b>\$ 60,668,907</b>	<b>\$ 80,251,747</b>

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

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BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2010

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Net Change in *Fund Balances* - Total Governmental Funds \$ (19,582,840)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.

Current Year Capital Outlay	\$ 26,360,075	
Current Year Depreciation / Amortization Expense	<u>(3,454,315)</u>	22,905,760

An internal service fund is used by the district's management to charge the cost of medical insurance, workers' compensation and unemployment claims to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities. (538,298)

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

Net Increase in Compensated Absences	\$ (24,563)	
Net Increase in Sick Leave Longevity Payable	(335,523)	
Net Decrease in PTO Payable	55,994	
Net Decrease in Interest Payable	81,880	
Net Decrease in Special Assessments	<u>70,038</u>	(152,174)

Governmental funds report bond premiums when they are first issued. In government-wide statements these amounts are deferred and amortized in the statement of activities. 138,770

Bond issue costs are reported as an expenditure in the governmental funds, but the costs are capitalized in the government-wide statements. (133,175)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 7,534,293

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of an increase in taxes receivable and contracts receivable.

Decrease in Taxes Receivable	\$ (1,279,799)	
Decrease in Contracts Receivable	<u>(114,460)</u>	<u>(1,394,259)</u>

Change in Net Assets of Governmental Activities \$ 8,778,077

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

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BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2010 and 2009

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	Internal Service Fund	
	2010	2009
<u>ASSETS:</u>		
<u>Current Assets:</u>		
Cash and Investments	<u>\$ 10,380,316</u>	<u>\$ 10,672,911</u>
<u>LIABILITIES:</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 231,430	\$ 202,766
IBNR Claims	<u>868,035</u>	<u>650,996</u>
Total Current Liabilities	<u>\$ 1,099,465</u>	<u>\$ 853,762</u>
<u>NET ASSETS:</u>		
Restricted For:		
Retiree's Insurance	\$ 505,000	\$ 505,000
Workman's Compensation	200,000	200,000
Unrestricted	<u>8,575,851</u>	<u>9,114,149</u>
Total Net Assets	<u><u>\$ 9,280,851</u></u>	<u><u>\$ 9,819,149</u></u>

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

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BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
For the Years Ended June 30, 2010 and 2009

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	Internal Service Fund	
	2010	2009
<u>Operating Revenues:</u>		
Contributions to Self-Insurance	<u>\$ 11,522,412</u>	<u>\$ 10,702,659</u>
Total Operating Revenues	<u>\$ 11,522,412</u>	<u>\$ 10,702,659</u>
<u>Operating Expenses:</u>		
Health Insurance Claims	<u>\$ 12,060,710</u>	<u>\$ 10,369,021</u>
Change in Net Assets	<u>\$ (538,298)</u>	<u>\$ 333,638</u>
Total Net Assets - July 1	<u>\$ 9,819,149</u>	<u>\$ 9,485,511</u>
Total Net Assets - June 30	<u><u>\$ 9,280,851</u></u>	<u><u>\$ 9,819,149</u></u>

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



BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Years Ended June 30, 2010 and 2009

	Internal Service Fund	
	2010	2009
<u>Cash Flows from Operating Activities:</u>		
Received from User Charges	\$ 11,522,412	\$ 10,712,457
Payments for Health Insurance Claims	<u>(11,815,007)</u>	<u>(10,247,927)</u>
Net Cash Provided (Used) by Operating Activities	\$ (292,595)	\$ 464,530
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (292,595)	\$ 464,530
Cash and Cash Equivalents - July 1	\$ 10,672,911	\$ 10,208,381
Cash and Cash Equivalents - June 30	<u>\$ 10,380,316</u>	<u>\$ 10,672,911</u>
 <u>Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:</u>		
Operating Income (Loss)	\$ (538,298)	\$ 333,638
Adjustments to reconcile operating income (loss) to net cash provided (Used) by operating activities:		
Changes in Assets and Liabilities:		
Decrease in Accounts Receivable	-	9,798
Increase in Accounts Payable	28,664	202,243
Decrease in IBNR Claims Payable	<u>217,039</u>	<u>(81,149)</u>
Net Cash Used by Operating Activities	<u>\$ (292,595)</u>	<u>\$ 464,530</u>

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

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BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
June 30, 2010 and 2009

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	Agency Funds	
	2010	2009
<u>ASSETS:</u>		
Cash and Investments	\$ 1,451,576	\$ 610,280
Due from Other Governmental Units	179,869	577,244
Accounts Receivable	62,685	158,827
Total Assets	<u>\$ 1,694,130</u>	<u>\$ 1,346,351</u>
<u>LIABILITIES:</u>		
Accounts Payable	\$ 128,157	\$ 151,442
Due to Student Groups	1,521,867	1,172,800
Contracts Payable	44,106	22,109
Total Liabilities	<u>\$ 1,694,130</u>	<u>\$ 1,346,351</u>

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

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BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010

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

The financial statements of the Board of Education of the City of Fargo have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the school district's accounting policies are described below.

A. Reporting Entity

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

Based on these criteria, there is one component unit to be included within the Board of Education of the City of Fargo as a reporting entity.

**BLENDED COMPONENT UNIT**

This component unit is a legally separate entity, which provides services exclusively to the school.

Fargo School District Building Authority – The building authority was created by the school board as a legally separate entity. Its purpose is to promote the educational system of the district by providing financing for use by the school in altering, repairing, maintaining or constructing buildings and making improvements connected to school buildings. The school board is the governing board of the building authority. Activity of the Building Authority is recorded in the debt service and capital projects funds. Financial statements for the component unit may be obtained at the Fargo Public School District Office.

B. Basis of Presentation, Basis of Accounting

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

## BOARD OF EDUCATION OF THE CITY OF FARGO

### Notes to the Financial Statements - Continued

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

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

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

The school district reports the following major governmental funds:

*General Fund.* This is the school district's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Debt Service Fund.* This fund is used to account for financial resources to be used for payment of long-term debt principal, interest and related costs.

*Capital Projects Fund.* This fund is used to account for financial resources to be used for acquisition or construction of major capital facilities.

Additionally, the school district reports the following fund types:

*Internal Service Fund.* This fund accounts for medical insurance, workers' compensation insurance and unemployment claims provided to other departments on a cost-reimbursement basis.

*Agency Funds.* This fund accounts for assets held by the school district in a custodial capacity as an agent on behalf of others. The school district's agency fund is used to account for various deposits of the student activity funds.

#### C. Measurement Focus and Basis of Accounting

*Government-wide, Proprietary and Fiduciary Fund Financial Statements.* The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The fiduciary funds are agency funds. The government-wide, proprietary and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the school district gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

#### D. Budgets

Based upon available financial information and requests by the school board, the business manager prepares the school district budget. The budget is prepared for the general, special revenue, debt service and capital projects funds on the modified accrual basis of accounting. The budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

School district taxes must be levied by the governing board on or before the fifteenth day of August. The taxes levied must be certified to the county auditor by August 25. The governing body of the school district may amend its tax levy and budget for the current fiscal year on or before the tenth day of October of each year, but the certification must be filed with the county auditor by October 10. The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.

Encumbrance accounting is employed in governmental funds. Encumbrances, which are comprised of purchase orders, outstanding at year-end, are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated during the subsequent fiscal year.

#### E. Cash and Investments

Cash includes amounts in demand deposits and money market accounts. Cash equivalents consist of deposits with a maturity of three months or less. Deposits must either be deposited with the Bank of North Dakota or in another financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the uninsured balance. The bank balances of the district, as of the balance sheet date, are entirely insured or collateralized with securities held by the school system or its agent in the school system's name.

**BOARD OF EDUCATION OF THE CITY OF FARGO**

## Notes to the Financial Statements - Continued

Investments consist of certificates of deposit stated at cost and government securities for the building authority stated at fair value. Although all deposits of the district are categorized as Category 1, readers should be aware of the three categories of disclosure required for investments and deposits.

Category	Investments	Deposits
1	Insured or registered or securities held by the entity or its agent in the entity's name.	Insured or collateralized, with securities held by the entity or by its agent in the entity's name.
2	Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.	Collateralized, with securities held by the pledging financial institution's trust department or agent in the entity's name.
3	Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the entity's name (this includes the portion of the carrying amount of any repurchase agreement that exceeds the market value of the underlying securities).	Uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name).

**F. Inventories**

The district accounts for the inventory of the general and food service funds using the consumption method. Under this method inventories are initially recorded as assets and the recognition of the expenditure is deferred until the period in which the inventories are actually consumed. This approach is used since our inventory includes commodities. Inventories are valued on the FIFO (first in first out) cost basis.

The valuation of food service commodity inventory is established by the USDA and provided to the district. The value of the commodities inventory at June 30, 2010 was \$6,672.

**G. Capital Assets**

Capital assets, which include land and land improvements, buildings and improvements, vehicles and equipment, and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Buildings and improvements, and vehicles and equipment of the district are depreciated using the straight line method over the following estimated useful lives.

Assets	Years
Permanent Buildings	50
Temporary or Wood Structures	10
Playground Equipment	20
Vehicles - New	15
Vehicles – Used – Includes: Generators, Tractors, Pallet Stackers	*
Exception: Front-End Loaders	25
Copy Machines	6
Servers and Computer Hardware	5
Other Equipment – Includes: Food Service Equipment, Walk in Freezers Auto Scrubbers, Stage Tables	10

\* Useful life on used vehicles is 15 years less (year of manufacture less year of purchase).

Land and Construction in Progress are not depreciated.

#### H. Compensated Absences

Vested or accumulated vacation leave is reported in the government-wide statement of net assets. Compensation for unused vacation leave will be granted to all 12-month employees upon termination of employment with the school district based on the current rate of pay. Twelve-month employees may carry forward unused leave not to exceed 10 days, which will be added to the accumulation for the current year. Vacation leave is earned as follows:

SERVICE	DAYS PER YEAR
0 – 11 Months	7
1 year through 5 years 11 months	14
6 years through 11 years 11 months	17
12 years through 14 years 11 months	20
15 years and above	22

Nine and ten month employees are entitled to two personal days per year, prorated to the length of the employee's work day, which may accumulate to a maximum of five days. Employees may request payment for unused personal leave, based on contracted daily hours and the third step of the salary schedule in group two of the current year's schedule.

Sick leave benefits are provided to all employees who are employed for four or more hours per day at a rate of fifteen days per year. Sick leave benefits are prorated on the basis of the number of months of employment for employees whose employment starts at other than the normal starting date. Sick leave benefits can accumulate up to a maximum of 180 days for regular district employees, and 246 days for administrators. In accordance with provisions of Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

#### I. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums, discounts and issuance costs are generally recognized as long-term and will be amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt 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 are reported as debt service expenditures.

#### J. Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### K. Interfund Transactions

In the governmental fund statements, transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

**BOARD OF EDUCATION OF THE CITY OF FARGO**Notes to the Financial Statements - Continued

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All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as transfers.

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

<b>NOTE 2: LEGAL COMPLIANCE - BUDGETS</b>
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**BUDGET AMENDMENTS**

The school board amended the school district budget for 2010 as follows:

	REVENUES		
	Original Budget	Amendment	Amended Budget
General Fund	\$139,267,622	\$4,338,286	\$143,605,908

	EXPENDITURES		
	Original Budget	Amendment	Amended Budget
General Fund	\$132,132,447	\$4,566,921	\$136,699,368

	TRANSFERS IN		
	Original Budget	Amendment	Amended Budget
General Fund	\$778,997	\$476,859	\$1,255,856

<b>NOTE 3: DEPOSITS AND INVESTMENTS</b>
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**Deposits:**

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

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

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by and 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.



**BOARD OF EDUCATION OF THE CITY OF FARGO**Notes to the Financial Statements - Continued

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At the year ended June 30, 2010, the Fargo Public School District's carrying amount of all deposits was \$50,010,775 and the bank balances were \$52,924,674. Of the bank balances, \$1,250,000 was covered by Federal Depository Insurance. The remaining balances of \$51,674,674 were collateralized with securities held by the pledging financial institution's agent in the school district's name. Additional information on deposits is located in Note 1E.

Investments:

As of June 30, 2010 the school district had the following investments and maturities:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Maturity</b>
Repurchase Agreement	\$ 5,000,000	315 Days
U.S. Treasuries	25,133,743	
Totals	\$30,133,743	

Interest Rate Risk:

The school district does not have a formal investment policy that limits investments as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit Risk:

State statutes authorize the school district to invest in:

- (1) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the Treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of deposit fully insured by the Federal Deposit Insurance Corporation or by the state.
- (4) Obligations of the state.

As of June 30, 2010, the school district had certificates of deposits totaling \$ 5,000,000.

Concentration of Credit Risk:

The school district does not have a limit on the amount the district may invest in any one issuer. The Fargo Public School District's current bond rating is AA.

<b>NOTE 4: TAXES RECEIVABLE</b>
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Taxes receivable represents the past five years of uncollected current and delinquent taxes. No allowance has been established for uncollectible taxes receivable since all delinquent property is sold after five years to satisfy the tax lien.

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

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

**BOARD OF EDUCATION OF THE CITY OF FARGO**Notes to the Financial Statements - Continued

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

**NOTE 5: ACCOUNTS RECEIVABLE**

Accounts receivable consists of amounts on open account from other school districts and organizations for goods and services furnished by the school district. No allowance has been established for uncollectible accounts since they rarely occur.

**NOTE 6: INTERGOVERNMENTAL RECEIVABLE**

Intergovernmental receivables consist of reimbursements due for expenses in the operation of various school programs. These amounts consist of a mix of state and federal dollars.

**NOTE 7: DUE FROM COUNTY TREASURER**

The amount due from the county treasurer consists of the cash on hand for taxes collected but not remitted to the school at June 30.

**NOTE 8: DUE FROM FUTURE BUILDERS**

The Fargo Public Schools entered into an agreement with Future Builders, wherein Future Builders agreed to provide money for the construction of the new Trollwood Performing Arts School. Future Builders agreed to repay the Fargo Public Schools any amounts advanced up to \$3,000,000 as pledges come in over the next three to five years.

**NOTE 9: CONTRACTS RECEIVABLE**

Contracts receivable represent contracts with the Fargo Park District for land sales and improvements of district property. The following is a summary of contracts receivable:

\$690,608 Contract Receivable for Bennett Specials, due in annual installments of \$6,683 to \$83,285 through 2026; interest at 5%-6.748%.	\$ 117,534
\$3,400,000 Contract Receivable for 2009 Lease Revenue Bonds, due in annual installments of \$190,000 to \$315,500 through May 2024, interest at 4.4%-5.2%.	3,400,000
\$267,000 Contract Receivable for Clara Barton Gym, due in annual installments of \$32,706 to \$36,403 through 2011; interest at 5.5%.	36,403
\$400,000 Contract Receivable for 2006 Land Certificate of Indebtedness, due in annual installments of \$55,000 to \$60,000 through 2013; interest at 3.8%.	171,000
\$522,657 Contract Receivable for Kennedy Elementary Specials, due in annual installments of \$7,148 to \$31,070 through 2029; interest at 5.566% - 6.748%.	<u>419,794</u>
Total Contracts Receivable	<u>\$4,144,731</u>

**BOARD OF EDUCATION OF THE CITY OF FARGO**

## Notes to the Financial Statements - Continued

**NOTE 10: INVENTORIES**

Inventories consist of supplies and materials of the general fund and food and supplies for the food service fund. Reported inventories are equally offset by a fund balance reserve which indicates they do not constitute "available spendable resources" even though they are a component of net current assets.

**NOTE 11: CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended June 30, 2010.

<b>Governmental Activities:</b>	<b>Balance July 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30</b>
<i>Capital assets not being depreciated:</i>				
Land	\$ 12,369,502	\$ -	\$ -	\$ 12,369,502
Construction in Progress	6,086,252	26,127,204	2,875,701	29,337,755
Total capital assets, not depreciated	\$ 18,455,754	\$26,127,204	\$2,875,701	\$ 41,707,257
<i>Capital assets, being depreciated:</i>				
Buildings and Improvements	\$152,425,516	\$ 2,875,701	\$ -	\$155,301,217
Vehicles and Equipment	6,813,650	384,816	151,946	7,046,520
Total capital assets, being depreciated	\$159,239,166	\$ 3,260,517	\$ 151,946	\$162,347,737
Less accumulated depreciation for:				
Buildings and Improvements	\$ 34,443,346	\$ 3,086,783	\$ -	\$ 37,530,129
Vehicles and Equipment	4,078,134	515,364	147,833	4,445,665
Total accumulated depreciation	\$ 38,521,480	\$ 3,602,147	\$ 147,833	\$ 41,975,794
Total capital assets being depreciated, net	\$120,717,686	\$ (341,630)	\$ 4,113	\$120,371,943
Governmental activities capital assets, net	\$139,173,440	\$25,785,574	\$2,879,814	\$162,079,200

**NOTE 12: BOND COST/PREMIUM**

The following is a summary of changes in bond costs for the year ended June 30, 2010.

	<b>Balance July 1</b>	<b>Bond Cost Amortization</b>	<b>Balance June 30</b>
2004B (28M) Limited Tax Bond	\$ 222,786	\$ 15,914	\$ 206,872
2004C Special Assessment Bond	5,852	5,852	-
2004 (3.3M) Refunding Bond	9,506	9,506	-
2005 W-Refunding (97 Const)	6,895	6,895	-
2005 J-Refunding (98 Const)	167,026	20,878	146,148
2005 Refunding (98 Refunding CI)	4,770	4,770	-
2006 Refunding (98 Refunding)	26,039	8,680	17,359
2006 3.6M Jefferson Bond	32,478	4,330	28,148
2006 1.485M Land CI Bond	8,077	4,039	4,038
2007 10M Limited Tax Bond	114,324	6,351	107,973
2008 33M Limited Tax Bond	213,563	12,563	201,000
2009 3.4M Lease Revenue Bond	83,137	5,542	77,595
2009B 19.650M Lease Rev Bond	306,400	27,855	278,545
Net Bond Costs	\$1,200,853	\$133,175	\$1,067,678

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
Notes to the Financial Statements - Continued

The following is a summary of changes in bond premiums for the year ended June 30, 2010.

	<b>Balance July 1</b>	<b>Bond Premium Amortization</b>	<b>Balance June 30</b>
2004B (28M) Limited Tax Bond	\$ 456,709	\$ 32,622	\$ 424,087
2004C Special Assessment Bond	2,375	2,375	-
2004 (3.3M) Refunding Bond	8,409	8,409	-
2005 J-Refunding (98 Const)	267,308	33,413	233,895
2005 W-Refunding (97 Const)	1,096	1,096	-
2006 Refunding (98 Refunding)	50,959	16,987	33,972
2006 1.485M Land CI Bond	3,710	927	2,783
2006 3.6M Jefferson Bond	7,788	1,038	6,750
2007 10M Limited Tax Bond	50,216	2,790	47,426
2008 33M Limited Tax Bond	136,991	8,058	128,933
2009 3.4M Lease Revenue Bond	49,136	3,276	45,860
2009B 19.650M Lease Rev Bond	305,575	27,779	277,796
Net Bond Costs	\$1,340,272	\$138,770	\$1,201,502

A net amount for depreciation and amortization was charged to functions/programs of the school district as follows:

<b>Governmental Activities:</b>	<b>Depreciation</b>	<b>Bond Costs</b>	<b>Bond Premium</b>	<b>Totals</b>
Regular Instruction	\$2,316,947	\$ 95,552	\$ (99,565)	\$2,312,934
Special Education	677,239	29,000	(30,219)	676,020
Vocational Education	175,443	7,569	(7,887)	175,125
Adult Education	24,435	1,054	(1,099)	24,390
Instructional Staff	821	-	-	821
General Administrative Services	1,403	-	-	1,403
School Administrative Services	110,091	-	-	110,091
Business Services	39,885	-	-	39,885
Extracurricular	33,741	-	-	33,741
School Food Services	87,460	-	-	87,460
Operations and Maintenance	134,682	-	-	134,682
Total Depreciation / Amortization	\$3,602,147	\$133,175	\$(138,770)	\$3,596,552

**NOTE 13: ACCOUNTS PAYABLE**

Accounts payable consist of amounts on open account for goods and services received prior to June 30 and chargeable to the appropriations for the year then ended, but paid for subsequent to that date.

**NOTE 14: SALARIES AND BENEFITS PAYABLE**

Salaries and benefits payable consist of salaries earned by employees but not paid until after year-end. It also consists of benefits owed to federal, state, and private agencies for amounts withheld from employees' salaries as of June 30.

**NOTE 15: CONTRACTS PAYABLE**

Contracts payable consist of retainages payable earned on various construction contracts at June 30 but not paid until after year-end.

**BOARD OF EDUCATION OF THE CITY OF FARGO**

## Notes to the Financial Statements - Continued

**NOTE 16: OPERATING LEASES RECEIVABLE**

The school district, as lessor, has leased a gymnastics facility at South High School, to American Gold, the YMCA and Moorhead Public School District. The school district has also leased office space in the District Administration Building to the Fargo Public Schools Federal Credit Union and is leasing an internet license block to the Forum Communications Company for wireless internet services. School District property is being leased to the City of Fargo for use as a depository and pick-up for recycling containers and District property is being leased to MinnKota Enviro-Services Inc. for a recycling facility. Leases receivable are as follows:

	Year Ending June 30th						
	2011	2012	2013	2014	2015	2016-20	TOTAL
American Gold Gymnastics	\$15,896	\$15,896	\$15,896	\$15,896	\$15,896	\$ -	\$ 79,480
YMCA	5,000	5,000	5,000	5,000	1,250	-	21,250
Credit Union	2,729	2,729	2,729	2,729	2,729	455	14,100
City of Fargo Recycling	8,500	-	-	-	-	-	8,500
Forum Communications	6,000	6,000	6,000	6,000	2,250	-	26,250
Moorhead Public Schools	8,000	8,000	4,667	-	-	-	20,667
MinnKota EnviroServices	3,132	3,132	3,132	3,132	3,132	-	15,660
<b>TOTAL</b>	<b>\$49,257</b>	<b>\$40,757</b>	<b>\$37,424</b>	<b>\$32,757</b>	<b>\$25,257</b>	<b>\$455</b>	<b>\$185,907</b>

**NOTE 17: LEASES PAYABLE**

**Operating Leases** – The school district has entered into various lease agreements. The Skills and Technology Training Center is leased for building space for our print shop and the district has entered into a lease agreement with T.S. McLaughlin for use of the Krider building for vehicle and equipment storage and maintenance and for a future print shop. Riverwood Park is being leased for playing fields to be used for football practices and non-varsity football games. To alleviate parking problems for our employees, the Fargo Public School leases from The Fargo Housing and Redevelopment Authority, twenty parking spaces next to our district office. Total costs for all leases were \$137,858 for the year ended June 30, 2010. The future minimum lease payments are as follows:

<b>Year Ending June 30</b>	<b>Skills and Technology Center</b>	<b>Krider Building</b>	<b>Riverwood Park</b>	<b>Fargo Housing Authority</b>	<b>Total</b>
2011	\$ 5,064	\$104,856	\$ 323	\$7,200	\$117,443
2012	-	104,856	323	-	105,179
2013	-	104,856	324	-	105,180
2014	-	104,856	324	-	105,180
2015	-	104,856	324	-	105,180
2016-2020	-	157,284	1,617	-	158,901
2021-2025	-	-	1,617	-	1,617
2026-2030	-	-	431	-	431
<b>TOTAL</b>	<b>\$ 5,064</b>	<b>\$681,564</b>	<b>\$5,283</b>	<b>\$7,200</b>	<b>\$699,111</b>

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
Notes to the Financial Statements - Continued

**NOTE 18: LONG-TERM DEBT**

**Changes in Long-Term Liabilities** – During the year ended June 30, 2010, the following changes occurred in liabilities reported in long-term debt. The balance owing on Certificates of Indebtedness was reduced \$72 by the bank when we paid off a certificate early.

	Balance July 1	Decrease Adjustments	Increases	Decreases	Balance June 30	Due Within One Year
G.O. Bonds Payable	\$ 72,010,000	\$ -	\$ -	\$2,080,000	\$ 69,930,000	\$ 1,745,000
Certificate of Indebtedness	814,293	72	-	409,221	405,000	290,000
Special Assessments	1,315,233	-	-	70,038	1,245,195	72,705
Building Authority Rev. Bonds	40,375,000	-	-	5,045,000	35,330,000	5,900,000
Compensated Absences	461,465	-	338,920	314,357	486,028	-
Sick Leave Longevity Payable	2,342,273	-	691,917	356,394	2,677,796	-
PTO Payable	377,876	-	98,098	154,092	321,882	-
Due to Other Agencies	18,966	-	5,412,981	42,355	5,389,592	5,389,592
<b>TOTAL</b>	<b>\$117,715,106</b>	<b>\$ 72</b>	<b>\$6,541,916</b>	<b>\$8,471,457</b>	<b>\$115,785,493</b>	<b>\$13,397,297</b>

Debt payable at June 30, 2010 is comprised of the following individual issues:

**Bonds Payable:**

\$28,000,000 Limited Tax Bonds Series 2004B, due in annual installments of \$930,000 to \$3,100,000 through May 2023; interest at 4.0% to 5.0%. \$25,390,000

\$4,230,000 Current Refunding of 1998 School Building Refunding Bonds, due in annual installments of \$755,000 to \$785,000 through May 2012; interest at 4.0%. 1,540,000

\$10,000,000 Limited Tax Bond Series 2007, due in annual installments of \$3,890,000 to \$6,110,000 through May 2027; interest at 4.3%. 10,000,000

\$33,000,000 Limited Tax Bond Series 2008, due in annual installments of \$1,255,000 to \$5,580,000 through May 2026; interest at 4.0% to 5.0%. 33,000,000

Total Bonds Payable \$69,930,000

**Certificate of Indebtedness:**

\$1,485,000 Certificate of Indebtedness with U.S. Bank due in annual installments of \$55,000 to \$290,000 through 2013; with interest at 3.8%. \$ 405,000

**Building Authority Revenue Bonds:**

\$19,650,000 Lease Revenue Refunding Bonds, Series 2009B, due in annual installments of \$1,180,000 to \$2,715,000 through May 2020; interest at 2.5% to 4.0%. \$18,540,000

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
Notes to the Financial Statements - Continued

**Bonds Payable (Continued):**

\$23,005,000 First Mortgage Revenue Refunding Bonds of 2005, Refunding of 1997B Bonds, due in annual installments of \$370,000 to \$4,605,000 through May 2017; interest at 3.25% to 4.0%. \$ 10,955,000

\$3,600,000 Lease Revenue Bonds of 2006; due in annual installments of \$305,000 to \$395,000 through November 2016; interest at 3.875% to 4.05%. 2,435,000

\$3,400,000 Lease Revenue Bonds of 2009; due in annual installments of \$190,000 to \$315,000 through May 2024; interest at 4.4% to 5.2%. 3,400,000

Total Building Authority Revenue Bonds \$ 35,330,000

**Special Assessments:**

Special Assessments Payable represents special assessment taxes levied by the City of Fargo, ND against the school district for the District's share of the benefit derived from city funded improvements. The special assessments payable are due in annual installments through 2030; with interest at 4.7% to 6.748%. \$ 1,245,195

**Total Long-Term Debt** \$106,910,195

The annual long-term debt service requirements at June 30, 2010, are as follows:

<b>GOVERNMENTAL ACTIVITIES</b>				
<b>Year Ending June 30</b>	<b>G.O. Bonds</b>		<b>Building Authority Bonds</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2011	\$ 1,745,000	\$ 3,253,888	\$ 5,900,000	\$1,283,746
2012	1,715,000	3,181,612	6,425,000	1,096,464
2013	2,530,000	3,108,362	2,325,000	858,465
2014	3,310,000	3,000,787	2,530,000	786,066
2015	3,460,000	2,860,888	2,705,000	699,633
2016 – 2020	19,890,000	11,785,888	14,270,000	1,968,891
2021 – 2025	25,320,000	6,518,625	1,175,000	153,955
2026 - 2030	11,960,000	783,380	-	-
<b>TOTALS</b>	<b>\$69,930,000</b>	<b>\$34,493,430</b>	<b>\$35,330,000</b>	<b>\$6,847,310</b>

<b>GOVERNMENTAL ACTIVITIES</b>				
<b>Year Ending June 30</b>	<b>Certificates of Indebtedness</b>		<b>Special Assessments</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2011	\$290,000	\$15,390	\$ 72,705	\$ 75,557
2012	55,000	4,370	75,521	71,369
2013	60,000	2,280	76,592	67,024
2014	-	-	79,611	62,633
2015	-	-	82,800	58,074
2016 – 2020	-	-	311,953	225,518
2021 – 2025	-	-	313,924	133,194
2026 – 2030	-	-	232,089	31,586
<b>TOTALS</b>	<b>\$405,000</b>	<b>\$22,040</b>	<b>\$1,245,195</b>	<b>\$724,955</b>

**BOARD OF EDUCATION OF THE CITY OF FARGO**Notes to the Financial Statements - Continued

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Year Ending June 30	Total Long-Term Debt	
	Principal	Interest
2011	\$ 8,007,705	\$4,628,581
2012	8,270,521	4,353,815
2013	4,991,592	4,036,131
2014	5,919,611	3,849,486
2015	6,247,800	3,618,595
2016 – 2020	34,471,953	13,980,387
2021 – 2025	26,808,924	6,805,774
2026 – 2030	12,192,089	814,966
<b>TOTALS</b>	<b>\$106,910,195</b>	<b>\$42,087,735</b>

**NOTE 19: PENSION PLANS****1. North Dakota Teachers Fund for Retirement TFFR**

The school district contributes to the North Dakota Teachers Fund for Retirement (TFFR), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. TFFR provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with Chapter 15-39.1 of the North Dakota Century Code. TFFR issues a publicly available financial report that includes financial statements and required supplementary information for TFFR. The report is located on their website, [www.nd.gov/rio](http://www.nd.gov/rio), or may be obtained by writing to Teacher's Fund for Retirement, 1930 Burnt Boat Drive, PO Box 7100, Bismarck, North Dakota, 58507-7100.

Plan members are required to contribute 7.75% of their annual covered salary and the school district is required to contribute 8.25% of the teacher's salary. The contribution requirements of plan members and the school district are established and may be amended by the State Legislature. The school district's contributions to TFFR for the fiscal years ending June 30, 2010, 2009 and 2008 were \$4,558,136, \$4,327,724, and \$3,854,408 respectively, equal to the required contributions for the year.

**2. North Dakota Public Employees Retirement System**

The school district contributes to the North Dakota Public Employees' Retirement System (NDPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. NDPERS provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with Chapter 54-52 of the North Dakota Century Code. NDPERS issues a publicly available financial report that includes financial statements and required supplementary information for NDPERS. That report may be obtained by writing to NDPERS, 400 E Broadway, Suite 505, PO Box 1214, Bismarck, North Dakota, 58502-1214.

Plan members are required to contribute 4% of their annual salary. The school district is required to contribute 5.26% of the employee's salary which consists of 4.12% for employee retirement and 1.14% for the retiree health benefits fund. The contribution requirements of plan members and the school district are established and may be amended by the State Legislature. The school district's contributions to NDPERS for the years ending June 30, 2010, 2009 and 2008 were \$838,320, \$794,935 and \$752,331 respectively, equal to the required contributions for the year.



**BOARD OF EDUCATION OF THE CITY OF FARGO**

## Notes to the Financial Statements - Continued

**NOTE 20: RISK MANAGEMENT**

The Board of Education of the City of Fargo 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 school district pays an annual premium to NDIRF for its general liability and automobile insurance coverage. The coverage by NDIRF is limited to losses of one million dollars per occurrence.

The State Bonding Fund currently provides the school district 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 school district has workers compensation with the Workforce Safety and Insurance and purchases commercial insurance for personal property, building, inland marine, and boiler and machinery.

The school district has retained risk for employee health and dental insurance up to a maximum of \$200,000 per year per individual. They have purchased a stop loss policy for amounts in excess of 120% of expected claims.

Claims, which have been incurred at year-end but not reported, have been recorded as a claim reserve payable in the amount of \$868,035. Blue Cross Blue Shield, the plan administrator, has calculated this reserve requirement. Changes in the claim reserve payable during the past two years are as follows:

	Year Ended 6-30-10	Year Ended 6-30-09
Unpaid Claims July 1	\$ 650,996	\$ 732,145
Incurred Claims Including IBNR's	8,571,545	7,580,738
Less: Claims Paid	8,354,506	7,661,887
Unpaid Claims June 30	\$ 868,035	\$ 650,996

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

**NOTE 21: CONSTRUCTION COMMITMENTS**

The school district has several active construction projects as of June 30, 2010. The projects involve the start of construction at the new Davies High school and remodeling and renovations at various other schools. At year-end the district's commitments with contractors were as follows:

<b>Project</b>	<b>Spent-to-Date</b>	<b>Approximate Remaining Commitment</b>
5 <sup>th</sup> Avenue Maintenance Bldg.	\$ 55,818	\$ 144,252
Agassiz Remodeling	668,780	1,614,976
Davies High School	28,179,042	20,026,834
Lincoln HVAC	147,482	325,823
South Concession Building	286,633	1,481
<b>Totals</b>	<b>\$29,337,755</b>	<b>\$22,113,366</b>

## **BOARD OF EDUCATION OF THE CITY OF FARGO**

### **Notes to the Financial Statements - Continued**

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On April 22, 2003 the Board adopted a Long-Range Facility Plan. The last remaining piece of that plan is the construction of a third high school. At its May 22, 2007 board meeting, the Board authorized the school district to proceed with a bond sale to finance the construction of the new high school with a planned opening for the fall of 2011. Remodeling and renovations are underway at various school buildings and during the coming school year these projects are expected to be completed.

#### **NOTE 22: POST-RETIREMENT BENEFITS**

##### **GROUP HEALTH PLAN**

In addition to the pension benefits described in Note 19, the Board of Education of the City of Fargo provides post-retirement health care benefits, in accordance with Administrative Policy 5450, to all full time employees who retired prior to June, 2001. To be eligible for the plan an employee who retires before the age of 65 and after their 55<sup>th</sup> birthday must have 15 years of continuous service prior to the date of retirement. An employee who reaches the Rule of 85 as defined by Teacher's Fund for Retirement or Public Employee Retirement System prior to his/her 55<sup>th</sup> birthday will be treated in the same manner as employees who have reached the age of 55 for the purposes of Administrative Policy 5450. The employee may retain membership in the district's group health and life insurance plans until age 65 with premiums paid by the district with the retiree contributing to the cost of the premiums at the employee participation level in effect for all active employees. Expenditures for post-retirement health care benefits are recognized as retirees report claims. Currently 17 retirees remain covered under the plan. The school district has estimated a cost of \$505,000 for the post-employment benefit for the retiree's health plan. This amount has been designated in the Internal Service Fund. Also the school district has designated \$200,000 of the fund for workers compensation coverage.

##### **EARLY RETIREMENT AGREEMENT**

The Board of Education of the City of Fargo offers early retirement payments to employees under Administrative Policy 5452 "Longevity Recognition". Under Administrative Policy 5452 a regular district employee will be eligible for a one-time payment based on the number of accumulated sick leave days, not to exceed 180 days, at a rate of 1/180 of the MA lane, step 4. Administrators may accumulate up to 246 days at a rate of 1/246 of the MA + 45 lane, step 4, of the Teacher's Salary Schedule. At 15 years of service this payment will be 80% of that amount. For each subsequent year the payment will increase 2% through the 25<sup>th</sup> year of service, at which time the employee will receive 100% of that payment. To be eligible for the plan an employee must have 15 years of continuous service to the district, and have been determined eligible for full retirement benefits from either NDPERS or TFFR. For the year ended June 30, 2010 the school district had 25 employees who received this benefit at a cost to the school district of \$916,355.

**BOARD OF EDUCATION OF THE CITY OF FARGO**Notes to the Financial Statements - Continued

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**NOTE 23: TRANSFERS**

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended June 30, 2010:

Fund	Transfer In	Transfer Out	Explanation
General Fund	\$ 807,743	\$ 7,551,425	To finance programs in other funds
Student Activities	2,797,608	-	Eliminate deficits
Food Service	-	160,000	Reimburse expenses paid by district
District Building Authority-Capital Projects	-	7,751,272	Bond principal & Interest transfers
2005 Refunding (98 Construction)	3,772,463	-	Bond principal & Interest transfer
District Building Authority-Debt Service	2,686,180	-	Bond principal & Interest transfer
2006 Lease Revenue Bonds	5,408,151	-	Bond principal & Interest transfers
2000 Building Fund Project-018	-	834	Bond principal & Interest transfers
2005 Refunding (97 Construction)	-	4,614	Bond principal & Interest transfers
Total Transfers	\$15,468,145	\$15,468,145	

Transfers are used to move revenues from the fund with collection authorization to the debt service funds as principal and interest payments become due, to close out old debt service funds and to move unrestricted fund revenues to finance various programs that the school district must account for in other funds.

BOARD OF EDUCATION OF THE CITY OF FARGO  
 Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND

For the Year Ended June 30, 2010 (Summarized Comparative Totals 2009)

	Original Budget	Final Budget	Actual	Variance With Final Budget	2009
<u>Revenues:</u>					
Property Taxes	\$ 47,139,470	\$ 47,139,470	\$ 48,888,313	\$ 1,748,843	\$ 63,216,683
Other Local Sources	4,213,675	4,781,051	4,363,335	(417,716)	4,257,899
State Sources	68,062,470	68,268,142	54,428,093	(13,840,049)	39,360,104
Federal Sources	19,655,707	23,217,245	18,993,133	(4,224,112)	8,182,023
Other Sources	196,300	200,000	187,050	(12,950)	130,191
Total Revenues	\$ 139,267,622	\$ 143,605,908	\$ 126,859,924	\$ (16,745,984)	\$ 115,146,900
<u>Expenditures:</u>					
<u>Current:</u>					
Instruction:					
Regular	\$ 99,839,193	\$ 101,626,650	\$ 53,506,567	\$ 48,120,083	\$ 54,166,536
Special Education	6,370,189	8,837,563	18,711,628	(9,874,065)	16,408,759
Vocational Education	6,748,531	6,947,755	8,750,883	(1,803,128)	4,332,996
Adult Education	559,966	558,966	594,320	(35,354)	602,929
Support Services:					
Pupil Services	785,367	796,871	3,312,139	(2,515,268)	3,127,608
Instructional Staff Services	2,324,462	2,474,899	4,311,156	(1,836,257)	4,498,130
General Administration Services	686,595	684,095	2,126,938	(1,442,843)	2,079,881
School Administration Services	108,316	108,316	7,093,086	(6,984,770)	6,571,095
Business Services	1,104,344	1,057,344	2,104,354	(1,047,010)	3,558,850
Operations and Maintenance	11,278,262	11,161,607	10,671,449	490,158	10,604,093
Pupil Transportation Services	1,778,232	1,835,682	1,731,004	104,678	1,437,344
Extracurricular	1,000	1,000	135,821	(134,821)	210,244
Community Services	79,000	77,575	199,417	(121,842)	163,128
Capital Outlay	22,945	85,000	2,137,979	(2,052,979)	2,128,335
Debt Service:					
Principal Retirement	422,878	422,878	422,221	657	482,878
Interest on Long-Term Debt	23,167	23,167	22,914	253	41,675
Total Expenditures	\$ 132,132,447	\$ 136,699,368	\$ 115,831,876	\$ 20,867,492	\$ 110,414,481
Excess (Deficiency) of Revenues Over Expenditures	\$ 7,135,175	\$ 6,906,540	\$ 11,028,048	\$ 4,121,508	\$ 4,732,419
<u>Other Financing Sources (Uses):</u>					
Sale of Capital Assets	\$ 1,000	\$ 1,000	\$ 28,648	\$ 27,648	\$ 3,925
Transfers In	778,997	1,255,856	803,743	(452,113)	807,837
Transfers Out	(7,278,556)	(7,278,556)	(7,551,425)	(272,869)	(6,980,121)
Total Other Financing Sources and Uses	\$ (6,498,559)	\$ (6,021,700)	\$ (6,719,034)	\$ (697,334)	\$ (6,168,359)
Net Change in Fund Balances	\$ 636,616	\$ 884,840	\$ 4,309,014	\$ 3,424,174	\$ (1,435,940)
Fund Balance - July 1	\$ 26,347,008	\$ 26,347,008	\$ 26,347,008	\$ -	\$ 27,782,948
Fund Balance - June 30	\$ 26,983,624	\$ 27,231,848	\$ 30,656,022	\$ 3,424,174	\$ 26,347,008

The accompanying notes to the required supplementary information are an integral part of these financial statements.

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BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2010

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NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY
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Budgetary Information:

The Board of Education adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America for the general fund, special revenue funds, debt service funds, and capital project funds.

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

- The annual budget must be prepared and school district taxes must be levied on or before the fifteenth day of August of each year.
- The taxes levied must be certified to the county auditor by August twenty-fifth.
- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the business manager at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.
- All appropriations lapse at year-end.

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

SCHEDULE OF FUND ACTIVITY  
For the Year Ended June 30, 2010

	Balance 7-01-09	Revenue	Transfers In	Other Fin. Sources	Transfers Out	Expenditures	Balance 6-30-10
(10) General Fund	\$ 26,347,008	\$ 126,859,924	\$ 803,743	\$ 28,648	\$ 7,551,425	\$ 115,831,876	\$ 30,656,022
<u>Special Revenue Funds:</u>							
(50) Food Service	\$ 2,425,177	\$ 5,288,344	\$ -	\$ -	\$ 160,000	\$ 4,734,496	\$ 2,819,025
(60) Student Activities	71,232	315,899	2,797,608	-	-	3,184,739	-
Total Special Revenue Funds	\$ 2,496,409	\$ 5,604,243	\$ 2,797,608	\$ -	\$ 160,000	\$ 7,919,235	\$ 2,819,025
<u>Debt Service Funds:</u>							
(40) District	\$ -	\$ -	\$ 5,408,152	\$ -	\$ -	\$ 5,408,152	\$ -
<u>Building Authority:</u>							
(Project 000) Bond Fees	-	-	2,986	-	-	2,986	-
(E) Project 001 - 2006 Lease Revenue	10	-	391,411	-	-	391,411	10
(G) Project 007 - 2009 Lease Revenue	3	-	1,720,293	-	-	1,720,293	3
(K) Project 016 - 2009 Lease Revenue	3,366,002	1,107	172,534	-	-	172,534	3,367,109
(U) Project 018 - 2000 Construction Fund	834	-	-	-	834	-	-
(W) Project 006 - 05 Rfdg (97 Const)	4,614	1	398,955	-	4,614	398,956	-
Total Building Authority Debt Service	\$ 3,371,463	\$ 1,108	\$ 2,686,179	\$ -	\$ 5,448	\$ 2,686,180	\$ 3,367,122
Total Debt Service Funds	\$ 3,371,463	\$ 1,108	\$ 8,094,331	\$ -	\$ 5,448	\$ 8,094,332	\$ 3,367,122
<u>Capital Projects Funds:</u>							
(30) District	\$ 48,035,462	\$ 8,744,712	\$ -	\$ 57,000	\$ 7,751,272	\$ 25,260,569	\$ 23,825,333
<u>Building Authority:</u>							
(J) 05 Rfdg (98 Const)	1,405	-	3,772,463	-	-	3,772,463	1,405
Total Capital Projects Funds	\$ 48,036,867	\$ 8,744,712	\$ 3,772,463	\$ 57,000	\$ 7,751,272	\$ 29,033,032	\$ 23,826,738
Total Governmental Funds	\$ 80,251,747	\$ 141,209,987	\$ 15,468,145	\$ 85,648	\$ 15,468,145	\$ 160,878,475	\$ 60,668,907
<u>Internal Service Fund:</u>							
(80) Health Insurance	\$ 9,819,149	\$ 11,522,412	\$ -	\$ -	\$ -	\$ 12,060,710	\$ 9,280,851
<u>Agency Funds:</u>							
(70) Agency Fund	\$ -	\$ 3,891,042	\$ -	\$ -	\$ -	\$ 3,891,042	\$ -
(90) Evaluation Training Center	-	1,559,584	-	-	-	1,559,584	-
Total Agency Funds	\$ -	\$ 5,450,626	\$ -	\$ -	\$ -	\$ 5,450,626	\$ -
Total All Funds	\$ 90,070,896	\$ 158,183,025	\$ 15,468,145	\$ 85,648	\$ 15,468,145	\$ 178,389,811	\$ 69,949,758

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
June 30, 2010

	Food Service 5	Student Activities 6	TOTAL 2010	2009
<u>ASSETS</u>				
Cash and Investments	\$ 2,903,222	\$ 8,309	\$ 2,911,531	\$ 2,622,426
Receivables:				
Accounts	551	150	701	3,622
Inventories	14,894	-	14,894	15,277
Total Assets	<u>\$ 2,918,667</u>	<u>\$ 8,459</u>	<u>\$ 2,927,126</u>	<u>\$ 2,641,325</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities:</u>				
Accounts Payable	\$ 77	\$ 8,459	\$ 8,536	\$ 51,877
Salaries and Benefits Payable	5,713	-	5,713	4,267
Deferred Revenues	93,852	-	93,852	88,772
Total Liabilities	<u>\$ 99,642</u>	<u>\$ 8,459</u>	<u>\$ 108,101</u>	<u>\$ 144,916</u>
<u>Fund Balances:</u>				
Reserve for Inventories	\$ 8,223	\$ -	\$ 8,223	\$ 12,608
Unreserved:				
Undesignated	2,810,802	-	2,810,802	2,483,801
Total Fund Balances	<u>\$ 2,819,025</u>	<u>\$ -</u>	<u>\$ 2,819,025</u>	<u>\$ 2,496,409</u>
Total Liabilities and Fund Balances	<u>\$ 2,918,667</u>	<u>\$ 8,459</u>	<u>\$ 2,927,126</u>	<u>\$ 2,641,325</u>

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
For the Years Ended June 30, 2010 (Summarized Comparative Totals 2009)

	Food Service 5	Student Activities 6	Total Nonmajor Special Revenue Funds 2010	2009
<u>Revenues:</u>				
Local Sources	\$ 3,378,528	\$ 315,899	\$ 3,694,427	\$ 3,714,003
State Sources	53,785	-	53,785	40,988
Federal Sources	1,856,031	-	1,856,031	1,544,619
Total Revenues	\$ 5,288,344	\$ 315,899	\$ 5,604,243	\$ 5,299,610
<u>Expenditures:</u>				
Current:				
Food Service Outlays	\$ 4,734,496	\$ -	\$ 4,734,496	\$ 4,494,448
Extracurricular	-	3,184,739	3,184,739	2,808,157
Total Expenditures	\$ 4,734,496	\$ 3,184,739	\$ 7,919,235	\$ 7,302,605
Excess (Deficiency) of Revenues Over Expenditures	\$ 553,848	\$ (2,868,840)	\$ (2,314,992)	\$ (2,002,995)
<u>Other Financing Sources (Uses):</u>				
Transfers In	\$ -	\$ 2,797,608	\$ 2,797,608	\$ 2,356,237
Transfers Out	(160,000)	-	(160,000)	(160,010)
Total Other Financing Sources and Uses	\$ (160,000)	\$ 2,797,608	\$ 2,637,608	\$ 2,196,227
Net Change in Fund Balances	\$ 393,848	\$ (71,232)	\$ 322,616	\$ 193,232
Fund Balance - July 1	\$ 2,425,177	\$ 71,232	\$ 2,496,409	\$ 2,303,177
Fund Balance - June 30	\$ 2,819,025	\$ -	\$ 2,819,025	\$ 2,496,409



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BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE  
FOOD SERVICE FUND  
For the Year Ended June 30, 2010

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	Original and Final Budget	Actual	Variance With Final Budget	2009
<u>Revenues:</u>				
Local Sources	\$ 3,534,675	\$ 3,378,528	\$ (156,147)	\$ 3,384,711
State Sources	44,000	53,785	9,785	40,988
Federal Sources	1,457,350	1,856,031	398,681	1,544,619
Total Revenues	\$ 5,036,025	\$ 5,288,344	\$ 252,319	\$ 4,970,318
<u>Expenditures:</u>				
Current:				
School Food Services	\$ 5,158,105	\$ 4,734,496	\$ 423,609	\$ 4,494,448
Excess (Deficiency) of Revenues Over Expenditures	\$ (122,080)	\$ 553,848	\$ 675,928	\$ 475,870
<u>Other Financing Sources (Uses):</u>				
Transfers Out	\$ (160,000)	\$ (160,000)	\$ -	\$ (160,000)
Net Change in Fund Balances	\$ (282,080)	\$ 393,848	\$ 675,928	\$ 315,870
Fund Balance - July 1	\$ 2,425,177	\$ 2,425,177	\$ -	\$ 2,109,307
Fund Balance - June 30	\$ 2,143,097	\$ 2,819,025	\$ 675,928	\$ 2,425,177

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE  
STUDENT ACTIVITIES FUND  
For the Year Ended June 30, 2010

	Original and Final Budget	Actual	Variance With Final Budget	2009
<u>Revenues:</u>				
Local Sources	\$ 330,475	\$ 315,899	\$ (14,576)	\$ 329,292
<u>Expenditures:</u>				
Current:				
Extracurricular	\$ 3,051,954	\$ 3,184,739	\$ (132,785)	\$ 2,808,157
Excess (Deficiency) of Revenues Over Expenditures	\$ (2,721,479)	\$ (2,868,840)	\$ (147,361)	\$ (2,478,865)
<u>Other Financing Sources (Uses):</u>				
Transfers In	\$ 2,646,949	\$ 2,797,608	\$ 150,659	\$ 2,356,237
Transfers Out	-	-	-	(10)
Total Other Financing Sources and Uses	\$ 2,646,949	\$ 2,797,608	\$ 150,659	\$ 2,356,227
Net Change in Fund Balances	\$ (74,530)	\$ (71,232)	\$ 3,298	\$ (122,638)
Fund Balance - July 1	\$ 71,232	\$ 71,232	\$ -	\$ 193,870
Fund Balance - June 30	\$ (3,298)	\$ -	\$ 3,298	\$ 71,232

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND - FUNDS 40 & PROJECTS 001-018  
For the Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget	2009
<u>Revenues:</u>					
Local Sources	\$ -	\$ -	\$ 1,108	\$ 1,108	\$ 136
<u>Expenditures:</u>					
Debt Service:					
Principal	\$ 3,852,000	\$ 3,852,000	\$ 3,852,000	\$ -	\$ 23,438,000
Interest	4,234,246	4,234,246	4,239,346	(5,100)	4,805,572
Bond Costs	3,100	3,100	2,986	114	389,536
Total Expenditures	\$ 8,089,346	\$ 8,089,346	\$ 8,094,332	\$ (4,986)	\$ 28,633,108
Excess (Deficiency) of Revenues Over Expenditures	\$ (8,089,346)	\$ (8,089,346)	\$ (8,093,224)	\$ (3,878)	\$ (28,632,972)
<u>Other Financing Sources (Uses):</u>					
Transfers In	\$ 8,091,346	\$ 8,091,346	\$ 8,094,331	\$ 2,985	\$ 28,243,483
Bond Sale	-	-	-	-	23,050,000
Bond Premium	-	-	-	-	354,711
Transfers Out	-	-	(5,448)	(5,448)	(19,649,263)
Total Other Financing Sources and Uses	\$ 8,091,346	\$ 8,091,346	\$ 8,088,883	\$ (2,463)	\$ 31,998,931
Net Change in Fund Balances	\$ 2,000	\$ 2,000	\$ (4,341)	\$ (6,341)	\$ 3,365,959
Fund Balance - July 1	\$ 3,371,463	\$ 3,371,463	\$ 3,371,463	\$ -	\$ 5,504
Fund Balance - June 30	\$ 3,373,463	\$ 3,373,463	\$ 3,367,122	\$ (6,341)	\$ 3,371,463

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE  
CAPITAL PROJECTS FUND - FUNDS 30-39 & J (PROJECT 008)  
For the Year Ended June 30, 2010 (Summarized Comparative Totals 2009)

	Original Budget	Final Budget	Actual	Variance With Final Budget	2009
<u>Revenues:</u>					
Local Sources	\$ 7,924,485	\$ 7,924,485	\$ 8,744,712	\$ 820,227	\$ 8,915,449
Other Sources	-	-	-	-	-
Total Revenues	\$ 7,924,485	\$ 7,924,485	\$ 8,744,712	\$ 820,227	\$ 8,915,449
<u>Expenditures:</u>					
<u>Current:</u>					
Capital Outlay	\$ 533,737	\$ 533,737	\$ 25,180,974	\$(24,647,237)	\$ 3,610,906
Debt Service:					
Principal Retirement	4,055,000	4,055,000	3,260,000	795,000	2,445,000
Interest on Long-Term Debt	602,058	602,058	592,058	10,000	688,514
Total Expenditures	\$ 5,190,795	\$ 5,190,795	\$ 29,033,032	\$(23,842,237)	\$ 6,744,420
Excess (Deficiency) of Revenues Over Expenditures	\$ 2,733,690	\$ 2,733,690	\$(20,288,320)	\$(23,022,010)	\$ 2,171,029
<u>Other Financing Sources (Uses):</u>					
Sale of Capital Assets	\$ -	\$ -	\$ 57,000	\$ 57,000	\$ 819,257
Transfers In	3,772,463	3,772,463	3,772,463	-	3,036,925
Transfers Out	(7,751,272)	(7,751,272)	(7,751,272)	-	(7,655,088)
Total Other Financing Sources and Uses	\$ (3,978,809)	\$ (3,978,809)	\$ (3,921,809)	\$ 57,000	\$ (3,798,906)
Net Change in Fund Balances	\$ (1,245,119)	\$ (1,245,119)	\$(24,210,129)	\$(22,965,010)	\$ (1,627,877)
Fund Balance - July 1	\$ 48,036,867	\$ 48,036,867	\$ 48,036,867	\$ -	\$ 49,664,744
Fund Balance - June 30	\$ 46,791,748	\$ 46,791,748	\$ 23,826,738	\$(22,965,010)	\$ 48,036,867

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo North Dakota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2010

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Expenditures
<u>U.S. DEPARTMENT OF INTERIOR:</u>		
<u>Direct Assistance:</u>		
Indian Education Assistance to Schools	15.130	\$ 8,406
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>		
<u>Passed through the State Department of Public Instruction:</u>		
National School Lunch Program	10.555	*** \$ 1,046,719
National School Lunch Program - Commodities	10.555	** 227,918
School Breakfast Program	10.553	403,862
<b>Child Nutrition Cluster</b>		*** \$ 1,678,499
Child and Adult Care Food Program	10.558	\$ 60,535
Emergency Food Assistance Program (Administrative Costs), Recovery	10.568	67,638
Child Nutrition Discretionary Grants Limited Availability	10.579	6,371
Child Nutrition Discretionary Grants Limited Availability, Recovery	10.579A	6,371
Fresh Fruit and Vegetable Program	10.582	42,941
Total Department of Agriculture		\$ 1,862,355
<u>U.S. DEPARTMENT OF EDUCATION:</u>		
<u>Passed through the State Department of Public Instruction:</u>		
Adult Education - Basic Grants to States	84.002	\$ 104,000
Title I Grants to Local Education Agencies	84.010	*** 3,090,052
Title I Grants to Local Education Agencies, Recovery Act	84.389A	*** 842,719
<b>Title I Cluster</b>		\$ 3,932,771
Special Education_Grants to States	84.027	*** \$ 3,097,444
Special Education_Grants to States, Recovery Act	84.391A	*** 1,444,643
Special Education_Preschool Grants	84.173	64,940
<b>Special Education Cluster</b>		*** \$ 4,607,027
Indian Education_Grants to Local Education Agencies	84.060	\$ 67,337
Safe and Drug Free Schools and Communities - State Grants	84.186	121,996
Education for Homeless Children and Youth	84.196	32,736
Even Start_State Educational Agencies	84.213	173,128
Twenty First Century Community Learning Centers	84.287C	*** 969,814
Education Technology State Grants	84.318	87,723
English Language Acquisition Grants	84.365A	60,469
Improving Teacher Quality State Grants	84.367A	*** 1,063,245
Education Technology State Grants, Recovery Act	84.386A	2,885
Education for Homeless Children and Youth, Recovery Act	84.387A	9,950
<u>Passed through the Department of Career &amp; Technical Education:</u>		
Career and Technical Education - Basic Grants to States	84.048	246,006
Total Department of Education		\$ 11,479,087

*Continued on next page.....*

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo North Dakota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2010

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Expenditures
<b><u>CONTINUED.....</u></b>		
<b><u>U.S. DEPARTMENT OF HUMAN SERVICES:</u></b>		
<u>Passed through State Department of Public Instruction:</u>		
Refugee and Entrant Assistance_Discretionary Assistance	93.576	\$ 59,952
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	69,559
<u>Passed through State Department of Human Services:</u>		
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584	\$ 37,563
Refugee and Entrant Assistance_State Administered Programs	93.566	20,406
Total U.S. Department of Human Services		<u>\$ 187,480</u>
<b><u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:</u></b>		
<u>Passed through State Department of Public Instruction:</u>		
Learn and Serve America - School & Community Based Programs	94.004	\$ 19,035
<b><u>DEPARTMENT OF HOMELAND SECURITY:</u></b>		
<u>Passed through ND Department of Emergency Services:</u>		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	*** \$ 534,985
Total Expenditures of Federal Awards		<u>\$ 14,091,348</u>

\*\* - noncash assistance

\*\*\* - major program

**NOTES: BASIS OF PRESENTATION**

The Schedule of Expenditures of Federal Awards represents amounts expended from Federal Programs during the year ended June 30, 2010 based on the modified accrual basis of accounting. The amounts reported on the schedule have been reconciled to and are in agreement with amounts recorded in the accounting records from which the financial statements have been reported.

## STATE AUDITOR

ROBERT R. PETERSON  
Phone (701) 328-2241  
Fax (701) 328-1406



Local Government Division:

FARGO OFFICE  
MANAGER – DAVID MIX  
Phone: (701) 239-7252 Fax: (701) 239-7251

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

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

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Board of Education of the City of Fargo  
Fargo, North Dakota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of the City of Fargo, Fargo, North Dakota as of and for the year ended June 30, 2010, which collectively comprise the Board of Education of the City of Fargo, North Dakota's basic financial statements and have issued our report thereon dated October 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Board of Education of the City of Fargo, North Dakota's internal control over financial reporting as a basis for designing our auditing procedures 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 Board of Education of the City of Fargo, North Dakota's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board of Education of the City of Fargo, North Dakota's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### **Compliance and Other Matters**

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

This report is intended solely for the information and use of management, the Board of Education of the City of Fargo, others within the board of education, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Bob Peterson". The signature is fluid and cursive, with a large, prominent "P" in the middle.

Robert R. Peterson  
State Auditor

October 28, 2010



## STATE AUDITOR

ROBERT R. PETERSON  
Phone (701) 328-2241  
Fax (701) 328-1406



Local Government Division:

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MANAGER – DAVID MIX  
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STATE OF NORTH DAKOTA  
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600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

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### REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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Board of Education of the City of Fargo  
Fargo, North Dakota 58102

#### **Compliance**

We have audited the compliance of the Board of Education of the City of Fargo, North Dakota with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The Board of Education of the City of Fargo, North Dakota's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Board of Education of the City of Fargo, North Dakota's management. Our responsibility is to express an opinion on the Board of Education of the City of Fargo, North Dakota's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board of Education of the City of Fargo, North Dakota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Board of Education of the City of Fargo, North Dakota's compliance with those requirements.

In our opinion, the Board of Education of the City of Fargo, North Dakota complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

#### **Internal Control Over Compliance**

Management of the Board of Education of the City of Fargo, North Dakota is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Board of Education of the City of Fargo, North Dakota's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board of Education of the City of Fargo, North Dakota's internal control over compliance.

*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 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.

Our consideration of internal control over compliance 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Education of the City of Fargo, others within the board of education, and Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Bob Peterson".

Robert R. Peterson  
State Auditor

October 28, 2010

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BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2010

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

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Financial Statements

Type of Report Issued:

Governmental Activities	Unqualified
Major Governmental Funds	Unqualified
Aggregate Remaining Fund Information	Unqualified

Internal Control over financial reporting:

Material weaknesses identified? \_\_\_\_\_ Yes        X   No

Significant deficiencies identified not considered to be material weaknesses? \_\_\_\_\_ Yes        X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes        X   No

Federal Awards

Internal Control over major programs:

Material weaknesses identified? \_\_\_\_\_ Yes        X   No

Significant deficiencies identified? \_\_\_\_\_ Yes        X   None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? \_\_\_\_\_ Yes        X   No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.555 & 10.553	National School Lunch Program/School Breakfast Program
84.010	Title I Grants to Local Education Agencies
84.389A	Title I Grants to Local Education Agencies, Recovery Act
84.027	Special Education Grants to States
84.391A	Special Education Grants to States, Recovery Act
84.287C	Twenty-First Century Community Learning Centers
84.367A	Improving Teacher Quality State Grants
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between

Type A and B programs: \$422,740

Auditee qualified as low-risk auditee?   X   Yes      \_\_\_\_\_ No

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**Section II - Financial Statement Findings**

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No matters were reported.

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**Section III - Federal Award Findings and Questioned Costs**

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No matters were reported.

***Appendix B – Form of Legal Opinion***

\_\_\_\_\_, 2012

Fargo Public School District No. 1  
415 North 4<sup>th</sup> Street  
Fargo, North Dakota 58102

**\$25,665,000**  
**Fargo Public School District No. 1**  
**Cass County, North Dakota**  
**Limited Tax Refunding Bonds**  
**Series 2012**

We have acted as Bond Counsel in connection with the issuance by Fargo Public School District No. 1, Cass County, North Dakota (the “Issuer”), of \$25,665,000 Limited Tax Refunding Bonds, Series 2012, dated the date hereof (the “Bonds”). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify such facts by independent investigation.

We have not been engaged or undertaken to review the accuracy, completeness, or sufficiency of the official statement or other offering material relating to the Bonds (except to the extent, if any, stated in the official statement) and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the official statement).

Based on our examination, we are of the opinion, as of the date hereof as follows:

1. The Bonds are valid and binding limited obligations of the Issuer.
2. The Bonds, unless paid from other sources, are payable as to both principal and interest from the 2012 Limited Tax Refunding Bond Fund to which the Issuer has irrevocably

pledged that portion of the tax levies authorized by North Dakota Century Code 57-15-16 (School Building Fund Levy) necessary for such principal and interest payments. The Bonds are payable solely from the School Building Fund Levy.

3. The Bonds were issued for the purpose of advance refunding the Issuer's valid outstanding Limited Tax Bonds, Series 2004B (the "Refunded Bonds"), thereby reducing the debt service costs of the Issuer.

4. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in the preceding sentence are subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

5. The interest on the Bonds is excluded from gross income for State of North Dakota income tax purposes (other than the tax imposed on financial institutions by North Dakota Century Code, Chapter 57-35.3).

It is to be understood that the rights of the holders of the Bonds, and the enforceability thereof, may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may be subject to the exercise of judicial discretion in appropriate cases.

Sincerely,

**ARNTSON STEWART WEGNER PC**

***Appendix C – Continuing Disclosure Certificate***

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# CONTINUING DISCLOSURE AGREEMENT

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*between*

**FARGO PUBLIC SCHOOL DISTRICT NO. 1**

*and*

**OS ADVISORS INC.**

*relating to*

**\$25,665,000  
FARGO PUBLIC SCHOOL DISTRICT NO. 1  
CASS COUNTY, NORTH DAKOTA  
LIMITED TAX REFUNDING BONDS  
SERIES 2012**

**Dated as of October \_\_\_\_, 2012**

**This Instrument Drafted By:  
Arntson Stewart Wegner PC  
51 Broadway North, Suite 603  
Fargo, North Dakota 58102**



## CONTINUING DISCLOSURE AGREEMENT

**THIS CONTINUING DISCLOSURE AGREEMENT** (this “Disclosure Agreement”) is made and entered into as of October \_\_\_\_, 2012, by and between Fargo Public School District No. 1 of Cass County, North Dakota (the “District”) and OS Advisors Inc., Fargo, North Dakota (the “Dissemination Agent”), in connection with the issuance of the District’s \$25,665,000 Limited Tax Refunding Bonds, Series 2012 (the “Bonds”). The Bonds are being issued pursuant to a Resolution adopted October 9, 2012 (the “Resolution”). The District and the Dissemination Agent covenant and agree as follows:

**SECTION 1. PURPOSE OF THIS DISCLOSURE AGREEMENT.** This Disclosure Agreement is being executed and delivered by the District and the Dissemination Agent for the benefit of the Bondholders and in order to assist the Participating Underwriters in complying with the Rule (defined below).

**SECTION 2. DEFINITIONS.** In addition to the definitions set forth in the Resolution, which apply to any capitalized term use in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

**“Annual Report”** shall mean any Annual Report provided by the District pursuant to and as described in Sections 3 and 4 of this Disclosure Agreement.

**“Disclosure Representative”** shall mean the Business Manager of the District or his or her designee, or such other person as the District shall designate in writing to the Dissemination Agent from time to time.

**“Dissemination Agent”** shall mean OS Advisors Inc., Fargo, North Dakota, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District and which has filed with the Dissemination Agent a written acceptance of such designation.

**“EMMA”** shall mean the Electronic Municipal Market Access system maintained by the Municipal Securities Rulemaking Board or any other nationally recognized municipal securities information repository as recognized from time to time by the SEC for the purposes of the Rule.

**“Final Official Statement”** shall mean the deemed final official statement dated October \_\_\_\_, 2012, which constitutes the final official statement delivered in connection with the Bonds, which is available from the MSRB.

**“Financial Statements”** shall mean audited or, if unavailable, unaudited general purpose financial statements of the District prepared in accordance with generally accepted accounting principles, as in effect from time to time or as required to be modified as a matter of law. If unaudited financial statements are provided, audited financial statements will be provided when and if available.

***“Fiscal Year”*** shall mean the fiscal year of the District.

***“MSRB”*** shall mean the Municipal Securities Rulemaking Board located at 1150 18<sup>th</sup> Street NW, Suite 400, Washington, DC 20036.

***“Owner”*** shall mean the person in whose name the Bond is registered or a beneficial owner of such Bond.

***“Participating Underwriters”*** shall mean the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

***“Repository”*** shall mean EMMA.

***“Rule”*** shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time, and including written interpretations thereof by the SEC.

***“SEC”*** shall mean the Securities and Exchange Commission.

***“Specified Event”*** shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

### **SECTION 3. PROVISION OF ANNUAL REPORTS.**

(a) The District shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2013, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided, that the Financial Statements of the District may be submitted separately from the balance of the Annual Report.

(b) If by fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with subsection (a) of this Section.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a) above, the Dissemination Agent shall send a notice to each Repository of such failure, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each Repository;

(ii) transmit the Annual Report to each Repository by (A) electronic facsimile transmissions or (B) first class mail, postage prepaid, or any overnight delivery service selected by the Dissemination Agent; and

(iii) file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which it was provided.

**SECTION 4. CONTENT OF ANNUAL REPORTS.** The District's Annual Report shall contain or incorporate by reference the following:

(a) audited Financial Statements; and

(b) updated information contained in Tables \_\_\_\_\_ of the Final Official Statement dated October \_\_\_\_, 2012.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the District is an "obligated person" (as defined by the Rule), which have been filed with each of the Repositories or the SEC. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such other document so incorporated by reference.

**SECTION 5. REPORTING OF SPECIFIED EVENTS.**

(a) The District shall also provide in a timely manner not in excess of ten business days after the occurrence of the event, notice of any of the following events or conditions of which any of its Board Members or employees has actual knowledge:

(i) Principal and interest payment delinquencies;

(ii) Non-payment related defaults, if material;

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties (the Bond issue has no debt service reserve);

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties (the Bond issue has no credit enhancements);

(v) Substitution of credit or liquidity providers, or their failure to perform (the Bond issue has no credit or liquidity providers);

(vi) Adverse tax opinions the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the bonds, or other material events affecting the tax status of the Bonds;

(vii) Modifications to rights of security holders, if material;

(viii) Bond calls, if material, and tender offers;

(ix) Defeasances;

(x) Release, substitution, or sale of property securing repayment of the Bonds, if material;

(xi) Rating changes;

(xii) Bankruptcy, insolvency, receivership or similar events of the District;

(xiii) The consummation of a merger, consolidation or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Unless otherwise required by law, the District shall provide notices of Specified Events required by this Section to the Repository.

**SECTION 6. TERMINATION OF REPORTING OBLIGATION.** The District's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

**SECTION 7. DISSEMINATION AGENT.** The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Business Manager of the District shall be the Dissemination Agent.

**SECTION 8. AMENDMENT; WAIVER.** Notwithstanding any other provision of this Disclosure Agreement, the District and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the District) and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the District and the Dissemination Agent to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

**SECTION 9. ADDITIONAL INFORMATION.** Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Specified Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report or notice of occurrence of a Specified Event, in addition to that which is specifically required by this Disclosure agreement, the District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Specified Event.

**SECTION 10. DEFAULT.** In the event of a failure of the District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and, at the request of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, shall), or any Bondholder, including beneficial owners, may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the District or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

**SECTION 11. DUTIES, IMMUNITIES AND LIABILITIES OF DISSEMINATION AGENT.** The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

**SECTION 12. BENEFICIARIES.** This Disclosure Agreement shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters, and holders, including

beneficial owners, from time to time of the Bonds, and shall create no rights in any other person or entity.

**SECTION 13. COUNTERPARTS.** This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

*(Remainder of this page intentionally left blank.)*

**IN WITNESS WHEREOF**, the District and the Dissemination Agent have caused this Disclosure Agreement to be executed by their duly authorized officers, all as of the date first above written.

**FARGO PUBLIC SCHOOL  
DISTRICT NO. 1,  
CASS COUNTY, NORTH DAKOTA**

\_\_\_\_\_  
President of the Board of Education  
of the City of Fargo

ATTEST:

\_\_\_\_\_  
Business Manager

**OS ADVISORS INC.**

By: \_\_\_\_\_  
Its: \_\_\_\_\_

**EXHIBIT A**

**NOTICE TO REPOSITORIES  
OF FAILURE TO FILE ANNUAL REPORT**

Name of District: **Fargo Public School District No. 1**

Name of Bond Issue: **Limited Tax Refunding Bonds, Series 2012**

Date of Issuance: **October \_\_\_\_\_, 2012**

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named bonds as required by the Continuing Disclosure Agreement dated as of October \_\_\_\_\_, 2012. The District anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_.

OS ADVISORS INC.,  
on behalf of the DISTRICT

cc: District