

OFFICIAL STATEMENT DATED FEBRUARY 2, 2007

Ratings: Requested from Moody's
Investors Service and
Standard & Poor's Ratings Services

NEW ISSUE

In the opinion of Briggs and Morgan, Professional Association and Erik Johnson & Associates, Ltd., Co-Bond Counsel, based on present federal and North Dakota laws, regulations, rulings and decisions, at the time of their issuance and delivery to the original purchaser, interest on the Bonds is not includable in gross income for federal income tax purposes and is not included in gross income, to the same extent, State of North Dakota income tax purposes (other than the North Dakota franchise taxes measured by net income and imposed on banks, trust companies and building and loan associations by North Dakota Century Code, Chapter 57-35.3. Interest on the Bonds is an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations. No opinion will be expressed by Bond Counsel regarding other state or federal tax consequences caused by receipt or accrual of interest on the Bonds or arising with respect to ownership of the Bonds. See "TAX EXEMPTION" herein.

\$7,755,000*

**Municipal Airport Authority of the
City of Fargo, North Dakota**

Airport Reserve Revenue Bonds (AMT), Series 2007A

(Book Entry Only)

Dated Date: February 15, 2007

**Interest Due: Each March 1 and September 1,
commencing September 1, 2007**

The Bonds will mature September 1 as follows:

2008	\$330,000	2011	\$375,000	2014	\$ 415,000	2017	\$1,305,000
2009	\$350,000	2012	\$390,000	2015	\$1,205,000	2018	\$1,360,000
2010	\$365,000	2013	\$405,000	2016	\$1,255,000		

Bids for the Bonds may contain maturity schedules providing for a combination of serial bonds and term bonds. All term bonds shall be subject to mandatory sinking fund redemption and must conform to the maturity schedule set forth above at a price of par plus accrued interest to the date of redemption.

The Airport Authority may elect on September 1, 2015 and on any day thereafter, to prepay the Bonds due on or after September 1, 2016 at a price of par plus accrued interest.

The Bonds will be special obligations of the Municipal Airport Authority (the "Airport Authority") payable solely from a first lien pledge of the net revenues (the "Net Revenues") of the Hector International Airport and its appurtenant air navigation facilities (the "Airport") to be deposited into the airport fund (the "Airport Fund"), which is a proprietary fund of the City of Fargo, North Dakota (the "City"), and shall not constitute a debt for which the full faith and credit or taxing powers of the City will be pledged except as follows. A reserve account (the "Reserve Account") will be established from Bond proceeds. In the event the use of the Reserve Account results in a deficiency in said Reserve Account, the Airport Authority will request the City Commission to levy an ad valorem tax upon all taxable property in the City, in the amount required to restore the Reserve Account balance. Such tax shall not be subject to limitation of rate or amount. The proceeds of the Bonds will be used to finance various Airport improvement projects as more fully described in "Authority and Purpose" herein.

Bids shall be for not less than \$7,677,450 and accrued interest on the total principal amount of the Bonds. Bids shall be accompanied by a good faith deposit of \$77,550 in the form of a certified or cashier's check, or a Financial Surety Bond, payable to the order of the Airport Authority. Rates shall be specified in integral multiples of 5/100 or 1/8 of 1% and must be in level or ascending order. Award will be made on the basis of True Interest Cost (TIC).

The Bond will be subject to the alternative minimum tax and will not be designated as "qualified tax-exempt obligations" pursuant to Section 265 (b)(3) of the Internal Revenue Code of 1986, as amended.

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 for the Bonds. Individual purchases may be made in book entry form only, in the principal amount of \$5,000 and integral multiples thereof. Investors will not receive physical certificates representing their interest in the Bonds purchased. (See "Book Entry System" herein.) The City Auditor will serve as registrar/paying agent (the "Registrar") for the Bonds. Bonds will be available for delivery at DTC on or about February 28, 2007.

* Preliminary; subject to change.

BID OPENING: February 13, 2007 (Tuesday) at 10:30 A.M., Central Time

AWARD: February 13, 2007 (Tuesday) at 1:00 P.M., Central Time



Further information may be obtained from
SPRINGSTED Incorporated, Financial Advisor to
the Issuer, 380 Jackson Street, Suite 300,
Saint Paul, Minnesota 55101-2887 (651) 223-3000

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document, as the same may be supplemented or corrected by the Airport Authority from time to time (collectively, the "Official Statement"), may be treated as an Official Statement with respect to the Bonds described herein that is deemed final as of the date hereof (or of any such supplement or correction) by the Airport Authority, except for the omission of certain information referred to in the succeeding paragraph.

The Official Statement, when further supplemented by an addendum or addenda specifying the maturity dates, principal amounts and interest rates of the Bonds, together with any other information required by law, shall constitute a "Final Official Statement" of the Airport Authority and the City with respect to the Bonds, as that term is defined in Rule 15c2-12. Any such addendum shall, on and after the date thereof, be fully incorporated herein and made a part hereof by reference.

By awarding the Bonds to any underwriter or underwriting syndicate submitting an Official Bid Form therefor, the Airport Authority agrees that, no more than seven business days after the date of such award, it shall provide without cost to the senior managing underwriter of the syndicate to which the Bonds are awarded copies of the Official Statement and the addendum or addenda described in the preceding paragraph in the amount specified in the Official Terms of Offering.

The Airport Authority designates the senior managing underwriter of the syndicate to which the Bonds are awarded as its agent for purposes of distributing copies of the Final Official Statement to each Participating Underwriter. Any underwriter executing and delivering an Official Bid Form with respect to the Bonds agrees thereby that if its bid is accepted by the Airport Authority (i) it shall accept such designation and (ii) it shall enter into a contractual relationship with all Participating Underwriters of the Bonds for purposes of assuring the receipt by each such Participating Underwriter of the Final Official Statement.

No dealer, broker, salesman or other person has been authorized by the Airport Authority to give any information or to make any representations with respect to the Bonds other than as contained in the Official Statement or the Final Official Statement, and, if, given or made, such other information or representations must not be relied upon as having been authorized by the Airport Authority. Certain information contained in the Official Statement and the Final Official Statement may have been obtained from sources other than records of the Airport Authority and the City and, while believed to be reliable, is not guaranteed as to completeness or accuracy. THE INFORMATION AND EXPRESSIONS OF OPINION IN THE OFFICIAL STATEMENT AND THE FINAL OFFICIAL STATEMENT ARE SUBJECT TO CHANGE, AND NEITHER THE DELIVERY OF THE OFFICIAL STATEMENT OR THE FINAL OFFICIAL STATEMENT NOR ANY SALE MADE UNDER EITHER SUCH DOCUMENT SHALL CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE AUTHORITY AND THE CITY SINCE THE DATE THEREOF.

References herein to laws, rules, regulations, resolutions, agreements, reports and other documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. Where full texts have not been included as appendices to the Official Statement or the Final Official Statement, they will be furnished on request.

Any CUSIP numbers for the Bonds included in the Final Official Statement are provided for convenience of the owners and prospective investors. The CUSIP numbers for the Bonds have been assigned by an organization unaffiliated with the Airport Authority. The Airport Authority is not responsible for the selection of the CUSIP numbers and makes no representation as to the accuracy thereof as printed on the Bonds or as set forth in the Final Official Statement. No assurance can be given that the CUSIP numbers for the Bonds will remain the same after the date of issuance and delivery of the Bonds.

TABLE OF CONTENTS

	<u>Page(s)</u>
Official Terms of Offering	i-v
Introductory Statement.....	1
Continuing Disclosure	2
The Bonds.....	2
Authority and Purpose	4
Security and Financing	5
Funds and Accounts	6
Covenants.....	7
Additional Bonds	7
The Airport	7
Pro Forma Debt Service Coverage	16
Future Financing	17
Litigation.....	17
Legality.....	17
Tax Exemption	17
Ratings.....	18
Financial Advisor.....	18
Certification	18
General Information Concerning the City.....	Appendix I
Proposed Form of Legal Opinion of Co-Bond Counsel.....	Appendix II
Continuing Disclosure Certificate.....	Appendix III
Excerpts of 2007 Airport Authority Resolution	Appendix IV
Excerpts of the City's 2005 Annual Financial Report.....	Appendix V
Bid Forms	Inserted

OFFICIAL TERMS OF OFFERING

\$7,755,000*

MUNICIPAL AIRPORT AUTHORITY OF THE CITY OF FARGO, NORTH DAKOTA AIRPORT RESERVE REVENUE BONDS (AMT), SERIES 2007A

(BOOK ENTRY ONLY)

Bids for the Bonds will be received on Tuesday, February 13, 2007, until 10:30 A.M., Central Time, at the offices of Springsted Incorporated, 380 Jackson Street, Suite 300, Saint Paul, Minnesota, after which time they will be opened and tabulated. Consideration for award of the Bonds will be by the Airport Authority at 1:00 P.M., Central Time, of the same day.

SUBMISSION OF BIDS

Springsted will assume no liability for the inability of the bidder to reach Springsted prior to the time of sale specified above. All bidders are advised that each Bid shall be deemed to constitute a contract between the bidder and the Airport Authority to purchase the Bonds regardless of the manner by which the Bid is submitted.

(a) **Sealed Bidding.** Bids may be submitted in a sealed envelope or by fax (651) 223-3046 to Springsted. Signed Bids, without final price or coupons, may be submitted to Springsted prior to the time of sale. The bidder shall be responsible for submitting to Springsted the final Bid price and coupons, by telephone (651) 223-3000 or fax (651) 223-3046 for inclusion in the submitted Bid.

OR

(b) **Electronic Bidding.** Notice is hereby given that electronic bids will be received via PARITY[®]. For purposes of the electronic bidding process, the time as maintained by PARITY[®] shall constitute the official time with respect to all Bids submitted to PARITY[®]. *Each bidder shall be solely responsible for making necessary arrangements to access PARITY[®] for purposes of submitting its electronic Bid in a timely manner and in compliance with the requirements of the Official Terms of Offering.* Neither the Airport Authority, its agents nor PARITY[®] shall have any duty or Bond to undertake registration to bid for any prospective bidder or to provide or ensure electronic access to any qualified prospective bidder, and neither the Airport Authority, its agents nor PARITY[®] shall be responsible for a bidder's failure to register to bid or for any failure in the proper operation of, or have any liability for any delays or interruptions of or any damages caused by the services of PARITY[®]. The Airport Authority is using the services of PARITY[®] solely as a communication mechanism to conduct the electronic bidding for the Bonds, and PARITY[®] is not an agent of the Airport Authority.

If any provisions of this Official Terms of Offering conflict with information provided by PARITY[®], this Official Terms of Offering shall control. Further information about PARITY[®], including any fee charged, may be obtained from:

PARITY[®], 1359 Broadway, 2nd Floor, New York, New York 10018
Customer Support: (212) 849-5000

DETAILS OF THE BONDS

The Bonds will be dated February 15, 2007, as the date of original issue, and will bear interest payable on March 1 and September 1 of each year, commencing September 1, 2007. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

The Bonds will mature September 1 in the years and amounts as follows:

2008	\$330,000	2011	\$375,000	2014	\$ 415,000	2017	\$1,305,000
2009	\$350,000	2012	\$390,000	2015	\$1,205,000	2018	\$1,360,000
2010	\$365,000	2013	\$405,000	2016	\$1,255,000		

* *The Airport Authority reserves the right, after bids are opened and prior to award, to increase or reduce the principal amount of the Bonds offered for sale. Any such increase or reduction will be made in multiples of \$5,000 in any of the maturities. In the event the principal amount of the Bonds is increased or reduced, any premium offered or any discount taken by the successful bidder will be increased or reduced by a percentage equal to the percentage by which the principal amount of the Bonds is increased or reduced.*

Bids for the Bonds may contain a maturity schedule providing for a combination of serial obligations and term obligations. All term obligations shall be subject to mandatory sinking fund redemption at a price of par plus accrued interest to the date of redemption and must conform to the maturity schedule set forth above. In order to designate term obligations, the bid must specify "Years of Term Maturities" in the spaces provided on the Bid Form.

BOOK ENTRY SYSTEM

The Bonds will be issued by means of a book entry system with no physical distribution of Bonds made to the public. The Bonds will be issued in fully registered form and one Bond, representing the aggregate principal amount of the Bonds maturing in each year, will be registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository of the Bonds. Individual purchases of the Bonds may be made in the principal amount of \$5,000 or any multiple thereof of a single maturity through book entries made on the books and records of DTC and its participants. Principal and interest are payable by the registrar to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by participants will be the responsibility of such participants and other nominees of beneficial owners. The purchaser, as a condition of delivery of the Bonds, will be required to deposit the Bonds with DTC.

REGISTRAR/PAYING AGENT

The City will serve as the registrar/paying agent for the Bonds.

OPTIONAL REDEMPTION

The Airport Authority may elect on September 1, 2015, and on any day thereafter, to prepay Bonds due on or after September 1, 2016. Redemption may be in whole or in part and if in part at the option of the Airport Authority and in such manner as the Airport Authority shall determine. If less than all Bonds of a maturity are called for redemption, the Airport Authority will notify DTC of the particular amount of such maturity to be prepaid. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interests in such maturity to be redeemed. All prepayments shall be at a price of par plus accrued interest.

SECURITY AND PURPOSE

The Bonds will be special obligations of the Airport Authority payable solely from a first lien pledge of net revenues of the Airport Authority and shall not constitute a debt for which the full faith and credit or taxing powers of the Airport Authority or the City will be pledged. The proceeds will be used to finance various Airport improvements located on airport land.

TYPE OF BID

Bids shall be for not less than \$7,677,450 and accrued interest on the total principal amount of the Bonds. Bids shall be accompanied by a Good Faith Deposit ("Deposit") in the form of a certified or cashier's check or a Financial Surety Bond in the amount of \$77,550, payable to the order of the Airport Authority. If a check is used, it must accompany the bid. If a Financial Surety Bond is used, it must be from an insurance company licensed to issue such a bond in the State of North Dakota, and preapproved by the Airport Authority. Such bond must be submitted to Springsted Incorporated prior to the opening of the bids. The Financial Surety Bond must identify each bidder whose Deposit is guaranteed by such Financial Surety Bond. If the Bonds are awarded to a bidder using a Financial Surety Bond, then that purchaser is required to submit its Deposit to Springsted Incorporated in the form of a certified or cashier's check or wire transfer as instructed by Springsted Incorporated not later than 3:30 P.M., Central Time, on the next business day following the award. If such Deposit is not received by that time, the Financial Surety Bond may be drawn by the Airport Authority to satisfy the Deposit requirement. The Deposit received from the purchaser, the amount of which will be deducted at settlement, will be deposited by the Airport Authority and no interest will accrue to the purchaser. In the event the purchaser fails to comply with the accepted bid, said amount will be retained by the Airport Authority. No bid can be withdrawn after the time set for receiving bids unless the meeting of the Airport Authority scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made. Rates shall be in integral multiples of 5/100 or 1/8 of 1%. Rates must be in level or ascending order. Bonds of the same maturity shall bear a single rate from the date of the Bonds to the date of maturity. No conditional bid will be accepted.

AWARD

The Bonds will be awarded to the bidder offering the lowest interest rate to be determined on a true interest cost (TIC) basis. The Airport Authority's computation of the interest rate of each bid, in accordance with customary practice, will be controlling.

The Airport Authority will reserve the right to: (i) waive non-substantive informalities of any bid or of matters relating to the receipt of bids and award of the Bonds, (ii) reject all bids without cause, and (iii) reject any bid that the Airport Authority determines to have failed to comply with the terms herein.

BOND INSURANCE AT PURCHASER'S OPTION

If the Bonds qualify for issuance of any policy of municipal bond insurance or commitment therefor at the option of the bidder, the purchase of any such insurance policy or the issuance of any such commitment shall be at the sole option and expense of the purchaser of the Bonds. Any increased costs of issuance of the Bonds resulting from such purchase of insurance shall be paid by the purchaser, except that, if the Airport Authority has requested and received a rating on the Bonds from a rating agency, the Airport Authority will pay that rating fee. Any other rating agency fees shall be the responsibility of the purchaser.

Failure of the municipal bond insurer to issue the policy after Bonds have been awarded to the purchaser shall not constitute cause for failure or refusal by the purchaser to accept delivery on the Bonds.

CUSIP NUMBERS

If the Bonds qualify for assignment of CUSIP numbers such numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto will constitute cause for failure or refusal by the purchaser to accept delivery of the Bonds. The CUSIP Service Bureau charge for the assignment of CUSIP identification numbers shall be paid by the purchaser.

SETTLEMENT

Within 40 days following the date of their award, the Bonds will be delivered without cost to the purchaser through DTC in New York, New York. Delivery will be subject to receipt by the purchaser of the approving legal opinion of Paul Tietz of Briggs and Morgan, Professional Association, of Saint Paul and Minneapolis, Minnesota, and Erik Johnson & Associates, Ltd, of Fargo, North Dakota, as Co-Bond Counsels, and of customary closing papers, including a no-litigation certificate. On the date of settlement, payment for the Bonds shall be made in federal, or equivalent, funds that shall be received at the offices of the Airport Authority or its designee not later than 12:00 Noon, Central Time. Unless compliance with the terms of payment for the Bonds has been made impossible by action of the Airport Authority, or its agents, the purchaser shall be liable to the Airport Authority for any loss suffered by the Airport Authority by reason of the purchaser's non-compliance with said terms for payment.

CONTINUING DISCLOSURE

On the date of actual issuance and delivery of the Bonds, the Airport Authority will execute and deliver a Continuing Disclosure Undertaking (the "Undertaking") whereunder the Airport Authority will covenant for the benefit of the owners and beneficial owners of the Bonds to provide certain financial and other information about the Airport Authority and notices of certain occurrences to information repositories as specified in and required by SEC Rule 15c2-12(b)(5).

OFFICIAL STATEMENT

The Airport Authority has authorized the preparation of an Official Statement containing pertinent information relative to the Bonds, and said Official Statement will serve as a nearly-final Official Statement within the meaning of Rule 15c2-12 of the Securities and Exchange Commission. For copies of the Official Statement and the Official Bid Form or for any additional information prior to sale, any prospective purchaser is referred to the Financial Advisor to the Airport Authority, Springsted Incorporated, 380 Jackson Street, Suite 300, Saint Paul, Minnesota 55101, telephone (651) 223-3000.

The Official Statement, when further supplemented by an addendum or addenda specifying the maturity dates, principal amounts and interest rates of the Bonds, together with any other information required by law, shall constitute a "Final Official Statement" of the Airport Authority with respect to the Bonds, as that term is defined in Rule 15c2-12. By awarding the Bonds to any underwriter or underwriting syndicate submitting an Official Bid Form therefor, the Airport Authority agrees that, no more than seven business days after the date of such award, it shall provide without cost to the senior managing underwriter of the syndicate to which the Bonds are awarded 250 copies of the Official Statement and the addendum or addenda described above. The Airport Authority designates the senior managing underwriter of the syndicate to which the Bonds are awarded as its agent for purposes of distributing copies of the Final Official Statement to each Participating Underwriter. Any underwriter executing and delivering an Official Bid Form With respect to the Bonds agrees thereby that if its bid is accepted by the

Airport Authority (i) it shall accept such designation and (ii) it shall enter into a contractual relationship with all Participating Underwriters of the Bonds for purposes of assuring the receipt by each such Participating Underwriter of the Final Official Statement.

BY ORDER OF THE MUNICIPAL AIRPORT AUTHORITY OF FARGO, NORTH DAKOTA

/s/ Shawn Dobberstein, Executive Director
Municipal Airport Authority

OFFICIAL STATEMENT

\$7,755,000 *

**MUNICIPAL AIRPORT AUTHORITY OF THE
CITY OF FARGO, NORTH DAKOTA
AIRPORT RESERVE REVENUE BONDS (AMT), SERIES 2007A
(BOOK ENTRY ONLY)**

INTRODUCTORY STATEMENT

This Official Statement contains certain information relating to the Municipal Airport Authority (the "Airport Authority" or the "Issuer") of the City of Fargo, North Dakota (the "City") and its issuance of \$7,755,000* Airport Reserve Revenue Bonds (AMT), Series 2007A (the "Bonds," the "Obligations" or the "Issue"). The Bonds are being issued pursuant to resolutions duly adopted by the Airport Authority (the "Airport Authority's Resolution") and the City Commission (the "City's Resolution"), collectively the "Resolutions" and the Constitution and laws of the State of North Dakota, including Chapters 2-06 and 40-35 of the North Dakota Century Code, as amended.

The Bonds are special obligations of the Airport Authority payable solely from a first lien pledge of the Net Revenues of the Airport Authority and shall not constitute a debt for which the full faith and credit or taxing powers of the Airport Authority or the City will be pledged except for the "Reserve Fund" as discussed herein. The Airport Authority currently has \$5,295,000 Airport Reserve Revenue Bonds, Series 2004D (the "Prior Bonds") outstanding as of December 31, 2006. The Bonds, the Prior Bonds and additional bonds permitted to be issued pursuant to the Airport Authority's Resolution, if any, are collectively referred to as the "Parity Bonds".

Inquiries may be directed to Mr. Shawn Dobberstein, Executive Director, Hector International Airport, 2801 32nd Avenue North, Fargo, North Dakota 58102 or by telephoning (701) 241-1501 or Mr. Kent Costin, Finance Director, City of Fargo, 200 North Third Street, Fargo, North Dakota 58102, or by telephoning (701) 241-8158. Inquiries may also be directed to Springsted Incorporated, 380 Jackson Street, Suite 300, St. Paul, Minnesota 55101-2887, or by telephoning (651) 223-3000. If information of a specific legal nature is desired, inquiries may be directed to Mr. Paul Tietz, Briggs and Morgan of Minneapolis, Minnesota, Co-Bond Counsel, 2400 IDS Center, Minneapolis, Minnesota 55402, or by telephoning (612) 340-8400 or to Mr. Erik Johnson at Erik Johnson & Associates, Ltd, Co-Bond Counsel, 505 Broadway Street North, Suite 206, Fargo, North Dakota 58102 or by telephoning (701) 280-1901.

* *The Airport Authority reserves the right, after bids are opened and prior to award, to increase or reduce the principal amount of the Bonds offered for sale. Any such increase or reduction will be made in multiples of \$5,000 in any of the maturities. In the event the principal amount of the Bonds is increased or reduced, any premium offered or any discount taken by the successful bidder will be increased or reduced by a percentage equal to the percentage by which the principal amount of the Bonds is increased or reduced.*

CONTINUING DISCLOSURE

In order to permit bidders for the Bonds and other participating underwriters in the primary offering of the Bonds to comply with paragraph (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (as in effect and interpreted from time to time, the "Rule"), the Airport Authority and the City will covenant and agree for the benefit of the Owners (as hereinafter defined) and beneficial owners from time to time of any Bonds which are outstanding, to provide annual reports of specified information and notice of the occurrence of certain events, if material, as hereinafter described (the "Disclosure Covenants"). The information to be provided on an annual basis, the events as to which notice is to be given, if material, and a summary of other provisions of the Disclosure Covenants, including termination, amendment and remedies, are set forth in Appendix III to this Official Statement. Neither the Airport Authority nor City has ever failed to comply in all material respects with any previous undertakings under the Rule to provide annual reports or notices of material events.

Breach of the Disclosure Covenants will not constitute a default under the Resolutions or the Bonds. A broker or dealer is to consider a known breach of the Disclosure Covenants, however, before recommending the purchase or sale of Bonds in the secondary market. Thus, a failure on the part of the Airport Authority or City to observe the Disclosure Covenants may adversely affect the transferability and liquidity of the Bonds and their market price.

THE BONDS

General Description

The Bonds will be dated as originally issued, as of February 15, 2007 and will mature annually on September 1, as set forth on the cover of this Official Statement. The Bonds are being issued in book entry form. Interest on the Bonds is payable September 1, 2007 and semiannually thereafter on March 1 and September 1. Interest will be payable to the owner (initially Cede & Co.) registered on the books of the Registrar on the fifteenth day of the calendar month next preceding such interest payment date. Principal of and interest on the Bonds will be paid as described in the section herein entitled "Book Entry System". The City Auditor will act as Registrar for the Bonds.

Optional Redemption

The Airport Authority may elect on September 1, 2015, and on any day thereafter, to prepay the Bonds due on or after September 1, 2016. Redemption may be in whole or in part and if in part at the option of the Airport Authority and in such manner as the Airport Authority shall determine. If less than all Bonds of a maturity are called for redemption, the Airport Authority will notify DTC of the particular amount of such maturity to be prepaid. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interests in such maturity to be redeemed. All prepayments shall be at a price of par plus accrued interest.

Book Entry System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Obligations. The Obligations will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by

an authorized representative of DTC. One fully registered certificate will be issued for each maturity of the Obligations, in the aggregate principal amount of such maturity, and will be deposited with DTC.

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 and provides asset servicing for securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct 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. DTC is a wholly-owned subsidiary of The Depository Trust and Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, 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, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Obligations on DTC's records. The ownership interest of each actual purchaser of each Obligation ("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 Obligations are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Obligations, except in the event that use of the book-entry system for the Obligations is discontinued.

To facilitate subsequent transfers, all Obligations deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of Obligations with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such Obligations are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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. Beneficial Owners of the Obligations may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Obligations, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of the

Obligations may wish to ascertain that the nominee holding the Obligations for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of the Obligations within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Obligations unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer or Registrar 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 Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Obligations will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Issuer or Agent on the payable date in accordance with their respective holdings shown on DTC's records. 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 (nor its nominee), the Registrar, 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 Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Registrar, Issuer, or Agent; disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Obligations at any time by giving reasonable notice to the Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer takes no responsibility for the accuracy thereof.

AUTHORITY AND PURPOSE

The Bonds are being issued by the Airport Authority pursuant to Chapters 2-06 and 40-35 of the North Dakota Century Code, as amended and the Resolutions. The proceeds will be used to finance improvements in the existing terminal that include an expansion of the second floor greeting area prior to the existing security checkpoint, replacing escalators, elevator, lighting, fire alarm system, roof membrane, window areas, updating the sprinkler system and installing inline baggage screening; expanding the terminal on the north side to include additional space for passenger screening and screening equipment, adding an additional departure lounge and additional space for airline service equipment and an employee locker room; and expanding the terminal on the west side to relocate Airport administrative offices, adding a fifth boarding bridge, adding restroom facilities, third baggage claim device and additional airline and facility equipment and operating areas. It is expected the project will be completed by late 2008. The total cost of the improvements is expected to be approximately \$14,462,000 of which the Airport

Authority expects to receive approximately \$5,539,000 from federal funding, approximately \$2,100,000 from available funds, and the remainder being financed from proceeds of the Bonds as follows:

Construction Account	\$6,822,608
Reserve Account	774,202
Costs of Issuance	80,640
Allowance for Discount Bidding	<u>77,550</u>
Total Bond Issue	\$7,755,000

SECURITY AND FINANCING

The Bonds are special obligations of the Airport Authority payable solely from a first lien pledge of Net Revenues of the Airport Authority however, pursuant to Section 206-10(8) of the North Dakota Century Code, as amended, the City has agreed to levy a general tax upon all taxable property in the City for payment of any deficiencies in the Reserve Account as discussed below.

The Airport Authority's Resolution defines Net Revenues Available for Debt Service (the "Net Revenues") as (i) the entire gross revenues derived from the operation of the Airport and its appurtenant air navigation facilities, and any other property owned by the Airport Authority, and from any future additions thereto and betterments thereof, including all income and receipts derived from charges, rents, fees and tolls, for the services, facilities, products and by-products of the Airport or appurtenant air navigation facilities, and from the sale of any of the properties of the Airport Authority not necessary to be retained, and from the investments of any of the money so collected and the proceeds of taxes which the Airport Authority has levied or which the Airport Authority has certified to the City to levy to collect pursuant to Section 2-06-14 of the North Dakota Century Code, and passenger facility charges less (ii) such sum deposited to Operation and Maintenance Account as shall be needed, over and above any credit balance held therein, to pay all claims then due and allowed which by accepted accounting practices constitute normal, reasonable and current expenses of operation and maintenance of the Airport by the Airport Authority, and to pay such expenses estimated to accrue for a period of one month, and to maintain a reasonable reserve for contingencies and passenger facility charges, herein referred to as "Gross Revenues." The Airport Authority will covenant that rates and charges for the use and services of the Airport will be sufficient at all times to produce Net Revenues to pay debt service on the Bonds.

Reserve Account

The Airport Authority will fund a Reserve Account from Bond proceeds in an approximate amount of \$774,202 which is equal to the lesser of (1) 10% of the par amount of all Parity Bonds, (2) maximum annual debt service on all Parity Bonds or (3) 125% of the average annual debt service on all Parity Bonds (the "Reserve Requirement"); provided, however, the Debt Service Reserve Fund established for the Prior Bonds will not secure the Bonds or other Parity Bonds and the Bonds and other such Parity Bonds, if any, will not be secured by the reserve fund established for the Prior Bonds. The Reserve Account is available in the event Net Revenues of the Airport Fund are inadequate to meet the principal and interest payments on the Bonds. In the event use of the Reserve Account results in a deficiency in said account, the Airport Authority is required to request the City Commission to levy an ad valorem tax upon all taxable property in the City, in the amount required to restore the Reserve Account balance. Such tax shall not be subject to limitation of rate or amount.

FUNDS AND ACCOUNTS

The following is a summary of certain covenants in the Airport Authority's Resolution. This is not considered a full statement of the provisions of the Airport Authority's Resolution and is qualified by reference to the Airport Authority's Resolution. The Airport Authority's Resolution will be adopted by the Airport Authority on February 13, 2007. Pertinent sections of the Airport Authority's Resolution are included as Appendix IV of this Official Statement.

The Airport Authority's Resolution will provide for the continuation of the operation of the Airport and the collection of reasonable charges, rents, fees and tolls for services, product and by-products of the Airport and air navigation facilities and other property owned by the Airport Authority. The Airport Authority's Resolution will establish an Airport Fund with various separate accounts therein. A brief discussion of certain accounts in the order in which monies are distributed follows.

Construction Account. The proceeds of the Bonds, excluding the Reserve Requirement, shall be transferred to the Construction Account which shall be maintained as a separate account and used only to pay costs and expenses which under accepted accounting practices constitute capital costs necessarily incurred for the acquisition and betterment of the Airport including, but not limited to land, easements, buildings, structures, machinery and equipment and the cost of all architectural, engineering, legal and all other professional services, printing and publication, and paying the costs of issuing the Bonds.

Operation and Maintenance Account. There shall be credited to the Operation and Maintenance Account upon each monthly apportionment, as a first lien and charge thereon such sum as shall be needed, over and above any credit balance held therein, to pay all claims then due for reasonable and current expenses of operation and maintenance of the Airport by the Airport Authority, and to pay such expenses estimated to accrue for the period of one month, and to maintain a reasonable reserve for contingencies. Monies in said account shall be used only to pay expenses of the forgoing type and not for major repairs, replacements, or capital improvements which are properly chargeable to the replacement and depreciation reserves or surplus funds.

Bond Account. To the Bond Account there shall be credited, out of the Net Revenues on hand at the time of each distribution, an amount equal to not less than one-twelfth (1/12) of the sum of principal payments to become due within the next twelve months and an amount equal to one-sixth (1/6) of the sum of interest payments due within the next succeeding period of six months on all outstanding Parity Bonds on the succeeding March 1 or September 1, as the case may be. Money in this account will be used only to meet debt service payments.

Reserve Account. A deposit to the Reserve Account will be made upon settlement of the Bonds from Bond proceeds, which will be sufficient to satisfy the Reserve Requirement. Funds will be transferred from the Reserve Account at any time the balance on hand in the Bond Account is insufficient to meet current requirements for payment of principal and interest on the Bonds. In the event of such the City shall levy a tax upon all taxable property within the corporate limits of the City sufficient to restore the balance in the Reserve Account to the amount required pursuant to the Resolutions.

Surplus Account. To the Surplus Account shall be credited all surplus net revenues from time to time received in excess of the current requirements of the Bond Account and the Reserve Account. The balance on hand from time to time in the Surplus Account shall be available and shall be used to the full extent necessary to restore any deficiency the Bond Account and the Reserve Account, or when not so needed, may be used for any other purpose of the Airport Authority authorized in accordance with the Airport Authority Resolution.

COVENANTS

The Airport Authority will establish, impose and collect reasonable charges, rents, fees and tolls for the services, products and by-products of the Airport and air navigation facilities, and any other property owned by the Airport Authority and will certify annually to the governing bodies the amount of tax to be levied pursuant to Section 2-06-14 of the North Dakota Century Code, according to a schedule sufficient to pay (i) all principal and interest when due on the Bonds and (ii) to create and fund the accounts as set out above.

The Airport Authority estimates that the Net Revenues of the Airport, including taxes levied and collected pursuant to Section 2-06-14 of the North Dakota Century Code, will be sufficient to pay the interest on the Bonds as it becomes due and also to pay and discharge the principal at maturity and therefore no additional taxes are anticipated to be levied nor need to be levied at this time. On September 1 of each year, commencing in 2007 and continuing until all the Bonds have been paid, the Airport Authority, if a deficiency exists in the Reserve Fund on September 1 of any year shall request the City to levy a general tax upon all taxable property in the City for the payment of the deficiency in the Reserve Fund.

The City will at all times keep the Airport and the various parts thereof insured against loss or damage by causes customarily insured against for like properties, and in amounts equal to or greater than the value of the Airport. The Airport Authority covenants that insurance proceeds will be used to finance the constructions or reconstruction of the Airport, and if not so used to redeem Bonds issued pursuant to the Airport Authority Resolution.

ADDITIONAL BONDS

The Airport Authority reserves the right to issue Additional Reserve Revenue Bonds for the purpose of paying any additional costs of completing a project in excess of estimated costs, refunding bonds or paying for additional improvements to the Airport. See Appendix IV herein.

THE AIRPORT

Governance

The Airport is owned and managed by the Airport Authority, a five member board that was established for providing overall guidance and direction of airport operations. All Board Members are appointed by the City Commission and serve five year terms. The following is a listing of the current Board Members:

		<u>Expiration of Term</u>
Kenneth Pawluk	Chair	April 8, 2007
Robert Anderson	Vice Chair	April 8, 2009
Donald Kilander	Member	April 8, 2008
General Alex P. Macdonald (Ret.)	Member	April 8, 2011
Dr. Virginia Clark	Member	April 8, 2010

Mr. Shawn Dobberstein is the Executive Director of the Airport Authority and is responsible for providing leadership and direction to the management and operation of the airport by establishing goals and objectives within the policy guidelines set forth by the Airport Authority. Mr. Dobberstein has been employed by the Airport Authority since 1991.

General

In 1931 Martin Hector donated 160 acres to the City for the exclusive purpose of developing an airport. The Airport is currently located three miles north of the City's central business district on approximately 3,000 acres. Scheduled service has been provided continuously to the City by Northwest Airlines since 1931. Northwest Airlines, United Express, Delta Connection and Allegiant Air provide non-stop hub service to the cities of Minneapolis, Chicago, Denver, Salt Lake City, and Las Vegas. In addition to commercial air service, the North Dakota Air National Guard has been located on the airfield since 1947 and air cargo has contributed to the growth segment at the Airport over the last decade.

The Airport is required to maintain airport rescue and firefighting capabilities under Federal Aviation Regulations ("FAR") Part 139 based upon the seating capacity of the largest aircraft with at least five daily departures. They currently are required to meet the requirements of Index C (aircraft up to 160 feet in length). The North Dakota Air National Guard provides this function for the Airport under an agreement with the Airport Authority. The equipment is housed in a facility on the Air National Guard ramp in the southeast quadrant.

Airport maintenance and fuel storage facilities are located on the west side of the terminal area, although fuel storage is also maintained in the general aviation service areas.

The Airport's water supply is provided from the City, sanitary sewage connects into the City's system and natural gas and electrical service are available to all quadrants of the airport property.

Service Area

The Airport serves as a primary commercial service airport for southeastern North Dakota, northeastern South Dakota, and western Minnesota. Situated at the intersection of Interstates 29 and 94, the airport is accessible from any direction.

The Airport is located 235 miles northwest of Minneapolis, Minnesota, 230 miles north of Sioux Falls, South Dakota, 181 miles east of Bismarck, North Dakota, and 75 miles south of Grand Forks, North Dakota.

Located in Cass County, local county population has increased by 17 percent from the 1990 census to the 2000 census data, and the Fargo-Moorhead metropolitan statistical area ("MSA") population has increased by 12 percent over the past decade. The local county population in 2005 is 123,138, while the population in the local MSA is approximately 190,000. The North Dakota Data Center estimated the population in a 100-mile radius of the City at 576,000, based upon 1996 census figures. This population estimate included 16 counties in North Dakota, 22 counties in Minnesota, and 4 counties in South Dakota.

The Airport is strategically located for reaching domestic and international markets. All major Asian, European, and South American markets may be reached non-stop from the Airport using long-range freighter aircraft. It is also centrally located to reach all North American markets.

Passenger Boarding

The following table includes a ten year history of passenger boarding at the Airport:

<u>Year</u>	<u>Total Passengers</u>
2006	305,218
2005	275,200
2004	256,004
2003	243,097
2002	230,405
2001	217,979
2000	230,969
1999	221,368
1998	193,826
1997	203,105

Facilities

Terminal

The present terminal, which was built in 1986 on the west side of the airfield, is 76,000 square feet which provides second-level boarding from four gates. Public parking, a rental car ready/return lot and employee parking are provided near the building. The two-story lobby provides clear segregation of enplaning and deplaning passengers, and access to second-level boarding areas and hold rooms. A restaurant, gift shop and airport administration offices are also located on the second floor.

Commercial Airline Services

The Airport is classified by the Federal Aviation Administration ("FAA") as a non-hub air traffic facility. The FAA defines a non-hub as a community that accounts for less than 0.05% of the total enplaned revenue passengers in all services and all operations of the United States certificated route carriers within the 50 states, the District of Columbia and territorial possessions of the United States.

The Airport has been served by Northwest Airlines since 1931 and is also served and United Express, Delta Connection and Allegiant Air. Northwest Airlines offer daily flights to Minneapolis/St. Paul, United Express offers daily non-stop flights to Denver and Chicago, Delta Connection offers daily non-stop flights to Salt Lake City and Allegiant Air offers twice weekly non-stop flights to Las Vegas. In 2005 total passengers enplaned or deplaned was over 549,000, which was up 8.4% from the record exceeded in 2004.

General Aviation

Two full-service fixed based operators (FBOs), Fargo Jet Center and Fargo Aero Tech are located on the airport to provide services to general aviation aircraft. These services include: fueling, storage, maintenance, flight instruction, and aircraft charters. Fargo Jet Center and its affiliates Weather Modification, Inc., Flight Training Academy and Waypoint Avionics are all located on the north ramp.

Fargo Jet center initially constructed offices, pilot facilities and a 12,000 square-foot heated hangar on the north ramp. They have added a 23,800 square-foot hangar and office addition and constructed general aviation storage hangars near their facility. In December 2001, Fargo Jet Center acquired the facilities and assets of Valley Aviation. This acquisition included offices, pilot facilities and two 29,400 square-foot heated hangars.

Weather Modification, Inc also operates from the Fargo Jet Center facility, providing hail suppression and rain enhancement cloud seeding services worldwide with a fleet of 17 twin-engine aircraft based at the airport.

Fargo Aero Tech provides maintenance, storage and fueling for general aviation aircraft. This facility is located in the south general aviation area and they expanded their facilities in year 2000 with the addition of a 22,000 square-foot hangar.

Numerous privately owned hangars are located in both the south and north general aviation areas.

Air Cargo

The Airport is served by five air cargo companies on a scheduled basis. DHL operates daily DC-9 service. Business Aviation, Capital City, Eagle Air, Perimeter Air, Paccair and Suburban Air Freight fly air cargo in/from Fargo for the larger air cargo companies including United Parcel Service, FedEx, and DHL. DHL has a facility located at the air cargo area in the northwest quadrant, which was constructed in 1997 to meet increasing demands.

Air National Guard

The North Dakota Air National Guard ("NDANG") currently fly the F-16 from the Airport to support their current mission as a general purpose fighter unit. The NDANG will transition to C-21 aircraft in addition to unmanned aerial vehicles ("UAV"). Eventually, the C-21 will be replaced with a Light Cargo Aircraft ("LCA"). All of the Air National Guard facilities are located on the east side of the airfield.

Support Facilities

The U.S. Customs Service occupies space in the original terminal and administration building which was built in 1953.

Enroute Navigational Airspace

Several types of navigational aids are available for aircraft enroute to Fargo, including very high frequency omnidirectional range beacons ("VOR"), nondirectional beacons ("NDB"), Loran-C, area navigation ("RNAV"), and the global positioning system. VORs provide azimuth readings to pilots of properly equipped aircraft, transmitting a radio signal at every degree to provide individual navigational courses along each compass point. NDBs provide nondirectional signals to pilots with properly equipped aircraft.

Loran-C is a ground-based system which utilizes a system of transmitters across the U.S. RNAV is a method of navigation which permits aircraft operation on any desired flight path using VOR transmitters.

GPS is another enroute navigational (and approach) aid available to pilots. Initially developed by the U.S. Department of Defense, it is being increasingly used in civilian aircraft navigation. A system of satellites has been deployed to transmit electronic signals which aircraft may in turn use to calculate their relative location. GPS provides the greatest level of accuracy of all enroute navigational aids currently available. The FAA is proceeding with a program to gradually replace all traditional enroute navigational aids with GPS by the year 2020. A non-precision GPS approach was approved for Runway 9 in 2000.

A wide area augmentation system ("WAAS") is being installed to meet navigation performance requirements for domestic enroute, terminal, non-precision approach and precision approach flight phases. WAAS is designed to enhance the accuracy, integrity, and availability of GPS signals, contributing to increased aviation system capacity and efficiency.

Airport Fund Financial Statements and Coverage Statement

Management's Discussion of Financial Statement

The Airport Authority's financial statements on pages 14 and 15 show an operating loss each year except 2004. This loss is due to the entry for depreciation as an expenses and the the fact that the Airport Authority does not include depreciation when setting its rates. The majority of the items being depreciated are replaced with funds derived from grants and other sources which appear as Capital Contributions in the financial statements. On a cash flow basis, the Airport Authority has a history of generating positive cash flow, which based on 2005 figures will provide adequate net revenues available for debt service to pay the principal and interest due on the Bonds and the Prior Bonds as shown on page 16.

Financial Statements and Coverage Statement

The tables on pages 12 through 15 show the financial statements of the Airport Fund. The audited financial statements for the years ending December 31, 2002 through 2005 were prepared according to Governmental Accounting Standards Board (GASB) Statement 34 and are not directly comparable to statements prepared for the fiscal year December 31, 2001 which were prepared prior to GASB 34 implementation. The Pro Forma Debt Service Coverage for the Bonds and the Prior Bonds is shown on page 16.

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**City of Fargo, North Dakota
Municipal Airport Authority
Statement of Net Assets**

For the Years Ending December 31

ASSETS	2005	2004	2003	2002
Current assets				
Equity in pooled cash and investments	\$8,818,790	\$5,496,141	\$5,819,579	\$6,056,037
Receivables (net of allowances for uncollectibles):				
Interest	58,742	11,868	10,317	19,800
Taxes	11,181	10,195	9,993	10,627
Accounts	473,926	538,191	257,729	333,765
Intergovernmental	2,471	2,082,413	135,986	391,456
Due from other funds	-	-	-	-
Restricted equity in pooled cash and investments	646,786	639,289	-	-
Total current assets	10,011,896	8,778,097	6,233,604	6,811,685
Noncurrent assets				
Restricted Assets:				
Equity in pooled cash & investments	256,999	259,143	-	-
Prepaid expenses	8,750	9,750	-	-
Unamortized debt costs	89,844	100,211	-	-
Capital Assets:				
Land	6,228,153	6,228,153	4,465,797	\$4,065,797
Construction in progress	-	-	474,943	\$59,816
Buildings	13,219,335	13,219,335	14,091,409	\$14,091,409
Improvements other than Buildings	756,543	674,073	674,073	\$586,794
Machinery and Equipment	4,337,129	4,334,042	4,483,882	4,166,765
Infrastructure	64,570,413	62,046,558	46,227,271	43,913,383
Less Accumulated Depreciation	(26,522,466)	(24,140,075)	(27,029,748)	(25,605,511)
Total Capital Assets (net of accumulated depreciation)	62,589,107	62,362,086	43,387,627	41,278,453
Total noncurrent assets	62,944,700	62,731,190	43,387,627	41,278,453
Total assets	\$72,956,596	\$71,509,287	\$49,621,231	\$48,090,138
LIABILITIES				
Current Liabilities				
Vouchers payable	\$920,358	\$750,639	\$87,905	\$254,176
Retainage payable	65,500	94,197	35,146	56,882
Accrued payroll	30,102	29,861	22,740	17,688
Accrued vacation payable	63,168	52,271	49,678	44,485
Deferred revenue	52,046	57,936	0	-
Current Liabilities (Payable From Restricted Assets)				
Current Portion of Long-Term Debt	585,000	590,000	-	-
Accrued Interest and Other	61,786	49,289	-	-
Total current liabilities	\$1,777,960	\$1,624,193	\$195,469	\$373,231
Noncurrent liabilities				
Special Assessments	-	-	-	-
Revenue Bond Payable	5,295,000	5,880,000	-	-
Total noncurrent liabilities	\$5,295,000	\$5,880,000	\$0	\$0
Total liabilities	\$7,072,960	\$7,504,193	\$195,469	\$373,231
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	57,702,738	56,890,731	43,387,627	\$41,278,453
Restricted for				
Debt service	265,749	268,893	-	-
Unrestricted	7,915,149	6,845,470	6,038,135	6,438,754
Total net assets	\$65,883,636	\$64,005,094	\$49,425,762	\$47,717,207

Source: City of Fargo, North Dakota Comprehensive Annual Financial Report for years ending December 31, 2002 through 2005.

City of Fargo, North Dakota
Municipal Airport Authority
Combining Balance Sheets

For the Years Ending December 31

ASSETS	2001
CURRENT ASSETS	
Equity in Pooled Cash & Investments	\$3,692,354
Receivables (net of allowances for uncollectibles):	
Interest	26,068
Taxes	10,590
Accounts	250,770
Intergovernmental	2,208,796
Due from Other Funds	-
Loan Receivable	268
TOTAL CURRENT ASSETS	\$6,188,846
RESTRICTED ASSETS	
Equity in Pooled Cash & Investments	-
Investments	-
Interest Receivable	-
TOTAL RESTRICTED ASSETS	-
OTHER ASSETS	
Unamortized Debt Costs	-
TOTAL OTHER ASSETS	-
PROPERTY, PLANT AND EQUIPMENT	
In Service	65,425,548
Under Construction	-
Less Accumulated Depreciation	(23,973,588)
PROPERTY, PLANT AND EQUIPMENT	\$41,451,960
TOTAL ASSETS	\$47,640,806
LIABILITIES AND FUND EQUITY	
CURRENT LIABILITIES	
Vouchers Payable	\$165,444
Accrued Payroll	94,570
Accrued Vacation Payable	14,349
Deferred Revenue	51,367
TOTAL CURRENT LIABILITIES	\$325,730
CURRENT LIABILITES	
(Payable From Restricted Assets)	
Current Portion of Long-Term Debt	\$0
Accrued Interest and Other	-
Arbitrage Payable	-
TOTAL CURRENT LIABILITES	\$0
(Payable From Restricted Assets)	\$0
LONG-TERM LIABILITIES	
Special Assessments	\$0
Revenue Bond Payable	0
TOTAL LONG TERM LIABILITIES	\$0
TOTAL LIABILITIES	\$325,730
EQUITY	
CONTRIBUTED CAPITAL	\$38,332,467
RETAINED EARNINGS (DEFICIT)	
Reserved for Debt Retirement	-
Unreserved	8,982,609
TOTAL RETAINED EARNINGS	\$8,982,609
TOTAL EQUITY	\$47,315,076
TOTAL LIABILITIES AND EQUITY	\$47,640,806

*Source: City of Fargo North Comprehensive Annual Financial
Report for year ending December 31, 1999.*

City of Fargo, North Dakota
Municipal Airport Authority
Statement of Revenue, Expenses and
Changes in Net Assets

For the Years Ending December 31

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
OPERATING REVENUES				
Charges for sales and services:	\$4,856,814	\$5,883,466	\$4,022,247	\$3,884,428
OPERATING EXPENSES				
Personal Services	837,736	807,093	790,412	723,507
Other Services	1,551,707	1,212,455	1,234,270	1,929,723
Materials and Supplies	576,518	549,605	810,710	331,845
Depreciation	2,398,330	1,819,008	1,760,808	1,680,940
Total operating expenses	<u>5,364,291</u>	<u>4,388,161</u>	<u>4,596,200</u>	<u>4,666,015</u>
Operating income (loss)	(507,477)	1,495,305	(573,953)	(781,587)
NONOPERATING REVENUES (EXPENSES)				
Gain (Loss) of Disposal of Assets	-	(616,558)	128,418	3,053
Investment Income	247,977	52,002	49,348	187,983
Interest Expenses and Bonds Fees	(199,840)	(44,345)	(24,070)	(6,614)
Amortization	(11,367)	(3,702)	-	-
General Property Tax Revenue	420,714	395,855	374,350	349,682
Miscellaneous	-	-	(113,448)	-
Total nonoperating revenues (expenses)	<u>457,484</u>	<u>(216,748)</u>	<u>414,598</u>	<u>534,104</u>
Income (loss) before contribution and transfers	(\$49,993)	\$1,278,557	(\$159,355)	(\$247,483)
CAPITAL CONTRIBUTIONS				
	1,978,539	13,350,779	1,920,254	699,614
Transfers out				
General	(50,004)	(50,004)	(50,004)	(50,000)
Internal Service Fund	-	-	(2,340)	-
CHANGE IN NET ASSETS	<u>1,878,542</u>	<u>14,579,332</u>	<u>1,708,555</u>	<u>402,131</u>
TOTAL NET ASSETS BEGINNING	<u>64,005,094</u>	<u>49,425,762</u>	<u>47,717,207</u>	<u>47,315,076</u>
TOTAL NET ASSETS - ENDING	<u>\$65,883,636</u>	<u>\$64,005,094</u>	<u>\$49,425,762</u>	<u>\$47,717,207</u>

Source: City of Fargo, North Dakota Comprehensive Annual Financial Reports dated December 31, 2002 through December 31, 2005

City of Fargo, North Dakota
Municipal Airport Authority
Combining Statement of Revenue, Expenses and
Changes in Retained Earnings

For the Years Ending December 31

	2001
OPERATING REVENUE	
Charges For Services	\$3,591,300
Miscellaneous	-
TOTAL OPERATING REVENUE	\$3,591,300
OPERATING EXPENSES	
Personal Services	698,816
Other Services	1,591,749
Materials and Supplies	387,325
Depreciation	1,859,043
TOTAL OPERATING EXPENSES	\$4,536,933
OPERATING INCOME (LOSS)	(945,633)
NONOPERATING REVENUES (EXPENSES)	
Gain (Loss) on Disposal of Assets	51,620
Investment Income	233,940
Interest Expenses and Bonds Fees	(11,302)
Amortization Expense	(4,505)
General Property Tax Revenue	324,053
Intergovernmental Revenue	-
TOTAL NONOPERATING REVENUE (EXPENSES)	\$593,806
INCOME (LOSS) BEFORE CONTRIBUTIONS AND OPERATING TRANSFER	(\$351,827)
CAPITAL CONTRIBUTIONS	5,960,529
OPERATING TRANSFERS OUT	
General	(50,000)
Capital Projects	0
TOTAL OPERATING TRANSFERS	(50,000)
TOTAL OPERATING TRANSFERS AND CAPITAL CONTRIBUTIONS	5,910,529
NET INCOME (LOSS)	5,558,702
RETAINED EARNINGS (DEFICIT) - BEGINNING	3,423,907
RETAINED EARNINGS (DEFICIT) - ENDING	\$8,982,609

*Source: City of Fargo North Comprehensive Annual Financial
Report for year ending December 31, 1999.*

PRO FORMA DEBT SERVICE COVERAGE

The following table sets forth pro forma debt service coverage of the Bonds and the Prior Bonds by 2005 Net Airport Revenue Available for Debt as calculated below. Actual debt service coverage will vary from that set forth below and such variations may be adverse and material.

MUNICIPAL AIRPORT AUTHORITY OF THE CITY OF FARGO, NORTH DAKOTA Airport Reserve Revenue Bonds, Series 2007A

Proforma Debt Service Coverage

The Bonds				Prior Bonds Principal and Interest	Total Parity Bonds Principal and Interest	Coverage of 2005 Net Revenues Available for Debt Service (Times)(b)
Maturity Year	Principal	Interest	Total Principal and Interest (a)			
2007		\$174,842.89	\$174,843	\$767,195	\$942,037.89	2.72
2008	\$330,000	321,140.00	651,140.00	765,535	1,416,675.00	1.81
2009	350,000	308,105.00	658,105.00	762,235	1,420,340.00	1.80
2010	365,000	294,280.00	659,280.00	761,923	1,421,202.50	1.80
2011	375,000	279,862.50	654,862.50	765,638	1,420,500.00	1.80
2012	390,000	265,050.00	655,050.00	763,528	1,418,577.50	1.80
2013	405,000	249,450.00	654,450.00	765,758	1,420,207.50	1.80
2014	415,000	233,047.50	648,047.50	771,448	1,419,495.00	1.80
2015	1,205,000	216,032.50	1,421,032.50		1,421,032.50	1.80
2016	1,255,000	166,025.00	1,421,025.00		1,421,025.00	1.80
2017	1,305,000	113,942.50	1,418,942.50		1,418,942.50	1.80
2018	1,360,000	58,480.00	1,418,480.00		1,418,480.00	1.80
Totals	\$7,755,000	\$2,680,257.89	\$10,435,257.89	\$6,123,258	\$16,558,515	

(a) The Bonds at an assumed average annual interest rate of 4.20%.

(b) Coverage based on 2005 Net Revenues Available for Debt Service of the Airport Authority as calculated below:

2005 Net Revenues Available for Debt Service	
2005 Operating Revenues	\$4,856,814
2005 Operating Expenses	(5,364,291)
Add: Depreciation	2,398,330
Interest Income	247,977
General Property Tax Revenue	420,714
2005 Net Revenues Available for Debt Service	\$2,559,544

The Net Revenues available for debt service are historical figures for 2005. There can be no assurance that future collections of Net Revenues will be similar to historical collections. Such future results will vary from historical results and actual variations may be material. In addition, the Airport Authority may, upon satisfaction of certain conditions set forth in the Resolution, issue Additional Bonds from time to time. Consequently, the historical results and proforma debt service coverage information contained herein cannot be taken as a representation that the Net Revenues will be sufficient in the future to make payments of the principal of and interest on the Bonds when due. No financial feasibility study has been prepared relating to the Airport Authority or the issuance of the Bonds.

FUTURE FINANCING

The Airport Authority does not expect to issue any additional debt in the next 90 days. The City expects to issue general obligation bonds in 2007.

LITIGATION

Neither the Airport Authority nor the City is aware of any threatened or pending litigation affecting the validity of the Bonds or the Airport Authority's or City's ability to meet their financial obligations.

LEGALITY

The Bonds are subject to approval as to certain matters by Briggs and Morgan, Professional Association and Erik Johnson, Erik Johnson & Associates, Ltd., Co-Bond Counsel. Bond Counsels have not participated in the preparation of this Official Statement and will not pass upon its accuracy, completeness, or sufficiency. Bond Counsels have not examined, nor attempted to examine or verify, any of the financial or statistical statements or data contained in this Official Statement and will express no opinion with respect thereto. A legal opinion in substantially the form set out in Appendix II herein will be delivered at closing.

TAX EXEMPTION

At closing Briggs and Morgan, Professional Association and Erik R. Johnson & Associates, Ltd., Co-Bond Counsel, will render opinions that, at the time of their issuance and delivery to the original purchaser, under present federal and State of North Dakota laws, regulations, rulings and decisions (which excludes any pending legislation which may have a retroactive effect), the interest on the Bonds is not includable gross income for federal income tax purposes and is not includable, to the same extent, in gross income for North Dakota income tax purposes (other than North Dakota franchise taxes measured by net income and imposed on banks, trust companies and building and loan associations by North Dakota Century Code, Chapter 57-35.3), and that interest on the Bonds is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. In addition, interest on the Bonds is included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States. Further, interest on the Bonds may be subject to federal income taxation under Section 1375 of the Internal Revenue Code of 1986, as amended ("Code"), for S corporations which have Subchapter C earnings and profits at the close of the taxable year if more than twenty-five percent (25%) of the gross receipts of such S corporations is passive investment income.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including without limitation, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers, including banks, thrift institutions and other financial institutions subject to Section 265 of the Code, who may be deemed to have incurred or continued indebtedness to purchase or to carry the Bonds. Co-Bond Counsel expresses no opinion as to any of such consequences, and prospective purchasers of the Bonds who may be subject to such collateral consequences should consult their tax advisors.

In rendering their respective opinions, Co-Bond Counsel has assumed compliance by the Airport Authority and the City with their covenants and representations that are intended to comply with the provisions of the Code relating to actions to be taken in respect of the Bonds after the issuance thereof to effect or maintain the exclusion of interest on the Bonds from gross income for federal or state income tax purposes. Such covenants, representations and requirements relate to, inter alia, the use of and investment of proceeds of the Bonds and the rebate to the United States Treasury of specified arbitrage earnings, if any. Failure to comply with such covenants, representations or requirements could result in the interest on the Bonds becoming includable in gross income for federal or state income tax purposes from the date of issuance of the Bonds.

RATINGS

Applications for ratings of the Bonds have been made to Moody's Investors Service ("Moody's"), 99 Church Street, New York, New York, and to Standard & Poor's Ratings Services ("S&P"), 55 Water Street, New York, New York. If ratings are assigned, they will reflect only the opinion of Moody's or S&P. Any explanation of the significance of the ratings may be obtained only from Moody's or S&P.

There is no assurance that ratings, if assigned, will continue for any given period of time, or that such ratings will not be revised, suspended or withdrawn, if, in the judgment of Moody's or S&P, circumstances so warrant. A revision, suspension or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

FINANCIAL ADVISOR

The Airport Authority has retained Springsted Incorporated, Public Sector Advisors, of St. Paul, Minnesota, 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, who 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 Airport Authority or the City 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.

CERTIFICATION

The Airport Authority and the City have authorized the distribution of the Official Statement for use in connection with the initial sale of the Bonds. As of the date of the settlement of the Bonds, the Purchaser will be furnished with a certificate signed by the appropriate officers of the Airport Authority and the City. The certificate will state that as of the date of the Official Statement, the Official Statement did not and does not as of the date of the certificate contain any untrue statement of material fact or omit to state a material fact necessary in order to make the statement made therein in light of the circumstances under which they were made, not misleading.

GENERAL INFORMATION CONCERNING THE CITY

CITY PROPERTY VALUES

All taxable property in North Dakota is currently listed and appraised with reference to its value on February 1 of that year. Property is initially appraised at the estimated Market Value, which is equal to 100% of full market value. The Assessed Value is computed at 50% of the estimated Market Value. County auditors then determine "Taxable Value," which is the value upon which taxes are levied, extended and collected. Taxable Value is computed by applying the following percentages to the Assessed Values: 9% for residential property and 10% for commercial, agricultural and State-assessed property.

2006 Market Value (100%) of Taxable Property: \$5,686,673,200

Real Estate	\$5,680,849,700
Public Utility and Other	<u>79,252,760</u>
Subtotal	\$5,760,102,460
Less: Captured Tax Increment Value	<u>(73,429,260)</u>
Total	\$5,686,673,200

2006 Assessed Value (50%) of Taxable Property: \$2,843,336,600

Real Estate	\$2,840,424,850
Public Utility and Other	<u>39,626,380</u>
Subtotal	\$2,880,051,600
Less: Captured Tax Increment Value	<u>(36,714,630)</u>
Total	\$2,843,336,600

2006 Taxable Value by Type of Property: \$268,544,513

Real Estate	\$ 268,253,338
Public Utility and Other	<u>3,962,638</u>
Subtotal	\$ 272,215,976
Less: Captured Tax Increment Value	<u>(3,671,463)</u>
Total	\$ 268,544,513

Trend of Values

	<u>Market Value</u> 100%	<u>Assessed Value</u> 50%	<u>Taxable</u> <u>Value*</u>
2006	\$5,686,673,200	\$2,843,336,600	\$268,544,513
2005	5,171,214,038	2,585,607,019	244,141,153
2004	4,772,583,816	2,386,291,908	225,535,096
2003	4,400,611,211	2,200,305,606	208,083,503
2002	4,116,552,569	2,058,276,285	194,773,430

* Residential property is taxable at 9% and all other property is taxable at 10% of assessed valuation. All values exclude captured tax increment valuation.

Ten of the Largest Taxpayers in the City

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2006</u> <u>Taxable Value</u>
Xcel Energy	Utility	\$ 3,779,749
Dakota Specialty Institute	Health Care	2,987,280
West Acres Development Co.	Retail Shopping Center	2,555,210
Meritcare Medical Group	Health Care	1,520,115
Medical Properties	Medical	1,063,400
Blue Cross of North Dakota	Insurance	1,497,950
Case Equipment Corporation	Industrial	881,485
Lexus Tower LTD Partnership	Apartments/Commercial	745,680
Scheels All Sports Inc.	Retail	730,100
Matrix Properties Corp.	Apartments	<u>670,700</u>
Total		\$16,431,669 *

* Represents 5.8% of the City's 2006 taxable value.

Source: Cass County Auditor.

CITY INDEBTEDNESS

Legal Debt Limit

Under the provisions of Section 21-03-04 of the North Dakota Century Code, no incorporated city shall incur indebtedness in an amount which, together with all other indebtedness of the City, shall exceed 5% of the Assessed Value of all taxable property therein. Exceptions to this provision include improvement warrants and refunding improvement bonds payable from special assessments against benefited property and revenue bonds issued to finance the acquisition, construction, or improvement of revenue producing utilities.

Legal Debt Limit (5% of Assessed Value)		\$142,166,830
Amount of Debt Applicable to Debt Limit:		
General Obligation Bonds	\$	8,952
Lease Obligations ^(a)		4,766,852
FNMA Line of Credit		4,340,000 ^(b)
Special Assessments against City Property		<u>6,251,093</u> ^(b)
Total		\$15,366,897
Less: Debt Service Funds as of December 31, 2006		<u>(- 0 -)</u>
Less: Net Chargeable Debt		<u>(15,366,897)</u>
Legal Net Debt Margin as of December 31, 2007		\$126,799,933

^(a) Also includes the City's governmental capital lease obligations.

^(b) Data provided by the City of Fargo.

General Obligation Debt Supported by Tax Increments *

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Principal Outstanding As of 1-2-07</u>
5-28-96	\$200,000	Tax Increment (Great Northern)	4-1-2007	\$8,952

* This issue is subject to the legal debt limit.

Debt Supported Primarily by Special Assessments

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Principal Outstanding As of 1-2-07</u>
11-1-97	\$ 660,000	Sidewalk Construction	6-1-2007	\$ 45,000
3-1-98	5,725,000	Improvements B	5-1-2011	2,560,000
12-1-98	3,675,000	Improvements C	5-1-2016	1,965,000
5-18-99	771,919	Sidewalk Construction	1-1-2009	154,383
9-1-99	17,520,000	Improvements A	5-1-2009	2,990,000
3-1-00	1,670,000	SRF Loan Storm Sewer	9-1-2020	1,360,000
7-1-00	13,955,000	Improvements A	5-1-2008	1,665,000
9-19-00	319,990	Sidewalk Construction	1-1-2010	95,997
12-1-00	4,060,000	Improvements B	5-1-2008	440,000
6-15-01	332,810	Sidewalk Construction	1-1-2011	133,124
9-1-01	15,535,000	Improvements A	5-1-2019	11,085,000
12-1-01	8,240,000	Improvements B	5-1-2019	6,620,000
5-1-02	11,190,000	Improvements A	5-1-2027	10,075,000
2-1-03	15,250,000	Improvements A	5-1-2028	14,000,000
2-1-03	2,915,000	Refunding B	5-1-2011	1,615,000
2-1-03	3,500,000	Refunding C	5-1-2014	2,665,000
9-15-03	12,525,000	Improvements D	5-1-2028	11,605,000
4-1-04	1,165,000	Refunding A	5-1-2009	675,000
4-1-04	9,300,000	Refunding B	6-1-2015	8,950,000
5-1-04	22,280,000	Improvements C	5-1-2029	21,425,000
11-1-04	23,185,000	Improvements E	5-1-2029	21,640,000
12-15-05	21,310,000	Improvements	5-1-2030	20,710,000
12-15-05	10,675,000	Refunding	5-1-2018	10,675,000
12-15-06	19,810,000	Improvements B	5-1-2031	19,810,000
12-15-06	6,465,000	Refunding C	5-1-2018	6,465,000
Total				\$179,423,504

Debt Supported by Revenues

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Principal Outstanding As of 1-2-07</u>
10-1-92	\$ 1,425,000	Lodging Tax (CVB)	10-1-2009	\$ 365,000
4-1-94	3,561,559	SRF Note (Sewer I)	10-1-2013	1,490,000
4-1-94	7,770,000	SRF Note (Sewer II)	10-1-2014	3,445,000
7-15-95	31,055,000	Sales Tax (Dome)	1-1-2009	5,965,000
4-1-97	2,850,429	SRF Note (Water)	10-1-2017	1,665,429
10-1-97	47,815,000	Water	1-1-2017	2,505,000*
4-1-99	1,482,337	SRF Note (Sewer IV)	10-1-2018	972,337
11-15-99	15,260,000	Sales Tax (Infrastructure)	7-1-2012	8,775,000
4-1-00	210,000	SRF Note (Reile's)	10-1-2019	140,000
5-15-01	1,290,000	Parking	11-1-2021	1,085,000
4-1-02	10,266,793	SRF Note (Sewer VI)	10-1-2019	7,855,000
4-15-02	1,300,000	Housing Revenue	4-15-2017	998,958
7-1-02	5,740,000	Taxable Sales Tax (Dome)	1-1-2009	3,325,000
7-15-05	20,260,000	Sales Tax (Infrastructure)	7-1-2012	20,260,000
8-14-06	4,000,000	SRF Note	9-1-2025	3,843,000
10-1-07	28,065,000	Water Refunding	1-1-2017	<u>28,065,000</u>
Total				\$90,754,724

* The City refunded this issue with the refunding Bonds dated October 1, 2007 which are subject to a delayed delivery until October 11, 2007.

Debt Supported by Airport Reserve Revenue

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Principal Outstanding As of 1-2-07</u>
10-1-04	\$6,470,000	Airport Reserve Revenue	9-1-2014	\$ 5,295,000
2-15-07	7,755,000	Airport Reserve Revenue (AMT) (The Bonds)	9-1-2018	<u>7,755,000</u>
Total				\$13,050,000

Lease Obligations

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Principal Outstanding As of 1-2-07</u>
4-15-02	\$4,930,000	Building Airport Authority Lease* (City Hall/Civic Center)	5-1-2022	\$4,255,000

* This issue is subject to the legal debt limit.

Annual Calendar Year Debt Service Payments

Year	G.O. Debt Supported by Tax Increment		Debt Supported Primarily by Special Assessments		Debt Supported by Revenues	
	Principal	Principal & Interest	Principal	Principal & Interest	Principal	Principal & Interest
2007 (at 1-2)	\$8,952.10	\$9,746.60				
2007 (at 1-2)	\$ 10,755,000.00	\$ 18,440,825.89	\$ 7,581,022.45	\$ 9,955,758.85		
2008	10,692,471.90	17,966,483.95	13,437,023.01	16,353,444.85		
2009	10,587,471.90	17,252,575.40	12,007,073.59	12,088,772.83		
2010	9,920,280.00	16,092,656.20	9,338,175.43	11,853,003.08		
2011	9,513,281.00	15,300,465.53	9,715,329.81	11,792,253.08		
2012	9,245,000.00	14,618,822.60	10,107,538.06	11,726,353.08		
2013	9,350,000.00	14,411,253.85	5,004,801.51	6,146,046.83		
2014	9,065,000.00	13,748,950.10	4,992,121.55	5,914,496.82		
2015	8,680,000.00	12,997,025.72	4,723,499.58	5,423,415.57		
2016	7,520,000.00	11,498,865.09	4,945,937.07	5,424,896.81		
2017	7,150,000.00	10,816,630.08	5,174,864.55	5,421,813.31		
2018	6,800,000.00	10,164,608.82	1,084,337.00	1,193,607.94		
2019	6,535,000.00	9,604,795.69	1,023,000.00	1,101,450.02		
2020	5,265,000.00	8,074,341.31	322,000.00	370,956.26		
2021	5,405,000.00	7,977,406.30	332,000.00	368,781.26		
2022	5,640,000.00	7,963,970.66	232,000.00	256,150.00		
2023	5,915,000.00	7,975,582.53	239,000.00	257,350.00		
2024	6,210,000.00	7,991,291.90	245,000.00	257,375.00		
2025	6,495,000.00	7,980,613.77	250,000.00	256,250.00		
2026	6,800,000.00	7,973,488.14				
2027	7,135,000.00	7,979,824.38				
2028	6,155,000.00	6,688,065.00				
2029	5,020,000.00	5,295,268.75				
2030	2,400,000.00	2,505,767.50				
2031	1,170,000.00	1,195,593.75				
Total	\$179,423,504.80 ^(a)	\$262,515,172.91	\$90,754,723.61 ^(b)	\$106,162,175.59		

(a) 53.1% of this debt will be retired within ten years.

(b) 90.2% of this debt will be retired within ten years.

Annual Calendar Year Debt Service Payments Including This Issue (continued)

<u>Year</u>	<u>Debt Supported by Airport Revenue</u>		<u>Lease Obligations</u>	
	<u>Principal</u>	<u>Principal & Interest^(a)</u>	<u>Principal</u>	<u>Principal & Interest</u>
2007 (at 1-2)	\$ 595,000	\$ 942,037.88	\$ 190,000	\$384,210.00
2008	940,000	1,416,675.00	195,000	381,510.00
2009	975,000	1,420,340.00	205,000	383,510.00
2010	1,010,000	1,421,202.50	210,000	380,105.00
2011	1,045,000	1,420,500.00	220,000	381,180.00
2012	1,080,000	1,418,577.50	230,000	381,615.00
2013	1,120,000	1,420,207.50	240,000	381,390.00
2014	1,160,000	1,419,495.00	250,000	380,485.00
2015	1,205,000	1,421,032.50	265,000	383,698.75
2016	1,255,000	1,421,025.00	275,000	381,006.25
2017	1,305,000	1,418,942.50	290,000	382,225.00
2018	1,360,000	1,418,480.00	305,000	382,350.00
2019			320,000	381,725.00
2020			335,000	380,350.00
2021			355,000	382,922.50
2022			370,000	379,435.00
Total	\$13,050,000^(b)	\$16,558,515.38	\$4,255,000^(c)	\$6,107,717.50

(a) Includes the Bonds at an assumed average annual interest rate of 4.20%.

(b) 89.6% of this debt is expected to be retired within the next ten years.

(c) 53.6% of this debt is expected to be retired within the next ten years.

Operating Lease

The City leases building and office facilities under noncancelable operating leases. The total costs for such leases were \$280,538 for the year ended December 31, 2006. The future minimum payments for these leases are as follows:

2007	\$239,879
2008	172,863
2009	<u>105,703</u>
	\$518,445

Capital Leases

The City is obligated to business-type capital lease agreements that financed forestry equipment, a grader, and a tub grinder. The City is also obligated to governmental capital lease agreements to finance an E911 Radio Console, two graders, and a paver. Future minimum payments under the capital lease agreements as of December 31, 2006 are as follows:

	<u>Governmental*</u>	<u>Business-type</u>
2007	\$113,710	\$71,197
2008	113,710	--
2009	113,710	--
2010	117,885	--
Thereafter	127,420	--
Less amount representing interest	<u>(74,583)</u>	<u>(2,341)</u>
Principal balance remaining	\$511,852	\$68,856

* The City's Governmental Capital Lease obligations are subject to the legal debt limit.

Summary of Direct Debt

	<u>Gross Debt</u>	<u>Less: Debt Service Funds*</u>	<u>Net Direct Debt</u>
Supported by Tax Increments (G.O.)	\$ 8,952	\$ - 0 -	\$ 8,952
Supported by Special Assessments	179,423,504	(24,301,089)	155,122,415
Supported by Revenues	90,754,724	(6,096,137)	84,658,587
Supported by Airport Reserve Revenue	13,050,000	-0-	13,050,000
Lease Obligations	4,255,000	-0-	4,255,000

* Debt service funds are as of December 31, 2006 and include money to pay both principal and interest.

Indirect Debt

<u>Taxing Unit</u>	<u>2006 Taxable Value</u>	<u>G.O. Debt As of 12-31-06*</u>	<u>Debt Applicable to Taxable Value in City</u>	
			<u>Percent</u>	<u>Amount</u>
Fargo School District #1	\$221,866,411	\$68,960,000	96.23%	\$ 66,360,268
West Fargo School District #6	127,048,414	54,670,000	43.32	23,683,044
SE Cass Water District	351,070,209	4,230,000	76.49	3,235,527
Fargo Park District	268,544,513	10,900,000	100.00	10,400,000
Cass County	395,777,450	380,000	67.85	<u>257,830</u>
Total				\$103,936,609

* Excludes State Loans and Certificates of Indebtedness, and includes Certificates of Participation.

Debt Ratios

	<u>Net Direct Debt</u> *	<u>Indirect & Net Direct Debt</u>
To 2005 Assessed Value (\$2,843,336,600)	6.46%	10.12%
Per Capita (97,911 – 2005 City Estimate)	\$1,876	\$2,938

* Includes general obligation debt supported by taxes and tax increment, special assessment debt, and lease obligations. Excludes debt supported by revenues.

CITY TAX RATES, LEVIES AND COLLECTIONS

Property taxes in North Dakota are extended and collected by the various counties within the state. The process begins in the fall of each year when the County Auditor calculates mill rates (taxes per \$1,000 of Taxable Value) based on local taxing district levies. Beginning in 1986, each taxing district was allowed to levy the same amount in dollars as was levied the prior year plus three percent subject to certain statutory adjustments. Beginning with budget year 1988 each taxing district may levy five percent above what was levied the prior year.

Taxes per \$1,000 of Taxable Value

	<u>Levy Year/Collection Year</u>				
	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>	<u>2006/07</u>
State of North Dakota	1.00	1.00	1.00	1.00	1.00
Cass County	65.80	66.00	66.00	63.00	62.00
City of Fargo	60.30	60.24	58.73	59.25	57.25
Fargo School District #1	323.84	320.20	319.55	318.62	309.02
West Fargo School District #6	254.02	254.02	254.02	254.02	254.02
SE Water Resource and Flood Control	6.00	6.00	6.00	6.00	5.50
Park District	32.87	32.73	32.46	32.58	32.07
Soil Conservation	<u>0.21</u>	<u>0.41</u>	<u>0.32</u>	<u>0.31</u>	<u>0.41</u>
Total Levy in Fargo SD #1	490.02	486.58	484.06	480.76	467.25
Total Levy in West Fargo SD #6	420.02	420.40	418.53	416.16	412.25

City Tax Levies and Collections

<u>Levy Year</u>	<u>Total Tax Levy</u>	<u>Actual Collections (as of 12-31-06)</u>	<u>Percent of Levy Collected</u>
2006	\$17,147,192	(In Process of Collection)	
2005	15,962,548	\$15,033,216	94.2%
2004	14,548,034	13,845,952	95.2
2003	13,639,256	13,022,901	95.5
2002	12,696,788	12,187,352	96.0

Property taxes are collectable at the taxpayer's option under two plans: (1) taxes paid in full by February 15 of the collection year will receive a 5% discount (the City takes this into account in the annual budgeting levy process), or (2) taxes paid in two installments due by March 1 (first half) and due by October 15 (second half). Penalties are levied on the following schedule:

<u>Delinquent Time Period</u>	<u>Penalty</u>
March 2-April 30	3%
May 2-June 30	an additional 3%
July 2-September 30	an additional 3%
October 16-December 31	an additional 3%
January 1	12% Annual Rate

The second installment becomes delinquent on October 16, at which time a 6% penalty is assessed. On January 1 the taxes are sold to the County Auditor at which time 12% interest penalty is compounded daily. After five years the property is offered at tax sale at a fair market valuation.

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**FUNDS ON HAND
As of December 31, 2006**

<u>Fund</u>	<u>Cash and Investments</u>
General	\$ 13,753,933
Special Revenue	8,687,028
Debt Service:	
General Obligation	(320,133)
Special Assessment (Bonds)	24,301,089
State Revolving Loan Note	356,908
Sidewalk Warrant Bonds	(60,210)
Parking Lease Revenue Bonds	138,393
Convention & Visitor's Bureau	5,910,357
Sales Tax	47,387
Capital Projects	(4,888,930)
Enterprise	30,222,652
Enterprise Capital Reserve (FargoDome)	10,571,913
Enterprise Fund Bond Reserves	
Airport Revenue Bond Reserve	3,246,035
FargoDome Sales Tax Revenue Bond	647,000
FargoDome Sales Tax Revenue Bond Reserve	3,255,940
Water Revenue Bonds	574,000
Internal Service	4,036,090
Trust & Agency	<u>489,995</u>
Total	\$100,969,447

CITY INVESTMENTS

The City invests available monies pursuant to North Dakota Century Code. As of December 31, 2006, the City's cash and investments totaled \$100,969,447. Funds are invested 55% in certificates of deposit, 2% in federal agencies, 10% in a State Investment Board Capital Escrow Account, and the remaining 33% are in short-term cash accounts.

DEMOGRAPHIC AND ECONOMIC INFORMATION

Population

<u>Year Ended</u>	<u>Estimated Population</u>	<u>Percent Increase</u>
2005	97,911	1.5%
2004	96,448	1.5
2003	94,986	1.6
2002	93,524	1.6
2001	92,061	1.6
2000	90,599	5.0
1999	86,282	1.2
1998	85,262	1.2
1997	84,243	2.6
1996	82,123	--

Source: *City of Fargo, North Dakota Comprehensive Annual Financial Report for the year ended December 31, 2005.*

Labor Force Data

	Average Annual					November
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Fargo MSA						
Labor Force	104,927	107,423	108,824	101,903	114,517	115,687
Employed	102,958	104,688	105,812	98,632	111,266	113,663
Percent Unemployed						
Fargo MSA	1.9%	2.5%	2.8%	3.2%	2.8%	1.7%
State of North Dakota	2.9	4.0	4.0	3.4	3.4	2.9

Source: Job Service of North Dakota, www.state.nd.us/jsnd; 2006 data are preliminary.

Major Employers in the Area

<u>Employer</u>	<u>Product/Service</u>	<u>Approximate Number of Employees</u>
MeritCare Health Systems	Medical	6,318
North Dakota State University	Post-secondary education	2,200
Fargo Public School District	Public education	1,561
Noridian/Blue Cross/Blue Shield	Health insurance	1,510
US Bank Systems	Financial services	1,107
Microsoft Business Solutions	Computer software	1,100
West Fargo Public Schools	Public education	825
Innovis Health	Hospital/health care	750
City of Fargo	City government	666
Case Corporation	Construction equipment	660
Veterans Affairs Medical and Regional Office Center	Federal government/health care	620
Dakota Clinic, Ltd.	Medical	630
Phoenix International	Custom, integrated electronic systems	603
Forum Communications	Newspapers and broadcasting	550
Community First Bankshares	Financial services	550
Integrity Windows from Marvin	Windows manufacturing	520
US Postal Service	Postal service	480

Source: Fargo Economic Development Corporation, http://www.fedc.com/pages/labor_leading_employers.cfm, October 2006.

Retail Sales and Estimated Buying Income for the Fargo-Moorhead Metropolitan Area

	Retail Sales (\$000) ^(a)	Effective Buying Income (EBI) (\$000)	Median Household EBI*	
			MSA	State
2004	\$3,332,339	\$3,368,260	\$36,211	\$34,177
2003	3,146,131	3,213,817	34,897	33,089

NOTE: Beginning with the 2004 edition of the "Survey of Buying Power," data are presented for Core Based Statistical Area (CBSA) defined by the U.S. Census Bureau; previous years data were for Metropolitan Statistical Area (MSA). Because the boundaries of these two areas may not be identical, data in the years 2003 and earlier may not be directly comparable.

	Retail Sales (\$000) ^(a)	Effective Buying Income (EBI) (\$000)	Median Household EBI*	
			MSA	State
2002	2,898,237	3,196,493	35,049	32,648
2001	2,967,795	3,270,236	37,192	32,848
2000	2,887,912	3,441,330	40,921	37,656

* Median Household EBI figures for 2001 are based on Current Population survey data and are not directly comparable to prior years' figures, which were based on the 1990 census.

Source: "Survey of Buying Power," *Sales & Marketing Management*, 2000-2005 editions.

Recent Developments

In June, voters approved an extension of local sales tax that will be used for future infrastructure improvements. This twenty year extension of one cent will begin January 1, 2009 and will provide significant resources for various infrastructure projects including water, wastewater, streets and flood control. Sales tax collection have increased by 6.6% for cash collections reported through September 15, 2006.

Budgets approved by the City Commission include a two mill reduction in property taxes for the City mill levy.

A total of 2,512 permits have been issued through December 31, 2006 valued at \$339,460,332. The number of housing permits were down slightly from 2005. Twin home construction continues with the largest overall increase in building permit types. Local official report that the number of existing home sales is lagging recent trends; however, pricing of existing home sales continues to be supported at current levels.

Building Permits Issued by the City

Year	Single Family		Commercial		Multiple Family		Other		Total	
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
2006 (12-31)	282	\$54,576,510	75	\$79,205,067	12	\$34,376,000	2,143	\$171,302,755	2,512	\$339,460,332
2005	338	60,267,963	62	82,958,300	10	28,640,980	1,944	124,840,484	2,354	296,707,727
2004	270	42,494,393	62	39,291,330	27	29,870,000	2,000	126,726,026	2,359	238,381,749
2003	203	31,394,220	55	51,564,495	44	26,457,200	1,993	97,414,758	2,295	206,830,673
2002	220	31,714,963	38	24,091,700	38	36,381,700	1,789	106,816,544	2,085	199,004,907
2001	159	24,606,400	71	49,970,580	31	27,412,949	1,850	70,783,725	2,111	172,773,654
2000	221	28,798,600	70	40,419,245	36	20,937,000	2,077	114,130,507	2,404	204,285,352
1999	288	36,710,750	80	91,472,200	21	17,303,000	1,793	76,044,392	2,182	221,530,342
1998	336	41,452,481	83	53,177,900	28	19,135,000	1,763	77,425,170	2,210	191,190,551
1997	213	25,729,500	73	36,070,432	27	26,739,000	1,497	51,191,235	1,810	139,730,167

Medical

The City of Fargo area is a regional health care center. Five hospitals provide more than 790 beds. The health industry employs approximately 6,000 people, including more than 650 physicians. The newest of the hospital facilities, owned and operated by Dakota Clinic, Ltd., in partnership with BlueCross/BlueShield of Minnesota, consists of approximately 74 beds that opened in the southern part of Fargo in 2000.

Financial Institutions

Banking and financial services are available to City residents at six full-service banks and numerous branch banks and credit unions located within the City.

Education

The Fargo School District currently operates 15 elementary buildings, three middle schools, and three senior high schools in the City. District enrollment for the 2006/07 school year is approximately 10,757 students. The District employs 1,191 full-time staff, consisting of 795 instructional staff, 74 administrative staff, and 322 support staff. In addition, the District employs approximately 1,360 various temporary/part-time employees. The trend of enrollment is as follows:

<u>Year</u>	<u>Enrollment</u>
2006	10,757
2005	10,899
2004	11,154
2003	11,190
2002	11,142
2001	11,332

In addition to the public school system, there are seven parochial schools and three universities serving the Fargo area. North Dakota State University offers degree programs in agriculture, science, technology, business and liberal arts. The University employs 2,127; current enrollment is approximately 12,099. Moorhead State University and Concordia College provide college programs in the neighboring city of Moorhead, Minnesota.

Transportation

Transportation is provided by local and interstate trucking lines, local bus lines, and trains (both freight and passenger). Hector Airport in the City is served by Northwest Airlines, Mesaba Airlines (dba Northwest AirlinK), Allegiant Air, and SkyWest Airlines and Air Wisconsin (both dba United Express), as well as by fixed base operators serving general aviation travel.

GOVERNMENTAL ORGANIZATION AND SERVICES

The City of Fargo, the Cass County Seat, encompasses about 44 square miles on the eastern border of North Dakota adjacent to the City of Moorhead, Minnesota, at the intersection of Interstate Highways 29 and 94. The City was organized in 1875 and operates under a home rule charter governed by a Mayor and four City Commission Members, who formulate municipal policy. Elected City officials, who serve four-year overlapping terms, are as follows:

		<u>Expiration of Term</u>
Dennis Walaker	Mayor	May 2010
Linda Coates	Deputy Mayor	May 2008
Brad Wimmer	Commission Member	May 2010
Tim Mahoney	Commission Member	May 2010
Michael Williams	Commission Member	May 2008

Mr. Pat Zavoral is the City Administrator and is responsible for the implementation of policy determined by the Council. Mr. Kent Costin is the Director of Finance and is responsible for the daily financial operations of the City. He is a Certified Public Accountant and was appointed by the Commission. Mr. Costin has been employed by the City since 1986, and served as City Accountant from 1986 to 1997, Finance Coordinator from 1997 to 1999 and as Director of Finance since 2000.

Services

The City's protective services are provided by 124 sworn police officers. The fire department operates with a full-time force of 101. The department has six fire stations serving the City and a class 3 fire insurance rating.

Water and wastewater services are available to all City residents. The Water and Wastewater Departments consist of 54 full-time employees. The department operates and maintains the City's 54 lift stations, 377 miles of sanitary sewer lines, and 426 miles of water mains.

Employee Pensions

The City operates three defined benefit plans that cover substantially all employees. The Employee Pension Fund, the Policemen's Pension Fund and the Firefighter Relief Fund are single employer defined benefit plans that cover substantially all employees. The City administers the City Employee and the Police funds. City contributions for the years ended December 31, 2005, 2004, and 2003 to the City Employee Pension Fund totaled \$2,025,101, \$1,884,415, and \$1,601,589, respectively. City contributions to the Policemen's Pension Fund for the years ended December 31, 2005, 2004, and 2003 totaled \$839,530, \$770,860, and \$680,804, respectively.

The Firemen's Relief Fund is a separate fund governed by Section 18-11 of the North Dakota State Century Code and administered by an elected Board of Directors, independent of City Administration. City contributions as of May 31, 2005, 2004, and 2003 to the Firemen's Relief Fund totaled \$549,528, \$448,903, and \$395,374, respectively.

Other Postemployment Benefits

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45), which addresses how state and local governments must account for and report their obligations related to post-employment healthcare and other non-pension benefits (referred to as Other Post Employment Benefits or "OPEB"). GASB 45 requires that local governments account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions.

The City of Fargo allows early and normal retirees to participate in its health care plan. The participants pay for 100% of their premiums. The City is not cost sharing in any premiums for this group; however, there is an inherent subsidy provided to this group based upon the cost of participation. The City has engaged AON Risk Services, Chicago, IL to perform the actuarial analysis for the impact of implementing GASB 45. The final report has not been issued as of this date; however, this will be completed by year end.

The City maintains a self-insured health plan which offers medical benefits to employees and retirees. Benefits associated with this plan are funded by employer, employee and retiree contributions. Retirees and Consolidated Omnibus Budget Reconciliation Act (COBRA) employees pay their own premiums; the City does not fund a benefit for this group. An outside third party administrator is used for claims processing, employee education and assistance with plan design. Stop loss insurance is purchased to limit catastrophic losses. The stop loss deductible is currently \$140,000 specific per participant with an aggregate specific deductible of \$140,000 and a plan reimbursement maximum of \$1,000,000. There have been no significant reductions to insurance coverage in the past year. There have been no insurance settlements in excess of the City's stop loss insurance in the past three years. An incurred but not reported (IBNR) liability accrual is estimated by the third party administrator and is recorded in the financial statements. The estimated IBNR amount is \$394,000 as of December 31, 2005. A summary of the claim reserve liabilities and related claim payments is shown below:

	<u>Beginning Fiscal Year Liability</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Yearend</u>
2005	\$380,000	\$3,931,062	\$3,917,062	\$394,000
2004	320,000	2,966,372	2,906,372	380,000
2003	600,000	2,815,996	3,095,996	320,000

**City of Fargo, North Dakota
General Fund Budget**

Revenues	2006 <u>Adopted</u>	2007 <u>Approved</u>
Taxes	\$16,855,500	\$17,665,876
Licenses and Permits	2,609,000	2,697,000
Intergovernmental Revenues	12,294,985	12,484,936
Charge for Services	8,844,694	9,591,838
Fines and Forfeits	3,226,500	3,262,000
Investment Income	2,270,000	2,118,000
Miscellaneous Revenues	<u>377,000</u>	<u>294,000</u>
TOTAL REVENUES	\$46,477,679	\$48,113,650
Expenditures		
Current		
General Government	\$ 8,579,199	\$ 8,910,106
Public Safety	21,324,670	22,017,671
Public Works	5,906,494	6,321,091
Public Health and Welfare	6,668,357	6,915,308
Recreation and Culture	2,488,381	2,497,795
Public Transportation	2,786,739	3,756,297
General Support	1,119,983	1,606,570
Capital Outlay	2,795,327	2,606,050
Unallocated	<u>-0-</u>	<u>-0-</u>
TOTAL EXPENDITURES	\$51,669,150	\$54,630,888
Excess (Deficiency) of Revenues Over Expenditures	\$ (5,191,471)	\$ (6,517,238)
Other Financing Sources		
Operating Transfers In	\$ 6,138,000	\$ 7,515,200
Operating Transfers out	<u>(899,885)</u>	<u>(980,710)</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ 5,238,115	\$ 6,534,490
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ 46,644	\$ 17,252
Fund Balance, Beginning of Year	<u>14,320,613</u>	<u>14,367,257</u>
Fund Balance, End of Year	<u>\$14,367,257</u>	<u>\$14,384,509</u>

PROPOSED FORM OF LEGAL OPINION OF CO-BOND COUNSEL

§ _____

MUNICIPAL AIRPORT AUTHORITY OF THE CITY OF FARGO, NORTH DAKOTA
AIRPORT RESERVE REVENUE BONDS, SERIES 2007A

We have acted as co-bond counsel in connection with the issuance by the Municipal Airport Authority of the City of Fargo, North Dakota (the "Issuer"), of its Airport Reserve Revenue Bonds, Series 2007A, dated as of February 15, 2007, in the total principal amount of \$_____ (the "Series 2007A Bonds"). The Series 2007A Bonds are being issued pursuant to Chapters 2-06 and 40-35 of the North Dakota Century Code (the "Act") and a resolution of the Issuer adopted by the Issuer on February __, 2007 (the "Resolution"). We have examined the laws, such certified proceedings and other documents, materials and papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer contained in the Resolution, the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation. We have assumed the authenticity of all documents submitted to us as originals, the authenticity of all signatures appearing on certified proceedings, certifications and documents, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such documents, and the accuracy of the statements of fact contained in such documents.

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 Series 2007A Bonds and we express no opinion relating thereto or as to any other matter not set forth herein.

Based on the foregoing, we are of the opinion that, as of the date hereof, under existing law as presently enacted and construed:

The Series 2007A Bonds are valid and binding special obligations of the Issuer payable from the Net Revenues of the Issuer as set forth in the Resolution.

Pursuant to Section 2-06-10 of the North Dakota Century Code and a resolution adopted by the Board of City Commissioners of the City of Fargo, North Dakota (the "Board") adopted on January 29, 2007, the Board is obligated to levy a general tax upon all taxable property in the municipality, which tax shall not be subject to any limitation of rate or amount applicable to other municipal taxes, upon receipt of a request of the Issuer stating that there is a deficiency in the Reserve Account established under the Resolution on September 1 of any year, or the receipt of a request from the Issuer stating that the amount on hand in the Bond Account, Reserve Account and the amount of monies available from the Surplus Account (all as defined in the Resolution) and the amount of net revenues conservatively estimated to be received by the Issuer from its appurtenant air navigation facilities in the following twelve months are insufficient to maintain the Reserve Account and to pay principal of and interest on Bonds to become due to the end of the following year.

The interest on the Series 2007A Bonds is excluded from 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 certain financial institutions by the North Dakota Century Code, Chapter 57-35.3), by reason of the treatment provided for exempt facility bonds for airports; provided that interest is not excluded on any Series 2007A Bond for any period during which such Series 2007A Bond is held by a "substantial user" of the facilities financed by the Series 2007A Bonds or by a "related person" to such "substantial user", each within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 2007A Bonds is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series 2007A Bonds is included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States. Further, interest on the Series 2007A Bonds may be subject to federal income taxation under Section 1375 of the Code for S corporations which have Subchapter C earnings and profits at the close of the taxable year if more than twenty-five percent (25%) of the gross receipts of such S corporations is passive investment income.

Ownership of the Series 2007A Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers, including banks, thrift institutions and other financial institutions subject to Section 265 of the Code, who may be deemed to have incurred or continued indebtedness to purchase or to carry the Series 2007A Bonds. We express no opinion as to any of such consequences.

In rendering this opinion, we have assumed continuing compliance by the Issuer with the covenants and representations that are intended to comply with the provisions of the Code relating to actions to be taken by the Issuer in respect of the Series 2007A Bonds after the issuance thereof to the extent necessary to effect or maintain exclusion of interest on the Series 2007A Bonds from federal gross income. These covenants, representations and requirements relate to, inter alia, the use and investment of proceeds of the Series 2007A Bonds and the rebate to the United States Treasury of specified arbitrage earnings, if required. Failure to comply with certain of such covenants, representations, or requirements may cause the inclusion of interest on the Series 2007A Bonds in gross income for federal or state income tax purposes from the date of issue.

It is to be understood that the rights of the holders of the Series 2007A Bonds and the enforceability thereof may be subject to the exercise of judicial discretion, to general principles of equity, to the valid exercise of the constitutional powers of the United States of America and of the sovereign powers of state or other governmental units having jurisdiction, and to bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights heretofore or hereafter enacted.

Erik Johnson & Associates, Ltd,
as co-bond counsel

1991505v1

Briggs and Morgan, Professional Association,
as co-bond counsel

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Municipal Airport Authority of the City of Fargo, North Dakota (the "Issuer") in connection with the Issuer's \$_____ Airport Reserve Revenue Bonds, Series 2007A (the "Bonds"). The Bonds are being issued pursuant to an Authorizing Resolution adopted by the governing body of the Issuer on February 13, 2007 (the "Airport Resolution"), and delivered to the Purchaser on the date hereof. This Disclosure Certificate is also being executed and delivered by the City of Fargo, North Dakota (the "City") as an "Obligated Person" (within the meaning of the Rule, as defined below) with respect to the Bonds pursuant to a separate resolution adopted by the City on January 29, 2007 (the "City Resolution", together with the Airport Resolution, the "Resolutions"), and delivered to the Purchaser on the date hereof. The Issuer and the City hereby covenant and agree as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer and the City for the benefit of the Owners of the Bonds in order to assist the Participating Underwriters within the meaning of SEC Rule 15c2-12(b)(5) (the "Rule") in complying with the Rule. This Disclosure Certificate constitutes the written undertaking required by the Rule.

Section 2. Definitions. In addition to the defined terms set forth in the Resolutions, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" means any annual report provided by the Issuer and the City pursuant to, and as described in Section 3 and 4 of the Disclosure Certificate.

"City" means the City of Fargo, North Dakota, which is an obligated person with respect to the Bonds.

"Financial Statements" means audited or, if unavailable, unaudited general purpose financial statements of the Issuer or the City, as the case may be, prepared in accordance with generally accepted accounting principals, as in effect from time to time or as required to be modified as a matter of law which may be set forth as a separate "airport fund" in the financial statements of the City. If unaudited financial statements are provided, audited financial statements will be provided when and if available.

"Fiscal Year" means the fiscal year of the Issuer.

"Final Official Statement" means the deemed final official statement dated _____, 2007 [, plus the addendum dated _____, 2007], which constitutes the final official statement delivered in connection with the Bonds, which is available from the MSRB.

"Issuer" means the Municipal Airport Authority of the City of Fargo, North Dakota, which is an obligated person with respect to the Bonds.

"Material Event" means any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" means the Municipal Securities Rulemaking Board located at 1900 Duke Street, Suite 600, Alexandria, VA 22314.

"NRMSIR" means any nationally recognized municipal securities information repository as recognized from time to time by the SEC for purposes of the Rule.

"Owner" means the person in whose name a Bond is registered or a beneficial owner of such a Bond.

"Participating Underwriter" means any of the original underwriter(s) of the Bonds (including the Purchaser) required to comply with the Rule in connection with the offering of the Bonds.

"Repository" means each NRMSIR and each SID, if any.

"Rule" means SEC Rule 15c2-12(b)(5) promulgated 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" means Securities and Exchange Commission.

"SID" means any public or private repository or entity designated by the State of North Dakota as a state information depository for the purpose of the Rule. As of the date of this Disclosure Certificate, there is no SID.

Section 3. Provision of Annual Financial Information and Financial Statements.

- (a) The Issuer and the City shall, not later than 12 months after the end of each Fiscal Year, commencing with the year ending December 31, 2006, provide each Repository with an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. 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 Certificate; provided that the Financial Statements of the Issuer may be submitted separately from the balance of the Annual report and may be submitted by the City submitting its comprehensive annual financial report.
- (b) If the Issuer and the City are unable or fails to provide to the Repositories an Annual Report by the date required in subsection (a), the Issuer or the City shall send a notice of that fact to the NRMSIRs, the MSRB and any SID.
- (c) The Issuer shall determine each year prior to the date for providing the Annual Report the name and address of each NRMSIR and the SID, if any.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the annual Financial Statements and information similar to that set forth in the following sections of the Final Official Statement:

1. The Airport – Airport Fund Financial Statements and Coverage Statement.
2. Appendix I - City Property Values.

3. Appendix I - City Indebtedness.
4. Appendix I - City Tax Rates, Levies and Collections.

Section 5. Reporting of Material Events.

- (a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events if material with respect to the Bonds:
 1. Principal and interest payment delinquencies;
 2. Non-payment related defaults;
 3. Unscheduled draws on debt service reserves reflecting financial difficulties;
 4. Unscheduled draws on credit enhancements reflecting financial difficulties;
 5. Substitution of credit or liquidity providers, or their failure to perform;
 6. Adverse tax opinions or events affecting the tax-exempt status of the security;
 7. Modification to rights of security holders;
 8. Bond Calls;
 9. Defeasances;
 10. Release, substitution, or sale of property securing repayment of the securities; and
 11. Rating changes.
- (b) Whenever the Issuer or the City obtains knowledge of the occurrence of a Material Event, the Issuer or the City shall as soon as possible determine under applicable legal standards if such event would constitute material information for holders of Securities, and if so promptly file a notice of such occurrence with each Repository (or to the MSRB and the SID, if any); provided, that any event under subsections (a)(8)(9) or (11) will always be deemed to be material.
- (c) If the Issuer or the City determines that knowledge of the occurrence of a Material Event would be material, the Issuer or the City shall promptly file a notice of such occurrence with either all NRMSIRs or with the MSRB and with any SID. Notwithstanding the foregoing, notice of Material Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Securities pursuant to the Resolution.
- (d) Unless otherwise required by law and subject to technical and economic feasibility, the Issuer or the City shall employ such methods of information transmission as shall be requested or recommended by the designated recipients of the Issuer's information.
- (e) If the Issuer or the City determines that it has failed to give notice of a material event as set forth above or to file the Annual Report in a timely fashion as required herein, the Issuer or the City shall promptly file a notice of such occurrence in such occurrence in the same manner as described in (b) above.

Section 6. Termination of Reporting Obligation. The obligations of the Issuer and the City under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption of payment in full of all the Bonds.

Section 7. Agent. The Issuer may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such agent, with or without appointing a successor dissemination agent.

Section 8. Amendment: Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of nationally recognized bond counsel to the effect that such amendment or waiver would not, in and of itself, cause the undertakings to violate the Rule. This Disclosure Certificate, or any provision hereof, shall be null and void in the event that the Issuer delivers to each then existing NRMSIR and the SID, if any, an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this Disclosure Certificate are invalid, have been repealed retroactively or otherwise do not apply to the Bonds. The provisions of this Disclosure Certificate may be amended without the consent of the Owners of the Bonds, but only upon the delivery by the Issuer to each then existing NRMSIR and the SID, if any, of the proposed amendment and an opinion of nationally recognized bond counsel to the effect that such amendment, and giving effect thereto, will not adversely affect the compliance of this Disclosure Certificate and by the Issuer with the Rule.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer or the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Requested Report or notice of occurrence of a Material Event, in addition to that which is required by this Disclosure Certificate. If the Issuer or the City chooses to include any information in any Requested Report or notice of occurrence of a Material Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer or the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Requested Report or notice of occurrence of a Material Event.

Section 10. Default. In the event of a failure of the Issuer or the City to comply with any provision of this Disclosure Certificate, any Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer or the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default with respect to the Bonds and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Participating Underwriters and Owners and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

IN WITNESS WHEREOF, I have executed this Disclosure Certificate in my official capacity effective the ____ day of February, 2007.

MUNICIPAL AIRPORT AUTHORITY OF
THE CITY OF FARGO, NORTH DAKOTA

Shawn Dobberstein
Executive Director

CITY OF FARGO, NORTH DAKOTA

Steven Sprague
City Auditor

EXCERPTS OF 2007 AIRPORT AUTHORITY RESOLUTION

Section 4. Funds, Accounts, Taxes and Covenants.

4.01 The Airport Authority will fully and promptly perform each and all the covenants contained and referred to in the resolution authorizing this issue, and each and all the duties prescribed in Chapter 2-06 of the North Dakota Century Code.

4.02 Accounts. The Airport Authority will maintain an airport fund (the "Airport Fund") which shall consist of the accounts hereinafter described together with such other accounts as the Airport Authority shall from time to time establish. The Airport Fund will be maintained as long as any of these Bonds are outstanding and into which will be placed the entire gross revenues derived from the operation of Hector International Airport and its appurtenant air navigation facilities, and any other property owned by the Airport Authority, and from any future additions thereto and betterments thereof, including all income and receipts derived from charges, rents, fees, passenger facilities charges and tolls, for the services, facilities, products and by-products of Hector International Airport or appurtenant air navigation facilities, and from the sale of any of the properties of the Airport Authority not necessary to be retained, and from the investments of any of the money so collected and the proceeds of taxes which the Airport Authority has levied or which the Airport Authority has certified to the City of Fargo to levy to collect pursuant to Section 2-06-14 of the North Dakota Century Code (hereinafter collectively referred to as "Gross Revenues"). Gross Revenues shall be deposited to the Airport Fund upon receipt by the Airport Authority and may be apportioned among, and credited to, the various accounts upon receipt, but in any event at least once in each calendar month and thereafter shall be held and administered and disbursed from the several accounts as follows:

(a) Construction Account. The proceeds of the Series 2007A Bonds, less the amount of the Reserve Requirement transferred to the Reserve Account pursuant to (d) below, shall be transferred to the Bond Construction Account which shall be maintained as a separate account and used only to pay costs and expenses which under accepted accounting practices constitute capital costs necessarily incurred for acquisition and betterment of the Airport, including without limitation, Hector International Airport and appurtenant facilities, including but not limited to land, easements, buildings, structures, machinery and equipment and the cost of all architectural, engineering, legal and all other professional services, printing and publication and other costs reasonable, necessary and incidental thereto all costs and expenses of making the Project (including the undertaking) shall be paid from time to time as incurred and allowed under the Construction Account with warrants signed by the Executive Director and a member of the Airport Authority, and the monies in the Construction Account should be used for no other purposes; provided, that if upon the completion of the improvement and approval thereof, by the engineer there shall remain any unexpended balance in the Construction Account, such balance shall be transferred to the Bond Account. The Airport Authority may establish subaccounts with respect to specific sources or uses of funds as it deems convenient. The Airport Authority covenants that all funds in the Construction Account consisting of proceeds of the Series 2007A Bonds and investment earnings thereon shall

be expended or transferred to the Bond Account within three (3) years of the date of issuance of these Series 2007A Bonds.

(b) Operation and Maintenance Account. There shall be credited to the Operation and Maintenance Account upon each apportionment of funds deposited to the Airport Fund, as a first lien and charge on the amounts so deposited, such sum as shall be needed, over and above any credit balance held therein, to pay all claims then due and allowed which by accepted accounting practices constitute normal, reasonable and current expenses of operation and maintenance of the Airport by the Airport Authority, and to pay such expenses estimated to accrue for a period of one month, and to maintain a reasonable reserve for contingencies. Monies in said account shall be used only to pay expenses of the foregoing type and not for major repairs, replacements, or capital Project which are properly chargeable to replacement and depreciation reserves or surplus funds.

(c) Bond Account. To the Bond Account there shall be credited, out of the Gross Revenues remaining after the transfers to the Operating and Maintenance Account (hereinafter referred to as "Net Revenues") on hand at the time of each such distribution, an amount equal to not less than one-twelfth (1/12) of the sum of principal payments to become due upon all outstanding Bonds (as defined in Section 5 of this Series 2007A Bond Resolution) which are payable from said account on the next succeeding September 1, and an amount equal to not less than one-sixth (1/6) of the sum of interest payments to become due upon all outstanding Bonds which are payable from said account on the next succeeding March 1 or September 1. If Net Revenues on hand at any time are insufficient to permit the transfer to said account of the full amount so required, such deficiencies shall be restored out of the next Net Revenues thereafter received. There shall also be credited to said account the premium and accrued interest, if any, paid on each such issue of Series 2007A Bonds payable from said account. The money in said account shall be solely for the purpose of paying principal and interest, as such principal and interest respectfully come due, on Bonds which are issued and made payable therefrom, and is a first lien and charge on the Net Revenues. The Bond Account established hereby is the same Bond Account established by the Series 2004D Bond Resolution.

(d) Reserve Account. The proceeds of the Series 2007A Bonds in the amount of \$_____ shall be transferred to the Reserve Account. The Airport Authority covenants to maintain the amount on deposit in the Reserve Account, as further described in this paragraph (d) in an amount equal to the lesser of (1) maximum annual debt service on the outstanding Bonds, (2) one and one-quarter times the average annual debt service on the outstanding Bonds, or (3) 10% of the initial principal amount of the outstanding Bonds (herein referred to as the "Reserve Requirement"). The monies in the Reserve Account shall be used only for the payment of maturing principal and interests on the outstanding Bonds, when and as the monies in the Bond Account are insufficient therefor, and whenever so used shall be restored out of the next Net Revenues thereafter received. Should there at any time be an amount of funds greater than the maximum amount set out above, the excess shall be transferred to the Bond Account, it then, is a deficiency in that account, and if not, the excess funds shall be transferred to the Surplus Account. So long as the Series 2004D Bonds are outstanding, the Reserve Account

established by the Series 2004D Bond Resolution shall be maintained as a separate, segregated subaccount (the "Series 2004D Reserve Subaccount") of the Reserve account hereby established and shall be governed by the provisions of the Series 2004D Bond Resolution. Amounts on deposit in the Series 2004D Reserve Subaccount shall not be available to pay Bonds other than the Series 2004D Bonds and amounts in the Reserve Account other than the Series 2004D Subaccount shall not be available to pay the Series 2004D Bonds. In the event a draw is required on the Reserve account, amounts shall be withdrawn from, and Net Revenues deposited to restore any deficiencies in, the Series 2004D Reserve Subaccount and from the Reserve Account other than the Series 2004D Subaccount in proportion to the respective outstanding principal amounts of the Series 2004D Bonds and all Bonds other than the Series 2004D.

(e) Surplus Account. All surplus Net Revenues from time to time received in excess of the current requirements of the Bond Account, and the Reserve Account, shall be credited on the books of the airport fund to the Surplus Account; provided, that the Airport Authority reserves the right to create additional accounts within said fund for the purpose of segregating any of such surplus Net Revenues which may be pledged and appropriated to the payment of any obligations hereinafter issued to finance improvements, replacements, or repairs of the said Airport Authority, other than Bonds made payable from the Bond Account, subject to the prior lien on the Net Revenues of the bonds payable from that account. Surplus Net Revenues on hand from time to time shall be available and shall be used to the full extent necessary to restore a deficiency in the Operation and Maintenance Account and the Bond Account, and Reserve Account, but when not so needed may be used to pay for the capital Project, replacements, or repairs of the Airport, or to pay principal and interest on obligations hereafter issued for such purposes, other than bonds payable from the Bond Account, or they may be used to redeem, and pay prior to maturity bonds payable from the Bond Account, when and as such bonds become redeemable according to their terms. The Airport Authority shall maintain in said account such a balance of cash investments as it shall from time to time determine to constitute an adequate reserve for operation of maintenance emergencies and for depreciation and contemplated Project or replacements, but monies in excess of such reserve may be expended by the Airport Authority in accordance with state law.

4.03 Rate Covenant. The Airport Authority will establish, impose and collect reasonable charges, rents, fees, and tolls for the services, products and by-products of the airport and air navigation facilities, and any other property owned by the Airport Authority and will certify annually to the governing bodies the amount of tax to be levied pursuant to Section 2-06-14 of the North Dakota Century Code, according to a schedule sufficient to pay (i) all principal and interest when due on the Bonds payable from the Bond Account, and (ii) to create and fund the accounts as set out above.

4.04 Levy of Taxes. The Airport Authority estimates that the Net Revenues, including taxes levied and collected pursuant to Section 2-06-14 of the North Dakota Century Code, will be sufficient to pay the interest on the all Bonds as it falls due and also to pay and discharge the principal thereof at maturity, and therefore no additional taxes are anticipated to be levied nor need to be levied at this time. On September 1 in each year, commencing in 2007 and continuing until all the Bonds have been paid, the Airport Authority, if a deficiency exists in the

reserve fund on September 1 of any, year, shall request the City to levy a general tax upon all taxable property in the municipality for the payment of the deficiency in the reserve fund. Further, on or before September 1 in each year, commencing in 2007, and continuing until all the Series 2007A Bonds have been paid, the Airport Authority shall determine the amounts then on hand in the Bond Account, Reserve Account, the amount of money available from the Surplus Account, and the amount of Net Revenues conservatively estimated to be received in the following twelve (12) months, and shall further determine the sufficiency of such amount to pay the principal of, and interest on, Bonds to become due to the end of the following year and to maintain the Reserve Account as set out above. If such amounts are not sufficient for such payment, or to maintain the Reserve Account, the Airport Authority shall request the City by September 1 of each year to levy a general tax upon all taxable property in the municipality for the payment of the deficiency. Pursuant to Section 2-06-10 of the North Dakota Century Code, and the covenant of the City Commission of Fargo, the City Commission of the municipality shall levy a general tax upon all taxable property in the municipality for payment of the deficiency in the Reserve Account, and for the payment of any estimated deficiency by the Airport Authority as set out above. Such taxes shall not be subject to any limitation of rate or amount applicable to other municipal taxes.

4.05 Continued Operation of Airport. The Airport Authority agrees to take all steps necessary to continue the operation of Airport during the period of time any of the Series 2007A Bonds are outstanding, and the Airport Authority will not authorize, or enfranchise the establishment of any other airport.

4.06 Insurance. The Airport Authority covenants that it will provide for insurance against loss by causes customarily insured against for like properties in amounts equal to or greater than the value of the Airport Authority properties. The Airport Authority covenants that insurance proceeds will be used to finance the construction or reconstruction of airport facilities, and if not so used, will be used to redeem Bonds issued pursuant to this Resolution.

4.07 Arbitrage; Private Activity. The Airport Authority will make no use of the proceeds of the Series 2007A Bonds issued hereunder which, if such use has been reasonably expected on the date of issue thereof, it would have caused the Series 2007A Bonds to be arbitrage bonds under the provisions of Section 148 of the Internal Revenue Code of 1986 as amended or any treasury regulations enacted thereunder (the "Code") or to be "private activity bonds" under the provisions of Section 141 of the Code.

Section 5. Additional Bonds.

5.01 Additional Bonds; Definitions. The Airport Authority reserves the right to issue one or more series of bonds secured by the pledge Net Revenues and by the Reserve Account as set forth in this Series 2007A Bond Resolution (the "Additional Bonds") for the purposes and subject to the requirements of this Section 5, all of which will be of equal rank with the Series 2004D Bonds, the Series 2007A Bonds and all Additional Bonds, if any, without preference, priority or distinction of any Bond of any series over any other except as expressly provided or permitted in this Series 2007A Bond Resolution, including without limitation the provisions as to the Reserve Account set forth in Section 4.02(d) hereof. The Series 2004D Bonds, the Series 2007A Bonds and the Additional Bonds, if any, are herein referred to as the "Bonds."

5.02 Refunding Bonds. The Airport Authority reserves the right to issue one or more series of Additional Bonds to refund any or all of the Bonds then outstanding.

5.03 Other Additional Bonds. The Airport Authority reserves the right to, and may, issue one or more series of Additional Bonds for any legal purpose provided that, at the time of issuance of such Additional Bonds, the average Net Revenues Available for Debt Service of the Airport Authority for the preceding three fiscal years were at least 110% of the average annual debt service of the outstanding Bonds and the Additional Bonds then proposed to be issued and the City Commission of the City of Fargo shall have by resolution approved the issuance of such Additional Bonds; provided, however, so long as any series 2004D Bonds are outstanding the Airport Authority may issue such Additional Bonds if Net Revenues Available for Debt Service in each of the preceding three fiscal years were at least equal to 110% of the average annual debt service of the outstanding Bonds and the Additional Bonds then proposed to be issued and the City Commission of the City of Fargo shall have by resolution approved the issuance of such Additional Bonds. Net Revenues Available for Debt Service shall mean the total of operating income (i) less operating expenses and (ii) plus depreciation, interest earnings and general property tax revenue; in all cases for each applicable fiscal year all determined from the audited financial statements for such fiscal year containing the financial statements of the Airport Authority.

Section 6. Amendments.

6.01 Amendments Without Bondholder Consent. The Airport Authority reserves the right to amend this Resolution from time to time, and at any time, for the purpose of curing any ambiguity or of curing, correcting or supplementing any defective provision contained herein or therein, or of making such provision with regard to matters or questions arising hereunder or thereunder as the Airport Authority may deem necessary or desirable and not inconsistent with this Resolution, and which shall not adversely affect the interests of the holders of Series 2007A Bonds or for the purpose of addition to the covenants and agreements herein or therein contained, or to the Net Revenues and Gross Revenues herein pledged, other covenants and agreements thereafter to be observed and additional Gross Revenues thereafter appropriated to the Airport Fund, for the purpose of surrendering any right or power herein reserved to or conferred upon the Airport Authority or for the purpose of authorizing the issuance of additional Bonds in the manner and subject to the terms and conditions prescribed above. Any such amendment may be adopted by resolution, without the consent of the holders of any of the Series 2007A Bonds.

6.02 Amendments With Bondholder Consent. With the consent of the holders of a majority of the principal amount of the Series 2007A Bonds then outstanding, the Airport Authority may from time to time and at any time amend this Resolution by adding any provision hereto or changing in any manner or eliminating any of the provisions hereof, or of any amending resolution except that no amendment shall be adopted at any time without the consent of the holders of all Series 2007A Bonds then outstanding, if it would extend the maturities of any such Series 2007A Bonds, would reduce the rate or extend the time of payment of interest thereon, would reduce the amount or extend the time of payment of the principal thereof, would give to any Series 2007A Bond or Series 2007A Bonds any privileges over any other Series 2007A Bond or Series 2007A Bonds, would reduce the sources of Gross Revenues appropriated to the Airport Fund, would authorize the creation of a pledge of the Net Revenues prior to or on

a parity with the Series 2007A Bonds (except as is authorized herein), or would reduce the percentage in principal amount of Series 2007A Bonds required to authorize or consent to any such amendment.

6.03 Notice and Consent. Any amendment adopted pursuant to the above shall be made by resolution and sent to all registered owners of the Series 2007A Bonds at the address shown in the records of the Bond Registrar, and shall become effective only upon the filing of written consents with the Secretary of the Airport Authority, signed by the holders of not less than two-thirds in principal amount of the Series 2007A Bonds then outstanding or, in the case of an amendment not affecting all outstanding Series 2007A Bonds, by the holders of not less than two-thirds in aggregate principal amount of the Series 2007A Bonds affected by such amendment. Any written consent to an amendment may be embodied in and evidenced by one or any number of concurrent written instruments of substantially similar tenor by bondholders in person or by agent duly appointed in writing, and shall become effective when delivered to the Secretary of the Airport Authority. Any consent by the holder of any Series 2007A Bond shall bind him and every future holder to the same Series 2007A Bond with respect to any amendment adopted by the Airport Authority pursuant to such consent, provided that any bondholder may revoke his consent with reference to any Bond by written notice received by the Secretary of the Airport Authority before the amendment has become effective. In the event that unrevoked consents of the holders of the required amount of Series 2007A Bonds have not been received by the Secretary of the Airport Authority within one year after publication of any amendment, all consents theretofore received shall be of no further force and effect.

6.04 Proof. Proof of the execution of any consent, or of a writing appointing any agent to execute the same, shall be sufficient for any purpose of this Resolution and shall be conclusive in favor of the Airport Authority it made in the manner provided herein. The fact and date of the execution by any person of any such consent or appointment may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer authorized by law to take acknowledgements of deeds, certifying that the person signing it acknowledged to him the execution thereof, or a guaranteed signature by a registered securities dealer. The amount of Series 2007A Bonds held by any person by or for whom a consent is given shall be determined by the records of the Bond Registrar.

Section 7. Defeasance.

7.01 When the Series 2007A Bonds of any series issued under and secured by this Resolution have been discharged as provided in this section, all pledges, covenants and other rights granted by this Resolution to the holders of such series of Series 2007A Bonds shall cease.

The Airport Authority may discharge the Series 2007A Bonds which are due on any date by depositing with the paying agent or agents for such Series 2007A Bonds on or before that date a sum sufficient for the payment thereof in full; or if any Series 2007A Bond shall not be paid when due, it may nevertheless be discharged by depositing with the paying agent a sum sufficient for the payment thereof in full with interest accrued to the date of such deposit.

The Airport Authority may also discharge any prepayable Series 2007A Bonds of any series which are called for redemption on any date in accordance with their terms, by depositing with the paying agent or agents on or before that date an amount equal to the principal, interest and redemption premium, if any, which are then due thereon, provided that notice of such

redemption has been duly given as provided in the Resolution authorizing such Series 2007A Bonds.

The Airport Authority may also at any time discharge any Series 2007A Bonds, subject to the provisions of law now or hereafter authorizing and regulating such action, by depositing irrevocably in escrow, with a bank qualified by law as an escrow agent for this purpose, cash or securities which are general obligations of the United States or securities of United States agencies which are authorized by law to be so deposited, bearing interest payable at such times and at such rates and maturing or redeemable at the option of the holder on such dates as shall be required to provide funds sufficient to pay all principal, interest and premium, if the Series 2007A Bonds have been called for redemption, on and before the maturity dates of such Series 2007A Bonds or their redemption date.

EXCERPTS OF THE CITY'S 2005 AUDITED FINANCIAL REPORT

The City's financial statements are audited annually by an independent certified public accounting firm. Selected audited financial statements for years ending December 31, 2005, are presented here.

The City's comprehensive annual financial reports for the years ending 1996 through 2005 were awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. A Certificate of Achievement is valid for a period of one year only.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Fargo, Fargo, North Dakota as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Fargo's management. Our responsibility is to express an opinion 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 at 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, the business-type activities, each major fund, and the remaining fund information of the City of Fargo, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 12 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United State of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2006, on our considerations of the City of Fargo's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual non-major fund financial statements and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organization*, and the combining and individual non-major fund financial statements and schedules have been subjected to the auditing procedures applied to 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. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Eide Bailly LLP

Fargo, North Dakota
May 2, 2006

CITY OF FARGO, NORTH DAKOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 274,250	\$ 2,128,137	\$ 2,402,387
Investments	22,749,869	1,077,028	23,826,897
Equity in pooled cash and investments	49,877,608	32,265,495	82,143,103
Receivables (net of allowance for uncollectibles):			
Interest	651,974	228,276	880,250
Taxes	434,631	11,181	445,812
Accounts	3,216,331	2,568,144	5,784,475
Sales taxes receivable	3,341,348	-	3,341,348
Special assessments receivable	158,615,944	-	158,615,944
Intergovernmental	2,275,817	801,182	3,076,999
Contract receivable	155,876	-	155,876
Loans receivable	7,375,019	-	7,375,019
Internal balances	(1,342,717)	1,342,717	-
Inventory	-	163,463	163,463
Prepaid expenses	400,290	267,116	667,406
Property held for resale	745,997	-	745,997
Restricted assets:			
Equity in pooled cash & investments	-	11,374,920	11,374,920
Investments	-	8,581,947	8,581,947
Interest receivable	-	8,986	8,986
Sales taxes receivable	-	1,670,674	1,670,674
Prepaid expenses	-	147,359	147,359
Unamortized debt costs	1,736,408	396,548	2,132,956
Net pension obligation asset	2,187,802	-	2,187,802
Capital assets (net of accumulated depreciation):			
Land	1,383,505	19,233,342	20,616,847
Construction in progress	1,672,366	266,823	1,939,189
Intangible	-	500,000	500,000
Buildings	29,814,471	122,926,255	152,740,726
Improvements other than buildings	304,368	5,046,177	5,350,545
Machinery and equipment	7,303,919	12,975,355	20,279,274
Infrastructure	209,263,813	247,340,342	456,604,155
Total capital assets	249,742,442	408,288,294	658,030,736
Total assets	502,438,889	471,321,467	973,760,356
LIABILITIES			
Vouchers payable	5,014,771	1,976,875	6,991,646
Retainage payable	1,199,808	65,500	1,265,308
Accrued payroll	1,337,170	363,153	1,700,323
Accrued interest payable	1,697,663	257,277	1,954,940
Special assessments payable	442,535	-	442,535
Unearned revenue	6,441,219	1,817,740	8,258,959
Deposits	123,431	10,800	134,231
IBNR claim reserve	1,048,867	-	1,048,867
Liabilities payable from restricted assets	-	9,829,651	9,829,651
Noncurrent liabilities:			
Due within one year	29,832,783	871,081	30,703,864
Due in more than one year	209,548,899	73,249,425	282,798,324
Total liabilities	256,687,146	88,441,502	345,128,648
NET ASSETS			
Invested in capital assets, net of related debt	61,311,933	341,630,870	402,942,803
Restricted for:			
Debt service	164,322,626	2,135,206	166,457,832
Specific projects and programs	2,291,583	11,218	2,302,801
Capital improvements	13,416,272	8,581,947	21,998,219
Unrestricted	4,409,329	30,520,724	34,930,053
Total net assets	\$ 245,751,743	\$ 382,879,965	\$ 628,631,708

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

**CITY OF FARGO, NORTH DAKOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 9,879,150	\$ 2,527,843	\$ 123,592	\$ -	\$ (7,227,715)	\$ -	\$ (7,227,715)
Public safety	22,823,346	4,852,471	606,575	1,316,332	(16,047,968)	-	(16,047,968)
Public works	28,942,829	5,677,239	-	42,805,386	19,339,796	-	19,339,796
Public health & welfare	6,695,429	2,127,051	2,145,504	-	(2,422,874)	-	(2,422,874)
Recreation & culture	4,433,031	631,439	56,967	-	(3,744,625)	-	(3,744,625)
Urban redevelopment	5,310,907	3,343,959	1,884,857	-	(82,091)	-	(82,091)
Transportation	4,210,866	1,842,756	1,363,597	1,348,173	343,660	-	343,660
General support	1,110,473	-	-	-	(1,110,473)	-	(1,110,473)
Interest and fiscal charges	8,943,842	-	-	-	(8,943,842)	-	(8,943,842)
Total governmental activities	92,349,873	21,002,758	6,181,092	45,269,891	(19,896,132)	-	(19,896,132)
Business-type activities:							
Municipal airport authority	5,575,563	4,856,814	-	1,978,539	-	1,259,790	1,259,790
Water	12,011,121	14,331,669	-	-	-	2,320,548	2,320,548
Wastewater	6,088,183	7,467,026	-	-	-	1,378,843	1,378,843
Storm sewer	2,852,773	1,406,773	-	-	-	(1,446,000)	(1,446,000)
Solid waste	6,505,547	7,920,611	-	-	-	1,415,064	1,415,064
Fargodome	7,748,926	3,795,488	-	137,787	-	(3,815,651)	(3,815,651)
SE Cass	69,321	43,787	-	-	-	(25,534)	(25,534)
Vector control	550,956	570,960	-	-	-	20,004	20,004
Forestry	990,339	861,073	4,432	-	-	(124,834)	(124,834)
Total business-type activities	42,392,729	41,254,201	4,432	2,116,326	-	982,230	982,230
Total	\$ 134,742,602	\$ 62,256,959	\$ 6,185,524	\$ 47,386,217	(19,896,132)	982,230	(18,913,902)
General revenues:							
Taxes:							
Property taxes					13,745,240	420,714	14,165,954
Sales taxes					17,070,962	8,825,107	25,896,069
Gross business receipts taxes					3,818,097	-	3,818,097
Other taxes					5,357,520	-	5,357,520
Unrestricted intergovernmental					2,434,789	-	2,434,789
Unrestricted investment earnings					3,629,600	1,423,862	5,053,462
Miscellaneous					105,948	7,284	113,232
Transfers					(162,689)	162,689	-
Total general revenues and transfers					45,999,467	10,839,656	56,839,123
Change in net assets					26,103,335	11,821,886	37,925,221
Net assets - beginning					219,648,408	371,058,079	590,706,487
Net assets - ending					\$ 245,751,743	\$ 382,879,965	\$ 628,631,708

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

**CITY OF FARGO, NORTH DAKOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	General	Debt Service	Infrastructure Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 90,025	\$ -	\$ 157,099	\$ -	\$ 247,124
Investments	-	22,749,869	-	-	22,749,869
Equity in pooled cash & investments	12,562,210	21,700,264	-	13,068,611	47,331,085
Receivables (net of allowance for uncollectibles)					
Interest	254,543	303,198	-	78,051	635,792
Taxes	306,187	111,239	-	17,205	434,631
Accounts	2,459,988	13,744	-	713,827	3,187,559
Sales tax receivable	-	1,670,674	-	1,670,674	3,341,348
Special assessments	-	158,061,670	367,036	187,238	158,615,944
Contracts	-	155,878	-	-	155,878
Intergovernmental	1,246,855	-	530,721	498,241	2,275,817
Due from other funds	-	9,868,311	-	1,083,533	10,951,844
Loans	14,205	-	-	7,360,814	7,375,019
Advances to other funds	1,577,497	-	-	-	1,577,497
Prepaid items	37,632	-	214,513	-	252,145
Property held for resale	-	-	-	745,997	745,997
Total assets	\$ 18,549,142	\$ 214,634,845	\$ 1,269,369	\$ 25,424,191	\$ 259,877,547
LIABILITIES AND FUND BALANCE					
Liabilities					
Vouchers payable	\$ 1,353,544	\$ 57,248	\$ 2,676,312	\$ 916,101	\$ 5,003,205
Contract retainage payable	-	-	1,014,675	185,133	1,199,808
Interest payable	-	26,213	-	-	26,213
Advances from other funds	-	-	-	2,408,127	2,408,127
Due to other funds	-	-	10,006,543	1,353,649	11,360,192
Accrued payroll	1,324,389	-	-	12,781	1,337,170
Special assessments payable	-	165,435	-	277,100	442,535
Deferred revenue	1,882,791	152,628,532	464,032	7,610,720	162,587,075
Deposits	123,431	-	-	-	123,431
Total liabilities	4,684,155	152,876,428	14,161,562	12,763,611	184,487,756
Fund balance (deficit)					
Reserved for encumbrances	1,489,128	-	-	-	1,489,128
Reserved for advances	1,577,497	-	-	-	1,577,497
Reserved for prepaid items	37,632	-	214,513	-	252,145
Reserved for debt retirement	-	61,756,417	-	-	61,756,417
Reserved for property held for resale	-	-	-	745,997	745,997
Reserved for capital improvements	-	-	-	7,536,130	7,536,130
Unreserved- designated for capital needs, reported in:					
Special revenue funds	-	-	-	140,917	140,917
Unreserved- undesignated reported in:					
General fund	10,760,730	-	-	-	10,760,730
Special revenue funds	-	-	-	4,939,448	4,939,448
Capital projects funds	-	-	(13,106,706)	(701,912)	(13,808,618)
Total fund balance (deficit)	13,864,967	61,756,417	(12,892,193)	12,660,580	75,389,791
Total liabilities and fund balance	\$ 18,549,142	\$ 214,634,845	\$ 1,269,369	\$ 25,424,191	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	249,742,442
Other assets are not available to pay for current-period expenditures and, therefore, are either not recognized as a receivable or are deferred in the funds.	161,829,465
Internal service funds are used by management to charge the costs of liability and health insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.	1,602,576
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(242,812,551)
Net assets of governmental activities	\$ 245,751,743

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

CITY OF FARGO, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	General	Debt Service	Infrastructure Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 15,796,370	\$ 10,335,030	\$ -	\$ 10,821,173	\$ 36,952,573
Special assessments	-	10,904,375	16,899	123,092	11,044,366
Licenses and permits	3,014,619	-	-	780	3,015,399
Intergovernmental revenues	14,839,857	-	7,894,763	2,447,290	25,181,910
Charges for services	9,517,175	-	-	1,417,766	10,934,941
Fines and forfeits	2,502,530	-	-	91,704	2,594,234
Investment income	2,079,308	971,551	11,988	368,387	3,431,234
Special assessment interest	-	8,554,348	15,805	-	8,570,153
Miscellaneous revenues	217,031	12,885	634,694	3,709,801	4,574,411
Total revenues	47,966,890	30,778,189	8,574,149	18,979,993	106,299,221
EXPENDITURES					
Current					
General government	8,793,027	-	-	487,241	9,280,268
Public safety	20,877,489	-	-	1,329,192	22,206,681
Public works	7,279,398	731,190	13,074,380	346,374	21,431,342
Public health & welfare	6,601,114	-	-	1,576	6,602,690
Recreation & culture	2,478,464	-	-	1,392,696	3,871,160
Urban redevelopment	23,940	-	-	5,189,981	5,223,921
Public transportation	2,551,068	-	-	698,129	3,249,197
General support	1,110,807	-	-	-	1,110,807
Capital outlay	1,040,783	-	19,941,145	3,843,795	24,825,723
Debt service					
Principal	-	11,378,425	-	1,501,650	12,880,075
Interest and fiscal charges	-	9,303,766	-	90,848	9,394,614
Total expenditures	50,756,090	21,413,381	33,015,525	14,891,482	120,076,478
Excess (deficiency) of revenues over (under) expenditures	(2,789,200)	9,364,808	(24,441,376)	4,088,511	(13,777,257)
OTHER FINANCING SOURCES (USES)					
Transfers in	6,434,393	2,227,312	15,034,694	5,069,010	28,765,409
Transfers out	(3,971,683)	(9,257,465)	(13,331,683)	(2,367,067)	(28,928,098)
Lease proceeds	-	-	-	380,000	380,000
Loan proceeds	-	-	-	1,700,000	1,700,000
Bonds issued	-	11,479,438	40,765,562	-	52,245,000
Bond premium	-	105,893	1,448,015	-	1,553,908
Bond proceeds used for refunding	-	(4,010,000)	-	-	(4,010,000)
Bond discount	-	(75,224)	-	-	(75,224)
Total other financing sources (uses)	2,462,510	469,954	43,918,588	4,781,943	51,630,995
Net change in fund balance	(326,680)	9,834,762	19,475,212	8,870,454	37,853,738
Fund balance (deficit) - beginning of year	14,191,677	51,921,655	(32,367,405)	3,790,126	37,536,053
Fund balance (deficit) - end of year	\$ 13,864,987	\$ 61,756,417	\$ (12,892,193)	\$ 12,660,580	\$ 75,389,791

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

CITY OF 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 DECEMBER 31, 2004

Amounts reported for governmental activities in the statement of activities (page 14) are different because:

Net change in fund balances - total governmental funds (page 17)	\$ 37,853,738
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	14,198,411
The net effect of various miscellaneous transactions involving capital assets (I.e. sales, trade-ins, and donations) is to decrease net assets.	(258,593)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	12,335,500
The issuance of long-term debt (I.e. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(37,898,513)
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.	(106,386)
Internal service funds are used by management to charge the costs of health and liability insurance to individual funds. The net revenue of certain activities of internal service funds are reported with governmental activities.	(20,822)
Change in net assets of governmental activities (page 15)	\$ <u>26,103,335</u>

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

**CITY OF FARGO, NORTH DAKOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 15,783,700	\$ 15,783,700	\$ 15,796,370	\$ 12,670
Licenses & permits	2,484,000	2,584,000	3,014,619	430,619
Intergovernmental revenues	11,302,613	14,490,297	14,839,857	349,560
Charge for services	8,918,052	8,980,358	9,517,175	536,817
Fines and forfeits	2,591,500	2,591,500	2,502,530	(88,970)
Investment income	2,350,000	2,350,000	2,079,308	(270,692)
Miscellaneous revenues	352,000	358,736	217,031	(141,705)
Total revenues	<u>43,781,865</u>	<u>47,138,591</u>	<u>47,966,890</u>	<u>828,299</u>
EXPENDITURES				
Current:				
General government	8,390,336	9,032,679	8,793,027	239,652
Public safety	19,967,867	20,861,773	20,877,489	(15,716)
Public works	5,456,129	7,151,456	7,279,398	(127,942)
Public health & welfare	6,407,735	6,676,743	6,601,114	75,629
Recreation & culture	2,457,915	2,527,817	2,478,464	49,353
Urban redevelopment	-	-	23,940	(23,940)
Public transportation	2,473,557	2,539,683	2,551,068	(11,385)
General support	991,819	1,094,687	1,110,807	(16,120)
Capital outlay	2,735,950	1,133,931	1,040,783	93,148
Total expenditures	<u>48,881,308</u>	<u>51,018,769</u>	<u>50,756,090</u>	<u>262,679</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(5,099,443)</u>	<u>(3,880,178)</u>	<u>(2,789,200)</u>	<u>1,090,978</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	5,848,000	6,321,000	6,434,393	113,393
Transfers out	(709,323)	(4,007,373)	(3,971,883)	35,490
Total other financing sources and uses	<u>5,138,677</u>	<u>2,313,627</u>	<u>2,462,510</u>	<u>148,883</u>
Net change in fund balances	39,234	(1,566,551)	(326,690)	1,239,861
Fund balance, beginning of year	<u>14,191,677</u>	<u>14,191,677</u>	<u>14,191,677</u>	<u>-</u>
Fund balance, end of year	<u>\$ 14,230,911</u>	<u>\$ 12,625,126</u>	<u>\$ 13,864,987</u>	<u>\$ 1,239,861</u>

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

**CITY OF FARGO, NORTH DAKOTA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2005**

	Business-type activities - Enterprise Funds							Governmental Activities - Internal Service Funds	
	Airport	Water	Wastewater	Storm Sewer	Solid Waste	FargoDome	Other Enterprise Funds		Total
ASSETS									
Current assets									
Cash	\$ -	\$ 100	\$ 50	\$ -	\$ 300	\$ 2,127,637	\$ 50	\$ 2,128,137	\$ 27,126
Equity in pooled cash and investments	8,818,790	13,399,822	2,668,522	840,573	1,812,610	4,378,801	346,577	32,265,495	2,548,523
Receivables (net of allowance for uncollectibles):									
Interest	58,742	87,263	27,377	5,372	11,321	35,909	2,292	228,276	18,182
Taxes	11,181	-	-	-	-	-	-	11,181	-
Accounts	473,926	621,841	515,692	77,200	475,714	311,484	92,287	2,568,144	28,772
Intergovernmental	2,471	-	-	-	-	798,711	-	801,182	-
Due from other funds	-	408,348	-	-	-	-	-	408,348	-
Advances to other funds	-	-	-	-	830,630	-	-	830,630	-
Inventory	-	135,928	-	-	-	27,535	-	163,463	-
Prepaid expenses	-	49,500	-	-	-	217,616	-	267,116	148,145
Restricted equity in pooled cash and investments	646,786	3,322,734	1,276,140	-	-	3,228,991	-	8,474,651	-
Total current assets	10,011,896	18,025,336	4,487,781	923,145	3,130,575	11,126,684	441,206	48,146,623	2,766,748
Noncurrent assets									
Investments	-	1,077,028	-	-	-	-	-	1,077,028	-
Restricted assets									
Equity in pooled cash & investments	256,999	38,902	340,755	-	1,229,612	1,034,001	-	2,900,269	-
Investments	-	-	-	-	-	8,581,947	-	8,581,947	-
Interest receivable	-	1,516	-	-	7,470	-	-	8,986	-
Sales taxes receivable	-	-	-	-	-	1,670,674	-	1,670,674	-
Prepaid expenses	8,750	74,857	-	-	-	83,752	-	147,359	-
Unamortized debt costs	89,844	146,020	-	-	-	160,684	-	396,548	-
Capital assets									
Land	6,228,153	1,952,186	176,810	7,784,210	3,091,883	-	-	19,233,342	-
Construction in progress	-	-	-	-	266,823	-	-	266,823	-
Intangible	-	500,000	-	-	-	-	-	500,000	-
Buildings	13,219,335	64,180,690	24,354,781	-	1,660,465	56,848,779	-	160,264,050	-
Improvements other than buildings	756,543	90,535	872,056	691,913	3,762,647	1,590,627	-	7,764,321	-
Machinery and equipment	4,337,129	2,459,361	6,424,095	2,144,983	8,835,974	14,021,371	873,466	37,096,379	-
Infrastructure	64,570,413	78,810,652	66,846,728	112,367,820	6,158	-	-	322,601,771	-
Less accumulated depreciation	(28,522,466)	(24,261,132)	(28,364,588)	(28,260,718)	(6,322,882)	(25,094,320)	(812,286)	(139,436,392)	-
Total capital assets (net of accumulated depreciation)	62,589,107	123,732,292	70,309,882	94,728,208	9,301,168	47,366,457	261,180	408,288,294	-
Total noncurrent assets	62,944,700	125,070,615	70,650,637	94,728,208	10,538,250	58,877,515	261,180	423,071,105	-
Total assets	\$ 72,956,596	\$ 143,095,951	\$ 75,138,418	\$ 95,651,353	\$ 13,668,825	\$ 70,004,199	\$ 702,386	\$ 471,217,728	\$ 2,766,748

**CITY OF FARGO, NORTH DAKOTA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS (CONTINUED)
DECEMBER 31, 2005**

LIABILITIES	Enterprise Funds							Governmental Activities - Internal Service Funds	
	Airport	Water	Wastewater	Storm Sewer	Solid Waste	FargoDome	Other Enterprise Funds		Total
Current liabilities									
Vouchers payable	\$ 920,358	\$ 481,959	\$ 151,215	\$ 7,511	\$ 127,132	\$ 268,055	\$ 20,645	\$ 1,976,875	\$ 11,568
Retainage payable	65,500	-	-	-	-	-	-	65,500	-
Interest payable	-	50	6,601	43,695	112,271	93,811	849	257,277	-
Accrued payroll	30,102	74,257	37,641	6,120	84,058	112,927	18,048	363,153	-
Current portion of special assessments	-	75	11,570	23,391	114,477	172,109	-	321,622	-
Current portion of capital lease	-	-	-	-	66,592	-	21,023	87,615	-
Accrued vacation payable	63,168	133,501	75,765	7,393	158,260	-	23,757	461,844	-
Deferred revenue	52,046	-	136,000	-	-	1,618,476	11,218	1,817,740	-
Deposits	-	-	-	-	-	10,800	-	10,800	-
IBNR claim reserve	-	-	-	-	-	-	-	-	1,048,867
Current liabilities payable from restricted assets:									
Current portion of long-term debt	585,000	2,375,000	1,160,000	-	-	4,185,000	-	8,305,000	-
Accrued interest and other	61,788	947,734	116,140	-	-	398,991	-	1,524,651	-
Total current liabilities	1,777,960	4,012,576	1,694,932	88,110	662,790	6,860,169	95,540	15,192,077	1,060,433
Noncurrent liabilities									
Landfill closure accruals	-	-	-	-	3,021,503	-	-	3,021,503	-
Long-term debt, net of current portion:									
Special assessments payable	-	861	95,982	729,388	1,887,840	1,171,995	-	3,886,066	-
Capital lease	-	-	-	-	68,856	-	-	68,856	-
Revenue bonds payable	5,295,000	33,573,035	-	-	-	11,830,772	-	50,698,807	-
Notes payable	-	1,665,429	13,908,764	-	-	-	-	15,574,193	-
Total noncurrent liabilities	5,295,000	35,239,325	14,004,746	729,388	4,978,199	13,002,767	-	73,249,425	-
Total liabilities	7,072,960	39,251,901	15,699,678	817,498	5,640,989	19,862,936	95,540	88,441,502	1,060,433
NET ASSETS									
Invested in capital assets, net of related debt	57,702,738	89,697,751	56,750,462	93,975,430	7,163,403	36,100,929	240,157	341,630,870	-
Restricted for:									
Forestry grant program	-	-	-	-	-	-	11,218	11,218	-
Debt service	265,749	115,275	340,755	-	-	1,413,427	-	2,135,206	-
Capital improvements	-	-	-	-	-	8,581,947	-	8,581,947	-
Unrestricted	7,915,149	14,031,024	2,347,523	858,425	864,433	4,044,960	355,471	30,416,985	1,706,315
Total net assets	\$ 65,883,636	\$ 103,844,050	\$ 59,438,740	\$ 94,833,855	\$ 8,027,836	\$ 50,141,263	\$ 606,646	382,776,226	\$ 1,706,315
								103,739	
									\$ 382,879,965

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.

Net assets of business-type activities

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

CITY OF FARGO, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	Business-type activities - Enterprise Funds							Governmental Activities - Internal Service Funds	
	Airport	Water	Wastewater	Storm Sewer	Solid Waste	FargoDome	Other Enterprise Funds		Total
OPERATING REVENUES									
Charges for services	\$ 4,856,814	\$ 14,331,669	\$ 7,467,026	\$ 1,406,773	\$ 7,920,611	\$ 3,795,488	\$ 1,475,620	\$ 41,254,201	\$ 4,810,807
OPERATING EXPENSES									
Personal services	837,736	2,134,989	1,042,152	187,283	2,532,154	-	647,573	7,381,887	-
Claims/benefits	-	-	-	-	-	-	-	-	4,022,515
Other services	1,551,707	2,316,321	1,429,223	96,095	1,539,457	3,581,989	704,417	11,219,209	608,222
Materials and supplies	576,518	2,852,450	691,454	148,387	1,402,517	70,030	171,800	5,914,158	-
Landfill liability adjustment	-	-	-	-	185,414	-	-	185,414	-
Depreciation	2,398,330	2,644,051	2,439,491	2,376,313	727,978	2,962,707	85,574	13,634,444	-
Total operating expenses	5,384,291	9,947,811	5,602,320	2,809,078	6,387,520	6,614,726	1,609,364	38,335,110	4,630,737
Operating income (loss)	(507,477)	4,383,858	1,864,706	(1,402,305)	1,533,091	(2,819,238)	(133,544)	2,919,091	(19,930)
NONOPERATING REVENUES (EXPENSES)									
Gain (loss) on disposal of assets	-	(2,019)	-	-	5,682	5,825	(2,204)	7,284	-
Investment income	247,977	451,358	117,276	21,962	86,730	487,619	10,940	1,423,862	70,272
Interest expense and bonds fees	(199,840)	(1,921,854)	(485,600)	(43,695)	(118,303)	(924,803)	(1,387)	(3,695,482)	-
Amortization expense	(11,387)	(128,898)	-	-	-	(209,397)	-	(349,662)	-
General property tax revenue	420,714	-	-	-	-	-	-	420,714	-
Intergovernmental revenue	-	-	-	-	-	-	4,432	4,432	-
Miscellaneous expense	-	(13,367)	-	-	-	-	-	(13,367)	-
Sales tax revenues	-	-	-	-	-	8,825,107	-	8,825,107	-
Total nonoperating revenues (expenses)	457,484	(1,614,780)	(368,324)	(21,733)	(25,891)	8,184,351	11,781	6,622,868	70,272
Income (loss) before contributions and transfers	(49,993)	2,769,078	1,496,382	(1,424,038)	1,507,200	5,365,113	(121,763)	9,541,979	50,342
CAPITAL CONTRIBUTIONS	1,978,539	-	-	-	-	137,787	-	2,116,326	-
Transfers in:									
General	-	11,900	-	-	-	-	-	11,900	-
Special revenue	-	-	-	-	-	-	34,251	34,251	-
Capital projects	-	5,004,969	2,810,525	4,067,821	-	-	-	11,883,315	-
Enterprise	-	-	-	-	-	-	230,004	230,004	-
Transfers out:									
General	(50,004)	(2,423,996)	(750,000)	(129,996)	(1,592,920)	(24,996)	(166,008)	(5,137,920)	-
Special revenue	-	(12,000)	(12,000)	-	(12,000)	-	(3,996)	(39,996)	-
Capital projects	-	(2,808,877)	(2,471,197)	(1,308,787)	-	-	-	(6,588,861)	-
Enterprise	-	(110,004)	-	-	(120,000)	-	-	(230,004)	-
CHANGE IN NET ASSETS	1,878,542	2,431,070	1,073,710	1,205,000	247,720	5,477,904	(27,512)	11,820,994	50,342
TOTAL NET ASSETS - BEGINNING	64,005,094	101,412,980	58,365,030	93,628,855	8,245,556	44,663,359	634,358	1,855,973	1,708,315
TOTAL NET ASSETS - ENDING	\$ 65,883,636	\$ 103,844,050	\$ 59,438,740	\$ 94,833,855	\$ 8,027,836	\$ 50,141,263	\$ 606,846	\$ 11,821,886	\$ 1,708,315
							892		
								\$ 11,821,886	
									Change in net assets of business - type activities

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

V-11

CITY OF FARGO, NORTH DAKOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	Business-type activities - Enterprise Funds							Total	Governmental Activities - Internal Service Funds
	Airport	Water	Wastewater	Sewer Sewer	Solid Waste	FargoDome	Other Enterprise Funds		
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers and users	\$ 4,921,679	\$ 14,271,966	\$ 7,431,960	\$ 1,405,808	\$ 7,912,185	\$ 3,715,906	\$ 1,477,257	\$ 41,126,262	\$ 4,815,825
Payments to suppliers	(1,987,203)	(5,015,830)	(2,056,258)	(230,801)	(2,960,070)	(2,970,496)	(885,375)	(16,132,983)	(1,006,568)
Payments to employees	(669,126)	(1,691,400)	(816,388)	(156,929)	(2,007,522)	-	(533,260)	(5,874,554)	-
Payments of benefits on behalf of employees	(157,472)	(432,794)	(213,388)	(36,122)	(516,787)	-	(111,618)	(1,462,180)	(3,844,470)
Net cash provided by operating activities	2,107,278	7,131,933	4,342,929	967,937	2,407,856	745,410	(56,834)	17,866,509	(235,513)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Transfers to other funds	(50,604)	(5,354,877)	(3,233,197)	(1,436,783)	(1,724,920)	(24,996)	(170,004)	(11,996,791)	-
Transfers from other funds	-	-	-	-	-	-	264,255	264,255	-
Property leases	418,728	-	-	-	-	-	-	418,728	-
Payments received on advances to other funds	-	15,900	-	-	155,000	-	-	166,900	-
Payments received on interfund borrowing	-	724,852	-	12,373	-	-	(12,373)	724,852	-
Payments made for interfund borrowing	-	(408,348)	-	-	-	-	-	(408,348)	-
Net cash provided (used) by noncapital financing activities	369,724	(5,026,373)	(3,233,197)	(1,426,410)	(1,569,920)	(24,996)	81,878	(10,829,294)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Proceeds from sale of assets	-	-	-	-	-	5,825	-	5,825	-
Proceeds from borrowing	-	-	-	-	-	-	-	-	-
Sales tax restricted for capital-related debt	-	-	-	-	-	8,510,910	-	8,510,910	-
Acquisition of capital assets	(2,625,351)	(248,636)	(282,847)	-	(1,012,845)	(178,296)	(40,884)	(4,284,368)	-
Debt service - principal	(590,000)	(2,264,429)	(1,135,801)	(14,506)	(153,949)	(4,152,204)	(20,003)	(8,230,892)	-
Debt service - interest & fees	(187,343)	(1,988,398)	(494,431)	(25,714)	(117,979)	(1,027,860)	(2,194)	(3,844,713)	-
Intergovernmental capital grants	4,058,481	-	-	-	-	-	-	4,058,481	-
Net cash provided (used) by capital and related financing activities	655,787	(4,501,463)	(1,813,079)	(40,220)	(1,284,607)	3,157,676	(62,751)	(3,968,658)	-
CASH FLOWS FROM INVESTING ACTIVITIES									
Investment income	195,213	398,615	100,847	19,497	75,278	115,725	9,845	914,820	60,071
Investments redeemed	6,384,573	18,758,546	4,887,817	1,299,789	3,413,615	5,839,494	374,836	41,146,453	-
Investments (purchased)	(9,722,575)	(16,761,258)	(4,285,417)	(840,573)	(3,042,222)	(8,641,793)	(346,577)	(44,640,415)	(2,546,523)
Net cash provided (used) by investing activities	(2,132,789)	2,395,903	603,347	478,693	446,671	(3,586,574)	37,707	(2,551,624)	(2,486,452)
Net increase in cash and cash equivalents	-	-	-	-	-	291,515	-	291,515	(2,721,968)
Cash and cash equivalents, January 1	-	100	50	-	300	1,836,122	50	1,836,622	2,749,091
Cash and cash equivalents, December 31	\$ -	\$ 100	\$ 50	\$ -	\$ 300	\$ 2,127,637	\$ 50	\$ 2,128,137	\$ 27,126
Reconciliation of operating income to net cash provided (used) by operating activities:									
Operating income (loss)	\$ (507,477)	\$ 4,383,858	\$ 1,864,706	\$ (1,402,305)	\$ 1,533,091	\$ (2,819,238)	\$ (133,544)	\$ 2,919,091	\$ (19,820)
Adjustments to reconcile operating income to net cash provided by operating activities									
Depreciation	2,368,330	2,544,051	2,439,491	2,376,313	727,878	2,962,707	89,574	13,834,444	-
Claims reserve adjustment	-	-	-	-	-	-	-	-	(180,867)
Change in assets and liabilities									
Accounts receivable	64,265	(59,783)	(35,066)	(964)	(6,426)	(79,382)	(2,513)	(121,989)	4,718
Inventories	-	7,809	-	-	-	(3,887)	-	3,442	-
Prepaid expenses	-	(45,500)	-	-	-	(8,993)	-	(58,493)	(41,851)
Accounts payable	165,719	195,412	61,419	14,661	(36,046)	(59,759)	13,842	357,268	2,117
Retainage payable	(28,897)	-	-	-	-	-	-	(28,897)	-
Claims and judgements payable	-	-	-	-	-	-	-	-	-
Landfill closure accounts	-	-	-	-	185,414	-	-	185,414	-
Payroll payable	261	5,540	5,419	1,109	5,717	9,210	4,074	31,310	-
Vacation payable	10,897	5,246	6,960	(897)	2,128	-	(1,517)	23,017	-
Deferred revenues	-	-	-	-	-	750,382	(22,950)	727,432	-
Deposits	-	-	-	-	-	(5,730)	-	(5,730)	-
Total adjustments	2,614,755	2,748,075	2,478,223	2,390,242	874,765	3,564,648	76,710	14,747,418	(215,583)
Net cash provided (used) by operating activities	\$ 2,107,278	\$ 7,131,933	\$ 4,342,929	\$ 967,937	\$ 2,407,856	\$ 745,410	\$ (56,834)	\$ 17,866,509	\$ (235,513)
Noncash transactions affecting financial position:									
Acquisition of / change in assets through capital contributions and donations	-	\$ 5,004,869	\$ 2,810,525	\$ 4,067,821	-	-	-	\$ 11,883,215	-
Acquisition of assets through acquisition of debt	-	-	-	\$ 351,842	\$ 752,647	-	-	\$ 604,489	-
Reconciliation of cash and cash equivalents:									
Cash and cash equivalents as shown above	\$ -	\$ 100	\$ 50	\$ -	\$ 300	\$ 2,127,637	\$ 50	\$ 2,128,137	\$ 27,126
Amount reported as investments purchased to reflect those investments with a maturity date in excess of 90 days	9,722,575	16,761,258	4,285,417	840,573	3,042,222	8,641,793	346,577	43,640,415	2,546,523
Cash and equity in pooled cash and investments per the statement of net assets	\$ 9,722,575	\$ 16,761,358	\$ 4,285,467	\$ 840,573	\$ 3,042,522	\$ 10,769,430	\$ 346,627	\$ 45,768,552	\$ 2,573,649
Statement of net assets line items									
Cash	\$ -	\$ 100	\$ 50	\$ -	\$ 300	\$ 2,127,637	\$ 50	\$ 2,128,137	\$ 27,126
Equity in pooled cash and investments	8,818,790	13,396,622	2,668,522	840,573	1,812,610	4,378,801	346,577	32,265,495	2,546,523
Restricted equity in pooled cash and investments	646,786	3,322,734	1,276,140	-	-	3,228,991	-	8,474,651	-
Restricted assets - equity in pooled cash and investments	256,999	36,902	340,755	-	1,229,612	1,034,001	-	2,900,269	-
	\$ 9,722,575	\$ 16,761,358	\$ 4,285,467	\$ 840,573	\$ 3,042,522	\$ 10,769,430	\$ 346,627	\$ 45,768,552	\$ 2,573,649

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

CITY OF FARGO, NORTH DAKOTA
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 DECEMBER 31, 2005

	Pension Trust	Agency
ASSETS		
Cash	\$ 663,110	\$ 93,182
Equity in pooled cash & investments	868,404	117,446
Receivables:		
Employer	4,974	-
Employee	4,364	-
Special assessments	-	2,553,924
Interest	96,240	-
Total receivables	105,578	2,553,924
Investments, at fair value		
US government obligations	5,748,365	-
Corporate bonds	3,223,248	-
Corporate stocks	21,679,820	-
Mutual funds	25,933,822	-
Cash savings value of life insurance	501,561	-
Total investments	57,086,816	-
Prepaid expense	18,555	-
Total assets	\$ 58,742,463	\$ 2,764,551
LIABILITIES		
Vouchers/benefits payable	\$ 155,200	\$ -
Due to other governments	-	2,553,924
Deposits	-	210,627
Total liabilities	155,200	2,764,551
NET ASSETS		
Held in trust for pension benefits	\$ 58,587,263	\$ -

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

CITY OF FARGO, NORTH DAKOTA
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 FOR THE YEAR ENDING DECEMBER 31, 2005

ADDITIONS	
Contributions	
Employer	\$ 1,944,158
Employee	<u>1,452,678</u>
Total contributions	<u>3,396,836</u>
Investment income	
Net appreciation (depreciation) in fair value of investments, and interest and dividends	4,065,603
Less investment expense	<u>(396,496)</u>
Net investment income (loss)	<u>3,669,107</u>
Total additions	<u>7,065,943</u>
DEDUCTIONS	
Pension benefit payments	3,476,306
Member contribution refunds	255,228
Administrative expenses	28,199
Insurance premiums	<u>35,697</u>
Total deductions	<u>3,795,430</u>
CHANGE IN NET ASSETS	3,270,513
NET ASSETS - BEGINNING OF YEAR	<u>55,316,750</u>
NET ASSETS - END OF YEAR	<u>\$ 58,587,263</u>

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

**CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

INDEX

- NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**
- A. Reporting entity
 - B. Government-wide and fund financial statements
 - C. Measurement focus, basis of accounting and financial statement presentation
 - D. Assets, liabilities and net assets or equity
 - E. Issued but non-effective accounting pronouncements
- NOTE 2 RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**
- A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets
 - B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities
- NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**
- A. Budgetary information
 - B. Excess of expenditures over budget
 - C. Deficit fund equity/net assets
 - D. Net assets restricted by enabling legislation
- NOTE 4 DETAIL NOTES ON ALL FUNDS**
- A. Deposits and investments
 - B. Receivables
 - C. Capital assets
 - D. Commitments
 - E. Interfund receivables, payables, and transfers
 - F. Leases
 - G. Long-term debt
 - H. Deferred revenue
 - I. Industrial revenue bonds
- NOTE 5 OTHER NOTES**
- A. Risk management
 - B. Pension plans
 - C. Joint powers agreement
 - D. Contingencies
 - E. Subsequent events

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fargo operates under a "mayor-commission" form of government under the Home Rule Charter. The accounting policies of the City, as reflected in the accompanying financial statements, conform to generally accepted accounting principles for local government units.

The City implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement affects the way the City reports their cash and investments and related risks and policies. Implementation significantly changed the related note disclosures.

The City implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement provides guidance on the assessment and measurements of impairments, and the related reporting of the losses and insurance recoveries. Implementation had no material effect on the City's financial statements.

The City implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. This statement provides guidance on legal enforceability as it applies to restrictions imposed on the use of resources created by enabling legislation. Implementation resulted in an additional note disclosure.

The following is a summary of the City's significant accounting policies:

A. REPORTING ENTITY

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

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

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

Component Unit - The City of Fargo Building Authority, a non-profit corporation, was formed for the purpose of providing funds to finance improvements on City property and for leasing property from the City. The directors of the Authority are made up of the City's Board of Commissioners, as well as the City Administrator and City Finance Director. The activity of the Authority is being reported as a blended component unit within the activities of the primary government. There are no separately issued statements for this component unit.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The goal of government-wide financial statements is to present a broad overview of a government's finances. The basic statements that form the government-wide financial statements are the statement of net assets and the statement of activities. These two statements report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally financed through taxes and intergovernmental revenues, are reported separately from business-type activities, which are normally financed through user fees and charges for goods or services.

The statement of activities reports gross direct expenses by function reduced by program revenues. This results in a measurement of net revenue or expense for each of the government's activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues are directly associated with the function or business-type activity and include 1) charges for services and 2) operating

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

or capital grants and contributions that are restricted to a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are prepared for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

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

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

The City reports the following major governmental funds:

General Fund - The general fund is the general operating fund of the City. All financial resources of the general government that are not required to be reported in another fund are accounted for in the general fund.

Debt Service Fund - The debt service funds are used to account for the accumulation of resources for and the payment of general long-term debt principal and interest.

Infrastructure Capital Projects Fund - The infrastructure capital projects fund is used to account for financial resources used in the construction of major capital facilities which includes infrastructure such as streets, sidewalks, street lighting, paving, sanitary storm sewers, water mains, sewer lines and other projects.

The City reports the following major proprietary funds:

Airport - This fund accounts for the operations and construction activities of the Hector International Airport.

Water - This fund accounts for the activities (revenues, operating and capital expenses) of the City's water system. The City receives user fee revenues derived from sale of water and other related services to the general public.

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

Wastewater – This fund accounts for the activities (revenues, operating and capital expenses) of the City's wastewater (sewer) disposal system. The City receives user fee revenues derived from providing sanitary sewer services to the public.

Storm Sewer – This fund accounts for the activities (revenues, operating and capital expenses) of the City's storm sewer system. The City receives user fee revenues derived from providing storm sewer services to the public.

Solid Waste – This fund accounts for the activities (revenues, operating and capital expenses) of the City's garbage utility. The City receives user fee revenues derived from providing garbage services to the public and operating a regional landfill.

FargoDome – This fund accounts for the operation of the FargoDome which is a multi-purpose regional event center that was constructed in 1989 and is used for conventions, sporting events, trade shows, concerts and other programs. The FargoDome has a maximum seating capacity of 28,000 and is currently operated under a management contract with Global Spectrum, Inc.

In addition, the City reports for the following fund types:

Internal Service Funds – Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the city or to other governmental units on a cost reimbursement basis. The City has two internal service funds, the Liability Self Insurance fund and the Health Self Insurance fund.

Pension Trust Funds – Pension trust funds are used to account for the activities of the City Employees' Pension Plan and the Police Pension Plan, which accumulates resources for pension benefit payments.

Agency Funds – Agency funds are used to account for assets held by the City as agent for other individuals, organizations, or governmental units. The City has two agency funds, the Performance Deposits fund and the Park District Special Assessments fund.

The City has prepared its government-wide and proprietary fund financial statements in accordance with all applicable GASB pronouncements, as well as pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

As a general rule, the City has eliminated the effect of interfund activity from the government-wide financial statements. Exceptions to this rule are when various charges exist between different functions of the government (i.e. water and sewer charges to other various functions of the City). Elimination of these charges would distort direct costs and program revenues reported for the various functions concerned.

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

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

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

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Equity in Pooled Cash and Investments, Cash and Investments

The City maintains a cash and investment pool that is used by all funds. Each fund's portion of the pool is displayed on the statements as "Equity in Pooled Cash and Investments." Interest income on such investments is allocated to certain funds on the basis of the participating funds balance in the cash and investments pool. In addition, investments are separately held by various funds.

Investments are reported at fair value. Cash and cash equivalents, for the purposes of GASB Statement No. 9 include cash, demand deposits, and certificates of deposit with a maturity of less than three months.

2. Receivables and payables

All outstanding balances between funds are reported as "due to/from other funds" (current portion) or "advances to/from other funds" (non-current portion). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

The city is permitted under provisions of the Home Rule Charter to levy taxes as needed for general governmental services and payment of principal and interest on long-term debt. The current Home Rule Charter maximum mill levy is sixty-four mills. Total mills levied for 2005 were fifty-nine and one-quarter.

All real estate is assessed on current value as of February 1 of each year. Property taxes are attached as an enforceable lien on the real estate and become due on January 1 of the year following the assessment date. A 5% reduction of taxes is allowed if taxes are paid in full by February 15. To avoid being delinquent, one-half of taxes due must be paid by March 1 and the remaining balance paid by October 15.

Taxes are collected by the county and remitted monthly to the city no later than the 10th working day following the month of collection.

3. Inventories and prepaid items

Depending upon the nature of the item, inventories are valued at the lower of cost or market using either first-in-first-out or specific identification. Also, and depending upon the nature of the item or the fund in which the inventory is recorded, the costs of inventories are recorded as expenses/expenditures when purchased, or when consumed rather than when purchased. The purchase method of accounting is used for reporting purposes in most governmental funds, whereby the cost of inventory items are recognized as expenditures when purchased. However, the NRI Loan Program governmental fund uses the consumption method under which an expenditure is recognized as the inventory is consumed. Reported inventories of governmental funds are equally offset by a fund balance reservation to indicate that portion of fund balance not available for future appropriation. Inventory recorded in proprietary funds is expensed as the supplies and materials are consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF FARGO, NORTH DAKOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2005

4. Restricted Assets

Certain proceeds of the city's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Resources have been set aside for Landfill Assurance, as required by North Dakota Solid Waste Management Rules, Chapter 33-20-14. In addition, resources have been set aside for capital repair and upkeep of the FargoDome, as directed by Section 3-1509 of the Municipal Code.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost equal to or greater than \$5,000, except for infrastructure networks which are capitalized in their entirety. Such assets are recorded at historical cost or estimated historical cost. 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 lives are not capitalized.

Property, plant and equipment of the government is depreciated using the straight line method over the following estimated useful lives:

Asset	Years
Buildings	10 - 50
Improvements other than buildings	10 - 20
Infrastructure	20 - 100
Vehicles	3 - 10
Equipment	5 - 10
Office Equipment	5 - 10
Computer Equipment	3 - 5

Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees vest in sick leave accumulated in excess of 960 hours, which is paid out at 44.4% of their normal pay in December of every year. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts (other than the vested amounts paid out annually) when employees separate from service. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. In the governmental funds, a liability would be reported only if they have matured, for example, as a result of employee retirements or resignations.

6. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds on a straight-line basis over the term of the related issue. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

CITY OF FARGO, NORTH DAKOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2005

as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds are reported as debt service expenditures.

7. Fund equity

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 a specific purpose.

Reserved - indicates the portion of fund equity which has been legally segregated for specific purposes.

Unreserved - undesignated - indicates the portion of fund equity which is available for appropriation in future periods.

E. ISSUED BUT NON-EFFECTIVE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the City. The statements issued but not implemented that will significantly affect the City are Statement No. 44, *Economic Condition Reporting: The Statistical Section*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 44 will add additional items to the statistical section, and is effective for the City for the fiscal year ending December 31, 2006. Statement No. 45 will affect the way the City accounts for and reports postemployment healthcare and other non-pension benefits, and will be effective for the City for the fiscal year ending December 31, 2007.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$204,049,784 difference are as follows:

Bonds payable	\$ 233,165,810
Bond premium	1,759,419
Notes payable	3,483,182
Accrued interest payable	1,671,450
Compensated absences payable	2,086,583
Capital leases	848,327
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	\$ 242,812,551

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

allocated over their estimated useful lives and reported as depreciation expense." The details of this \$14,198,411 difference are as follows:

Capital outlay	\$ 24,445,239
Depreciation expense	<u>(10,246,828)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	\$ 14,198,411

Another element of that reconciliation states that "The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets." The details of this \$258,593 difference are as follows:

The statement of activities report losses arising from the disposal of capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets.	\$ (258,593)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	<u>\$(258,593)</u>

Another element of that reconciliation states that "The issuance of long-term debt (i.e. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items." The details of this \$37,898,513 difference are as follows:

Bonded debt issued	\$ (52,245,000)
Premium on bonded debt issued	(1,553,908)
Bond proceeds used for refunding	4,010,000
Bonded debt principal payments	11,298,425
SRF note payments	80,000
Capital lease proceeds	(380,484)
Capital lease cancellation	381,834
Capital lease payment	83,000
Deferred charges	708,970
Loan proceeds	(1,790,000)
Loan payments	<u>1,418,850</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	<u>\$(37,898,513)</u>

Another element of that reconciliation states that "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." The details of this \$108,386 are as follows:

Compensated absences	\$ (74,183)
Accrued interest	36,803
Amortization of bond costs and discounts	(69,787)
Net pension obligation asset adjustment	<u>781</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	<u>\$(108,386)</u>

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the governmental funds classified as the general fund, special revenue funds, and the debt service fund. No budgets are prepared for capital projects funds.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. According to City charter, the Mayor submits a proposed budget each August to the City Commission. At that time, the City Commission makes any changes they deem necessary to this proposed budget.
2. The preliminary budget must be adopted by September 10.
3. Public hearings are conducted to obtain taxpayer comments.
4. The budget is legally enacted through passage of a budget ordinance no later than October 7.
5. Budgets are adopted for the general, special revenue, and debt service.
6. The legal level of budgetary control is at the fund level. The Finance Director may approve transfers of budgeted amounts between departments within a given fund. Any transfers of budgeted amounts and any revisions that alter the total expenditures of any fund must be approved by the City Commission.
7. Formal budgetary integration is employed as a management control device during the period for the general fund, special revenue funds and the debt service fund at the fund level. Any expenditures in excess of current years budget must be approved by the Finance Committee and the City Commission. Supplemental appropriations granted for the 2005 year include \$1,085,550 for the General Fund.
8. Appropriations lapse at year-end.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration of all funds. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Authority to complete year-end encumbrances for the general fund may be granted by amending the subsequent years budget. General Fund Budget revisions approved for open encumbrances totaled \$1,489,128 for the year ended December 31, 2005. Encumbrances for all other funds lapse at year-end.

B. EXCESS OF EXPENDITURES OVER BUDGET

Expenditures exceeded budget in the following funds by the following amounts:

Special Revenue Funds	\$
City Share of Specials	30,453
Convention & Visitors Bureau	193,288
Regional Training Center	6,455
Court Forfeits	21,527
FTA Capital Escrow	18,433
Broadway Mall Maintenance	36,678
Skyway Maintenance	41,230
Winter Lights Maintenance	18,182
HUD Home Participating Jurisdiction	78,932

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NRI Loan Program	3,272,690
Other Projects	20,798
Debt Service Fund	\$ 42,746

No remedial action is anticipated or required by the City regarding these excess expenditures.

C. DEFICIT FUND EQUITY/NET ASSETS

GOVERNMENTAL FUNDS
Special Revenue Funds

Regional Training Center	487	This deficit will be eliminated by future receipts from other governmental units.
Broadway Mail Maintenance	47,436	This deficit will be eliminated by future special assessments.
Skyway Maintenance	37,671	This deficit will be eliminated by future special assessments.
Winter Lights Maintenance	42,123	This deficit will be eliminated by future special assessments.
HUD Home Participating Jurisdiction	90,617	This deficit will be eliminated by future grant financing.
City Building Repair Escrow	7,545	This deficit will be eliminated by future receipts from other funds.
Baseball Stadium	2,285,732	This deficit is due to a Capital Projects Fund project being closed out and set up as a Special Revenue Fund. The deficit will be recovered by future suite lease fees.

Capital Projects Funds
Infrastructure

\$ 12,892,193 This deficit will be eliminated by future bond financing and transfers from other funds.

Flood Relief and Home Buyout	313,356	This deficit will be eliminated by future transfers from other funds.
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PROPRIETARY FUNDS

Liability Self Insurance Internal Service	310,573	This deficit will be recovered by funding adjustments.
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D. NET ASSETS RESTRICTED BY ENABLING LEGISLATION

The government-wide statement of net assets reports \$190,766,852 of restricted net assets, of which \$33,926,814 is restricted by enabling legislation.

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

4. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

Deposits - In accordance with North Dakota Century Code, the City maintains deposits at those depository banks and brokerages authorized by the City Commission, all of which are covered by Federal Depository Insurance or Securities Investor Protection. Century Code requires that all City deposits be protected by insurance, collateral or surety bond. The market value of the collateral pledged must be equal to or greater than 110% of the deposits not covered by insurance or bonds.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Beyond what is stated in the Century Code, the City does not have a formal policy to further limit exposure to custodial credit risk. As of December 31, 2005, the City's deposits were either fully insured or properly collateralized, and have no custodial credit risk.

Investments - The City is authorized by North Dakota Century Code to invest in: a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress, b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above, c) Certificates of deposit fully insured by the federal deposit insurance corporation or the state, d) Obligations of the state.

Under the Home Rule Charter, City Ordinance also allows contracts for interest rate swaps or exchanges as investments for, and Pension funds may purchase any investments authorized by the Pension Boards.

The North Dakota Retirement and Investment Office (NDRIO) manages the FargoDome capital escrow investments, which the City reports as an external investment pool. The investment pool is not registered with the SEC and is regulated by the North Dakota Century Code. The fair market value of the investment pool is the same as the value of the pooled investment shares. More information on the NDRIO can be found in their financial reports at <http://www.state.nd.us/rio/SIB/Publications/default.htm>.

As of December 31, 2005, the City has the following investments and maturities:

Investment Type	Fair Value	Not Applicable	Investment Maturities (In Years)			
			<1	1-5	>5-10	>10
U.S. Instrumentalities	\$ 16,919,420	\$ -	\$ 10,242,754	\$ 1,056,104	\$ 985,393	\$ 4,635,169
U.S. Treasuries	24,705,107	-	16,168,402	7,952,685	691,195	892,825
U.S. Agencies	467,050	-	-	3,259	-	463,791
Local Government Bond	1,077,026	-	78,071	332,293	464,291	202,373
Corporate Bonds	3,223,246	-	250,878	1,468,502	1,210,400	283,462
Corporate Stocks	21,679,815	21,679,815	-	-	-	-
Repurchase Agreements	25,000,000	-	25,000,000	-	-	-
Bond Mutual Funds	10,006,597	-	-	5,716,968	4,291,629	-
External Investment Pool	8,581,947	8,581,947	-	-	-	-
Mutual Funds	15,925,225	15,925,225	-	-	-	-
Cash Value Life Insurance	501,581	501,581	-	-	-	-
Total Investments	\$ 126,088,998	\$ 46,688,548	\$ 50,740,105	\$ 16,529,611	\$ 7,642,914	\$ 6,487,620

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investments in U.S. Agencies are mortgage-backed securities. Due to interest rate changes, how quickly homeowners pay off their mortgages can fluctuate, resulting in varying repayment streams and uncertain final maturities.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Beyond what is stated in the Century Code, the City does not have a formal policy to further limit exposure to credit risk. As of December 31, 2005, \$12,635,998 of the City's investments in U.S. Instrumentalities were rated Aaa by Moody's, \$1,157,115 were rated AAA by Fitch, with the remaining instrumentalities not rated. The City's investments in corporate bonds were rated by Moody's as follows: \$448,055 as AA1; \$840,436 as AA3; \$293,482 as AAA; \$559,632 as A1; \$469,588 as BAA1; \$516,880 as BAA2; and \$95,185 as BAA3. The City's investments in the local government bond, external investment pool, and bond mutual funds are not rated.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal policy to limit exposure to investment custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City places no limit on the amount which may be invested with a single issuer. Federal Home Loan Mortgage Corporation and Federal National Mortgage Association investments were each in excess of 5% of total investments at year-end. They were 11.14% and 12.3%, respectively. On a fund level, investments in the Federal National Mortgage Association represent 9.23% of the City Employees' Pension Fund non-pooled investments, and the Water Enterprise Fund's investment in the City of Fargo Housing Revenue Bonds represents 100% of its non-pooled investments.

B. RECEIVABLES

Loans receivable as of December 31, 2005 were:

	INTEREST RATE	MATURITY DATE	AMOUNT
Storefront Rehabilitation	3%	09/05/08	\$ 14,205
Community Development	0 - 3%	08/01/10 to 12/05/14	252,116
Neighborhood Revitalization Initiative (NRI)	0 - 4%	11/1/08 to 03/1/19	2,898,478
Neighborhood Revitalization Initiative (NRI)	0%	Due Upon Sale	32,500
HUD HOME	0 - 3%	08/14/07 to 07/01/15	4,179,720
TOTAL LOANS RECEIVABLE			\$7,375,019

The NRI loans and HUD HOME (Home Investment Partnership Program) loans are made to encourage investment in housing as a way to stabilize and strengthen Fargo's neighborhoods. Loans are made for renovation of homes already owned, for assistance with buying and renovating a home, and for assistance with low-income housing and other housing-related issues. The HOME loans are funded by the Department of Housing and Urban Development, while the NRI loans are funded by the City and a Fannie Mae letter of credit.

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

Of the above loans, \$4,303,467 is considered in non-repayment status. These loans are forgiven upon certain criteria being met, usually relating to maintaining ownership for a certain number of years. However, if the given criteria is not met, payment is required.

C. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,383,505	\$ -	\$ -	\$ 1,383,505
Construction in progress	-	1,672,368	-	1,672,368
Total capital assets, not being depreciated	1,383,505	1,672,368	-	3,055,871
Capital assets, being depreciated:				
Buildings	48,248,091	1,529,981	242,000	47,536,052
Improvements other than buildings	394,873	7,485	-	402,458
Machinery and equipment	21,895,429	1,689,207	781,781	22,802,855
Infrastructure	267,401,453	19,941,143	414,921	286,927,675
Total capital assets being depreciated	335,738,846	23,167,798	1,438,702	357,469,040
Less accumulated depreciation for:				
Buildings	16,471,264	1,340,188	89,871	17,721,581
Improvements other than buildings	77,320	20,770	-	98,090
Machinery and equipment	13,961,747	1,843,252	508,063	15,298,936
Infrastructure	71,036,185	7,042,818	414,921	77,863,682
Total accumulated depreciation	101,546,496	10,248,828	1,010,855	110,782,480
Total capital assets, being depreciated, net	234,193,450	12,920,988	427,847	246,686,571
Governmental activities capital assets, net	\$ 235,678,955	\$ 14,593,334	\$ 427,847	\$ 249,742,442

**CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 19,090,342	\$ 143,000	\$ -	\$ 19,233,342
Construction in progress	-	266,823	-	266,823
Water Rights	500,000	-	-	500,000
Total capital assets, not being depreciated	19,590,342	409,823	-	20,000,165
Capital assets, being depreciated:				
Buildings	160,264,050	-	-	160,264,050
Improvements other than buildings	7,070,415	693,906	-	7,764,321
Machinery and equipment	35,831,580	1,709,376	444,577	37,096,379
Infrastructure	308,691,643	14,084,169	174,042	322,601,770
Total capital assets being depreciated	511,857,688	16,487,451	618,619	527,726,520
Less accumulated depreciation for:				
Buildings	33,577,182	3,760,613	-	37,337,795
Improvements other than buildings	2,375,472	342,672	-	2,718,144
Machinery and equipment	21,291,028	3,094,670	264,674	24,121,024
Infrastructure	68,998,981	6,436,489	174,042	75,261,428
Total accumulated depreciation	126,242,663	13,634,444	438,716	139,438,391
Total capital assets, being depreciated, net	385,615,025	2,853,007	179,903	386,286,129
Business-type activities capital assets, net	\$ 405,205,367	\$ 3,262,830	\$ 179,903	\$ 408,288,284

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

Governmental activities:	
General Government	\$ 305,070
Public Safety	769,154
Public Works	7,502,560
Public Health & Welfare	74,201
Recreation & Culture	548,936
Urban Redevelopment	83,953
Transportation	962,954
Total depreciation expense - governmental activities	\$10,246,828
Business-type activities:	
Airport	2,398,330
Water	2,644,051
Wastewater	2,439,491
SE Cass	-
Storm Sewer	2,376,313
Vector Control	4,271
Solid Waste	727,978
Forestry	81,303
Fergodome	2,952,707
Total depreciation expense - business-type activities	\$13,634,444

**CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

D. COMMITMENTS

Construction

As of December 31, 2005, the City has commitments on various construction contracts totaling approximately \$12,581,400.

Municipal Landfill Closure and Post-Closure Care Costs

The City of Fargo operates a Municipal landfill to service the needs of the community. The Environmental Protection Agency and the State of North Dakota NDCC 23-29.04 regulations and guidelines impact the operations of the landfill.

The present landfill site has been designed to have a total of twenty cells on approximately 120 acres of land. The City has constructed nine cells to-date which vary in size from 4 to 6 acres. The cells are excavated to a depth of 7' on the shallow end and 30' on the deep end. The cells have been designed with a leachate collection system and each cell is lined with a 60 mil synthetic liner. Once cells are filled they are covered with an 18" compacted clay barrier, a 30 mil synthetic liner, a 6" clay layer, and a 6" topsoil layer. Waste material can be stacked to a height of 70'.

Cells one through nine are presently filled to capacity, and cell ten is presently 39% full. Based upon present utilization rates, the remaining capacity of the landfill is estimated at twelve years. The estimated liability for landfill closure and post closure care costs has a balance of \$3,021,503 as of December 31, 2005. This represents an increase of \$165,414 over the prior year balance. The City will recognize the remaining estimated cost of closure and post closure care of \$1,904,563 as the remaining estimated capacity is filled. The estimated total current cost of landfill closure and post closure care is based upon the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2005. However, actual costs may be higher due to inflation, changes in technology, or landfill regulations.

The City is meeting closure and post-closure financial assurances by setting aside \$2 per ton into a reserve fund. This assurance fund was initiated January 1, 1995. Transfers into the assurance fund were discontinued in March, 1998, and notice to that effect was sent to the State of North Dakota Department of Health, Division of Waste Management. The pooled cash and investment balance in the reserve fund totaled \$1,229,612 as of December 31, 2005.

E. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables/payables are used when a fund has a cash deficit. The composition of interfund balances as of December 31, 2005, is as follows:

	RECEIVABLE	PAYABLE
Debt Service	\$ 9,858,311	\$ -
Nonmajor Governmental	1,083,533	-
Water	408,348	-
Infrastructure	-	10,006,543
Nonmajor Governmental	-	1,353,649
INTER-FUND TOTALS	\$ 11,350,192	\$ 11,360,192

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

At December 31, 2005, the Inter-fund advance balances are:

	Funds Advanced	Amount Repaid To-Date	Advance Balance December 31, 2005
General Fund	\$ 2,298,802	\$ 721,305	\$ 1,577,497
Solid Waste Fund	1,200,000	449,370	750,630
Subtotal Baseball Advances	\$3,498,802	\$1,170,675	\$2,328,127
Solid Waste Advance for Law Enforcement Center	800,000	720,000	80,000
Total	\$ 4,298,802	\$ 1,890,675	\$ 2,408,127

Baseball stadium advances will be repaid by future lease revenues generated by the Stadium lease contract with Fargo Baseball, LLC. The terms of the lease agreement provide for collection of lease revenues for private suites and individual seat license fees. Private suite revenues will generate maximum annual revenue of \$204,000.

The Law Enforcement Center advance will be paid back to the Solid Waste Utility, interest free, using future debt service residuals. The Solid Waste Utility has advanced the Capital Project fund \$800,000 for internal financing of the Law Enforcement Center project.

Interfund Transfers:

	Transfer In:								
	Major Funds					Nonmajor Funds			
	General	Debt Service	Infrastructure	Water	Wastewater	Storm Sewer	Governmental	Enterprise	Total
Transfer Out:									
Major Funds:									
General	\$	\$ 364,823	\$ 478,855	\$ 11,900	\$	\$	\$ 3,096,465	\$	\$ 3,971,883
Debt Service	1,271,473		7,417,571				908,421		9,257,465
Infrastructure		1,448,368		5,004,969	2,810,525	4,067,821			13,331,683
Airport	50,004								50,004
Water	2,423,898		2,747,827			73,050	110,004		5,354,877
Wastewater	750,000		2,410,147			73,050			3,233,197
Storm Sewer	129,896		1,308,787						1,438,783
Solid Waste	1,592,820					12,000	120,000		1,724,920
Fargodome	24,898								
Nonmajor Funds:									
Governmental	25,000	384,321	613,487				1,289,998	34,251	2,367,067
Enterprise	188,008						3,998		170,004
Total	\$ 6,434,393	\$ 2,227,312	\$ 15,034,694	\$ 5,018,869	\$ 2,810,525	\$ 4,067,821	\$ 5,069,010	\$ 264,255	\$ 40,899,853

Transfers are made for funding various projects, meeting debt service requirements, and for capital infrastructure. Interest earned on Debt fund residuals and reported as revenue in the Debt fund is periodically transferred to the General fund to be used for operations.

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

F. LEASES

Operating Leases

The City leases building and office facilities under noncancelable operating leases. Total costs for such leases were \$279,881 for the year ended December 31, 2005. The future minimum lease payments for these leases are as follows:

2006	\$ 184,263
2007	120,265
2008	78,361
2009	72,370
	\$455,259

Capital Leases

The City is obligated to the following capital lease agreements:

	Remaining Balance
BUSINESS-TYPE	
FORESTRY ENTERPRISE FUND	
Forestry Equipment	\$ 21,023
SOLID WASTE ENTERPRISE FUND	
Tub Grinder	135,448
Total Business-type	\$ 156,471
GOVERNMENTAL	
E911 Radio Console Upgrade	\$ 218,277
John Deere Graders	380,000
Paver	48,050
Total Governmental	\$ 646,327

The assets acquired through the capital leases are as follows:

	Governmental	Business-type
Asset:		
Machinery & Equipment	\$ 558,184	\$ 431,785
Less: Accumulated depreciation	(70,080)	(147,835)
Total	\$ 488,124	\$ 283,950

Future Minimum Payments under the above capital lease agreements at December 31, 2005 are shown below:

	Governmental	Business-type
2006	\$ 183,514	\$ 83,293
2007	113,710	71,197
2008	113,710	-
2009	113,710	-
2010	117,885	-
Thereafter	127,420	-
Less amount representing interest	(103,621)	(8,019)
Principal balance remaining	\$ 646,328	\$ 156,471

**CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

Land & Facility Leases

The City of Fargo executed a long-term lease agreement with North Dakota State University (NDSU) for the FargoDome site. NDSU is leasing the FargoDome site to the City, and is in turn leasing 40 days use of the facility from the City. The site lease agreement, which runs from January 1990 to December 2009, requires payments of base rent of \$1 per year.

NDSU had agreed to pay annual lease rental fees of \$193,400 for 1999 – 2003. During 2002 this lease was renegotiated, and NDSU will pay annual lease rental fees of \$120,000 for 2003 – 2007. During 2005, an additional lease agreement was entered into with the NDSU Development Foundation. The agreement is for use of approximately 23,461 square feet of space within the FargoDome for 10 years. After the 10 year period there is an option to renew for 10 additional years at a 5% increase in rent. The rental fees for 2005-2015 will be \$57,500. They also share a percentage of the concession and novelty sales proceeds for NDSU events.

The asset leased to NDSU is as follows:

	Business-type
Asset:	
FargoDome	\$ 56,848,778
Less: Accumulated depreciation	<u>(15,471,743)</u>
Total	<u>\$ 41,377,035</u>

The future minimum lease payments for these leases are as follows:

2006	\$177,500
2007	177,500
2008	57,500
2009	57,500
2010	57,500
Thereafter	<u>287,500</u>
	<u>\$815,000</u>

Baseball Stadium Lease

The City of Fargo constructed a baseball stadium in 1996, and as lessor, has leased the stadium to Fargo Baseball, LLC and North Dakota State University under separate lease agreements.

The Fargo Baseball, LLC, as lessee, has leased the stadium for exclusive lease from May 29th of each year through the end of each baseball season. The lessee will pay the City funds raised from private suite and VIP seat licenses. A 15% commission from these revenue sources will be paid to the lessee by the City according to the lease agreement. The lessee retains the exclusive rights to the concession operations during the lease period. The lessee has responsibility for normal maintenance of the stadium and the lessor has responsibility for major structural improvements, maintenance and insurance.

North Dakota State University, as another lessee, has leased the stadium for an exclusive period from March 21st to May 29th of each season. NDSU has exclusive rights to the parking fees and concessions operations. The lease agreement expires in 2009, and is conditioned on the use of the premises as a stadium for professional baseball. After the city has been repaid all the money it advanced for initial construction of the stadium, or twenty years after the beginning date of the lease, whichever occurs first, the lease will automatically terminate if the premises are not used by a professional baseball team for 24 consecutive months, or have not been used for some other mutually agreeable purpose. Upon termination of the lease, the stadium and all fixtures will belong to NDSU with no further compensation due to the City. Because future payments are not known, a schedule of future minimum lease payments is not presented.

**CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

The leased asset is as follows:

	Governmental
Asset:	
Baseball Stadium	\$ 6,136,513
Less: Accumulated depreciation	<u>(834,027)</u>
Total	<u>\$ 4,302,486</u>

G. LONG-TERM DEBT

The following is a summary of changes in long-term debt of the City for the year ended December 31, 2005:

	Balance 01/01/05	Additions	Deletions	Balance 12/31/05	Due within 1 year
GOVERNMENTAL ACTIVITIES					
Improvement Bonds	\$ 177,510,425	\$ 31,065,000	\$ 13,727,820	\$ 195,767,805	\$ 25,831,829
General Obligation Bonds	60,415	-	24,838	35,777	26,823
Gross Revenue Bonds	7,508,195	-	398,167	7,112,028	408,071
Sales Tax Revenue Bonds	11,150,000	20,260,000	1,160,000	30,250,000	1,215,000
Notes Payable	3,281,812	1,700,000	1,498,650	3,483,162	330,000
Capital Leases	505,008	380,000	236,681	646,327	134,477
Accumulated Unpaid Vacation	2,012,420	2,086,583	2,012,420	2,086,583	2,086,583
TOTAL	<u>\$ 202,028,276</u>	<u>58,411,583</u>	<u>19,058,176</u>	<u>\$ 238,381,682</u>	<u>\$ 28,832,783</u>

	Balance 01/01/05	Additions	Deletions	Balance 12/31/05	Due within 1 year
BUSINESS-TYPE ACTIVITIES					
Revenue Bonds	\$ 65,280,000	\$ -	\$ 6,720,000	\$ 58,570,000	\$ 7,015,000
Notes Payable - SRLF	18,119,193	-	1,255,000	16,884,193	1,290,000
Capital Leases	398,557	-	240,088	158,471	87,815
Special Assessments	3,852,139	630,513	274,964	4,207,688	321,822
Accumulated Unpaid Vacation	438,827	461,844	438,827	461,844	461,844
TOTAL	<u>\$ 88,098,716</u>	<u>1,092,357</u>	<u>8,928,877</u>	<u>\$ 80,260,196</u>	<u>\$ 9,176,081</u>

The unamortized economic loss resulting from bond refinancing in previous years is \$856,193.

The General Fund has typically been used in prior years to liquidate the bulk of the liability for compensated absences. Smaller amounts have typically been liquidated by Community Development, HUD HOME, HUD HOME Participating Jurisdiction, and Parking Authority Special Revenue Funds.

**CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

BONDS PAYABLE

A summary of bonds payable is shown below. A detailed listing of the individual bond issues is continued at the end of Note G.

	Original Interest Rates	Original Issue Amounts	Balance Remaining
GOVERNMENTAL ACTIVITIES			
Improvement Bonds			
(Special Assessment Debt)	1.50 - 5.50 %	\$ 231,216,323	\$ 195,767,805
General Obligation Tax Increment Bonds	8.875%	200,000	35,777
Gross Revenue Bonds	2.5 - 6.625 %	8,945,000	7,112,028
Sales Tax Revenue Bonds	5.00 - 6.00%	35,520,000	30,250,000
TOTAL		\$ 275,881,323	\$ 233,165,610
BUSINESS-TYPE ACTIVITIES			
Water Department Revenue Bond	4.75 - 5.5 %	\$ 47,815,000	\$ 38,260,000
Fargodome Authority Sales Tax Revenue Bonds (3 issues)	2.55 - 5.2 %	41,395,000	16,430,000
Airport Revenue Bonds	2.00 - 3.55 %	6,470,000	5,860,000
TOTAL		\$ 95,680,000	\$ 58,570,000

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

General obligation bonds are paid through tax revenues generated by tax increment districts.

Special Assessment bonds are paid directly from debt service sinking funds. Special assessments are certified annually in amounts sufficient to pay the debt service requirement. Whenever all special assessments appropriated and collected for a special improvement district are insufficient to pay principal and interest then due on the special improvement bonds issued against such improvement district, the City of Fargo is to levy a tax upon all the taxable property in the City for the payment of such deficiency.

The City of Fargo is subject to the North Dakota Century Code, which limits the amount of general obligation indebtedness (exclusive of revenue-producing utility debt, special assessment debt, tax increment debt, and Housing Authority debt) that the City may have outstanding to 5% of assessed valuation. On December 31, 2005, the statutory limit for the City was \$129,270,800 providing a debt margin of \$120,566,603. This calculation can be found on page 119 of the statistical section.

CROSSOVER REFUNDING OF DEBT

During 2005, the City issued \$10,875,000, Series 2005B, refunding improvement bonds and paid \$3,877,375 of debt service funds to provide resources to purchase U.S. Treasury State and Local Government Series Securities that were placed in an irrevocable escrow account for the purpose of generating resources for debt service payments on these bonds until the crossover dates. At the first crossover date of May 1, 2006, escrow funds will be used to pay off the \$3,325,000 principal balance of the 1997A improvement bonds, and the \$3,855,000 principal balance of the 1998A improvement bonds, all of which are being called for early redemption. At the second crossover date of May 1, 2008, escrow funds will be used to pay off the \$7,750,000 principal balance of the 2000A improvement bonds, which will be called for early redemption. The reacquisition price is the same as the net carrying amount of the old debt. This refunding was undertaken to reduce total debt service payments by \$1,908,305 and resulted in an economic gain of \$642,670.

**CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

On May 1, 2005, the City called the remaining maturities of the 1996C improvement bonds in the amount of \$4,010,000, which were prepaid with funds held by the escrow agent that were generated from the Series 2004B refunding improvement bonds and \$2,905,000 of debt service funds. The 2004B refunding improvement bonds have a second crossover date of June 1, 2006, at which point escrow funds will be used to pay off the \$8,055,000 principal balance of 1997B improvement bonds.

PREVIOUS YEARS DEFEASANCE OF DEBT

In prior years, the City defeased certain general obligation and other bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and liabilities for the defeased bonds are not included in the City's financial statements. As of December 31, 2005, \$79,700,000 of bonds outstanding are considered to be defeased.

NOTES PAYABLE

The City obtained financing from the State of North Dakota's State Revolving Loan Fund (SRLF) to finance expansion of the wastewater treatment facility, a portion of the new water treatment plant, sewer hook-up for Relie's Acres, and a storm sewer system.

In September 2002 the City of Fargo established a Fannie Mae General Obligation Loan Product \$2.7 million revolving line of credit. That line was renewed and increased to \$4 million in September 2005. The purpose of this line of credit is to provide construction and/or bridge financing for City-initiated housing projects and redevelopment of deteriorated areas. This line of credit has a five-year maximum repayment term, and is backed with a pledge of the City's general obligation authority. The funds are available at a rate of 85 basis points over the 1 month LIBOR rate, and will be adjusted quarterly over the term of the loan.

Details relative to the outstanding notes payable are shown below:

TYPE AND ISSUE	ISSUE DATE	FINAL MATURE DATE	INTEREST RATES	ORIGINAL ISSUE	PRINCIPAL OUTSTANDING 12/31/05
GOVERNMENTAL ACTIVITIES					
SRLF Storm Sewer Project		09/01/20	2.50%	\$ 1,816,295	\$ 1,440,000
Fannie Mae Notes		Variable	Variable	2,700,000	2,043,162
TOTAL GOVERNMENTAL ACTIVITIES				\$ 4,516,295	\$ 3,483,162
BUSINESS-TYPE ACTIVITIES					
SRLF Sewer Plant Expansion Phase I		10/01/13	3.00%	\$ 3,581,559	\$ 1,686,427
SRLF Sewer Plant Expansion Phase II		10/01/14	2.50%	7,770,000	3,830,000
SRLF Water Plant Expansion Phase III		09/01/17	2.50%	2,850,429	1,795,429
SRLF Sewer Plant Expansion Phase IV		09/01/16	2.50%	1,482,337	1,042,337
SRLF Sewer Plant Expansion Phase VI		09/01/19	2.50%	10,268,793	8,360,000
SRLF Relie's Acres Sewer Project		09/01/19	2.50%	210,000	150,000
TOTAL BUSINESS-TYPE ACTIVITIES				\$ 26,141,118	\$ 16,664,193
TOTAL NOTES PAYABLE				\$ 30,657,413	\$ 20,347,355

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

The annual requirements to amortize long-term debt for the next five years (excluding accumulated unpaid vacation pay) as of December 31, 2005, are shown in the table below:

GOVERNMENTAL ACTIVITIES

	Special Assessment Bonds		Other General Obligation Debt		Gross Revenue Bonds		Sales Tax Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	25,631,829	8,034,854	28,823	3,175	408,071	328,888	1,218,000	1,458,805	330,000	129,034
2007	10,167,472	7,173,803	8,954	795	430,022	309,043	4,415,000	1,459,880	1,873,182	87,801
2008	10,057,472	6,804,713	-	-	447,023	289,847	4,870,000	1,238,930	85,000	32,000
2009	10,817,472	6,410,545	-	-	469,074	289,422	4,735,000	1,010,430	85,000	29,875
2010	10,560,280	5,990,926	-	-	351,175	247,816	4,910,000	773,880	90,800	27,750
2011-2015	48,418,280	23,780,353	-	-	1,999,290	1,007,888	10,408,000	785,240	480,000	104,126
2016-2020	32,190,000	14,525,084	-	-	2,177,373	817,508	-	-	540,000	40,874
2021-2025	25,570,000	8,370,734	-	-	830,000	44,314	-	-	-	-
2026-2030	22,265,000	2,202,383	-	-	-	-	-	-	-	-
	195,787,806	83,183,396	35,777	3,070	7,112,026	3,012,626	30,250,000	6,734,565	3,483,182	451,480

BUSINESS-TYPE ACTIVITIES

	Revenue Bonds		Notes Payable		Special Assessments	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	7,015,000	2,723,849	1,290,000	429,844	321,822	255,852
2007	7,385,000	2,361,515	1,325,000	398,844	320,379	244,873
2008	7,710,000	2,011,931	1,350,000	382,544	332,061	224,222
2009	8,520,000	1,828,071	1,380,000	327,784	345,160	202,808
2010	3,415,000	1,394,623	1,430,000	292,019	359,832	180,481
2011-2015	18,905,000	4,338,695	6,718,000	897,198	1,033,087	631,535
2016-2020	7,640,000	398,417	3,381,193	200,047	683,443	342,445
2021-2025	-	-	-	-	422,324	190,422
2026-2030	-	-	-	-	409,880	59,297
	58,570,000	14,874,901	18,884,193	2,808,068	4,207,898	2,331,723

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

TYPE AND ISSUE	ISSUE DATE	FINAL MATURE DATE	INTEREST RATES	ORIGINAL ISSUE	PRINCIPAL
					OUTSTANDING 12/31/2005

GOVERNMENTAL ACTIVITIES

SPECIAL ASSESSMENT BONDS					
1997 Series A	08/01/97	05/01/13	4.40-5.05	\$ 4,960,000	\$ 3,815,000
1997 Series B	11/01/97	08/01/15	4.35-5.00	15,560,000	8,960,000
1998 Series A	03/01/98	05/01/18	4.25-5.15	6,275,000	3,985,000
1998 Series B	03/01/98	05/01/11	4.25-5.00	5,710,000	3,175,000
1998 Series C	12/01/98	05/01/16	3.80-4.80	3,675,000	2,185,000
1999 Series A	09/01/99	05/01/22	4.30-5.50	17,520,000	12,125,000
2000 Series A	07/01/00	05/01/18	5.00-5.50	13,955,000	10,230,000
2000 Series B	12/01/00	05/01/18	4.375-5.00	4,060,000	2,965,000
2001 Series A	09/01/01	05/01/19	3.875-4.90	15,535,000	11,975,000
2001 Series B	12/01/01	05/01/19	4.25-5.25	8,240,000	7,005,000
2002 Series A	08/01/02	05/01/27	3.00-5.125	11,190,000	10,370,000
2003 Series A	03/01/03	05/01/28	2.375-4.70	15,250,000	14,425,000
2003 Series B	03/01/03	05/01/11	2.00-3.50	2,915,000	2,025,000
2003 Series C	03/01/03	05/01/14	2.00-4.00	3,500,000	3,085,000
2003 Series D	09/01/03	05/01/28	3.00-5.00	12,525,000	11,940,000
2004 Series A	04/01/04	05/01/09	1.50-2.20	1,165,000	920,000
2004 Series B	04/01/04	06/01/15	2.25-3.375	9,300,000	9,300,000
2004 Series C	05/01/04	05/01/29	3.00-4.75	22,280,000	22,045,000
2004 Series E	11/01/04	05/01/29	3.00-4.50	23,185,000	22,440,000
2005 Series A	12/15/05	05/01/30	4.00-4.70	21,310,000	21,310,000
2005 Series B	12/15/05	05/01/18	4.00-4.25	10,675,000	10,675,000
				\$ 228,785,000	\$ 194,945,000

SIDEWALK CONSTRUCTION

1995 Series E	12/28/95	07/01/06	5.30	\$ 346,604	\$ 44,357
1997	11/01/97	08/01/07	4.75 - 4.85	680,000	110,000
1999	05/18/99	01/01/09	5.19	771,919	308,767
2000	09/19/00	01/01/10	5.89	319,950	159,995
2001	08/15/01	01/01/11	5.48	332,810	199,686
				\$ 2,431,323	\$ 822,805

GENERAL OBLIGATION DEBT

Great Northern Tax Increment	05/28/96	04/01/07	8.875	\$ 200,000	\$ 35,777
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GROSS REVENUE DEBT

Convention Bureau	10/01/92	10/01/99	6.00-6.50	\$ 1,425,000	\$ 470,000
2001 Parking Revenue	05/15/01	11/01/21	4.00-6.825	1,280,000	1,130,000
2002 Lease Revenue	05/01/02	05/01/22	3.50-5.10	4,930,000	4,435,000
2002 Housing Revenue	04/15/02	04/15/17	2.50	1,300,000	1,077,028
				\$ 8,945,000	\$ 7,112,028

SALES TAX INFRASTRUCTURE BONDS

1999	11/15/99	07/01/12	6.00-8.00	\$ 15,260,000	\$ 9,990,000
2005	07/18/05	07/01/12	5.00	20,260,000	20,260,000
				\$ 35,520,000	\$ 30,250,000
TOTAL GOVERNMENTAL ACTIVITIES				\$ 275,881,323	\$ 233,165,810

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

BUSINESS-TYPE ACTIVITIES

FUND	ISSUANCE DATE	REDEMPTION DATE	COUPON RATE	2005	2004
WATER FUND					
Revenue Bonds of 1997	10/01/97	01/01/17	4.75-5.50	47,815,000	36,260,000
AIRPORT FUND					
Revenue Bonds of 2004	10/01/04	09/01/14	2.00-3.55	6,470,000	5,860,000
FARGODOME					
1995 Sales Tax Revenue	07/15/95	01/01/09	5.00-5.20	31,055,000	10,025,000
2001 Sales Tax Revenue	10/01/01	01/01/06	4.00	4,600,000	1,225,000
2002 Sales Tax Revenue	07/01/02	01/01/09	2.55-4.72	5,740,000	5,180,000
				<u>41,395,000</u>	<u>16,430,000</u>
				<u>95,680,000</u>	<u>58,570,000</u>
TOTAL BUSINESS-TYPE ACTIVITIES				\$ 327,770,172	\$ 291,735,610
TOTAL BONDED INDEBTEDNESS					

H. DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. A large portion of the amount deferred relates to special assessments receivable which will be used to pay off refunding improvement and sidewalk bonds. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue in the governmental funds were as follows:

	Unavailable	Unearned	Total
Delinquent property taxes receivable	\$ 298,939	\$ -	\$ 298,939
Special assessments receivable	152,783,077	-	152,783,077
Interest receivable and interest received	271,801	214,514	486,315
Grant resources held and grant items receivable	76,345	163,818	240,163
Loans/contracts/accounts receivable	4,475,113	4,303,488	8,778,601
Total deferred/unearned revenue for governmental funds	\$ 157,905,275	\$ 4,681,800	\$ 162,587,075

I. INDUSTRIAL REVENUE BONDS

From time to time, the City has approved issuance of Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2005, there were forty-eight series of Industrial Revenue Bonds outstanding; the aggregate principal amount payable is unknown. Neither the State of North Dakota nor the City of Fargo have a central repository. The only requirement for this type of issue is to request the amount needed for City approval, most times this amount is in excess of the actual amount issued. When completely paid or called they must notify the City of this event.

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

5. OTHER NOTES

A. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruptions, errors and omissions; job related illness or injuries to employees; acts of God, and losses resulting from providing accident, health, dental and medical benefits to employees and retirees and their dependents or beneficiaries.

The City maintains two self-insurance internal service funds that are used to administer the risks of losses associated with the various exposures.

HEALTH SELF INSURANCE

The City maintains a self-insured health plan which offers medical benefits to employees and retirees. Benefits associated with this plan are funded by employer, employee and retiree contributions. Retirees and COBRA employees pay their own premiums; the City does not fund a benefit for this group. An outside third party administrator is used for claims processing, employee education and assistance with plan design. Stop loss insurance is purchased to limit catastrophic losses. The stop loss deductible is currently \$140,000 specific per participant with an aggregate specific deductible of \$140,000 and a plan reimbursement maximum of \$1,000,000. There have been no significant reductions to insurance coverage in the past year. There have been no insurance settlements in excess of the City's stop loss insurance in the past three years.

An incurred but not reported (IBNR) liability accrual is estimated by the third party administrator and is recorded in the financial statements. The estimated IBNR amount is \$394,000 as of December 31, 2005. A summary of the claim reserve liabilities and related claim payments is shown below:

	BEGINNING FISCAL YEAR LIABILITY	CURRENT-YEAR CLAIMS AND CHANGES IN ESTIMATES	CLAIM PAYMENTS	BALANCE AT FISCAL YEAR-END
2005	\$ 380,000	\$3,931,062	\$ 3,917,062	\$ 394,000
2004	320,000	2,966,372	2,906,372	380,000
2003	600,000	2,818,998	3,095,998	320,000

LIABILITY SELF INSURANCE

The City maintains a self-insured liability plan to account for automobile and general liabilities incurred by the city. The City retains the risk for these categories up to the statutory limits established by the North Dakota State Century Code Section 32.12,1-3. Under these provisions the City retains the first \$250,000 claim per person and \$500,000 maximum exposure. The City Attorney's Office and third party claims administrator is responsible for the settlement and final determination for the payment of claims. The City implemented an actuarial approach to projecting claims for budget purposes effective 1/1/2000. All operating units of the City are charged a standard self-insured risk amount based upon their own loss development factors. This will provide adequate resources to cover anticipated losses for auto and general liabilities. There have been no significant reductions to insurance coverage in the past year. There have been no insurance settlements in excess of the City's vehicle coverage in the past three years.

A claims reserve has been calculated by our risk consultant in the amount of \$654,867. The City is using a discounted claims projection approach. A discount rate of 4% was used, and the nonaccounted amount is \$712,519. A summary of claim reserve liabilities and related claim payments is shown below:

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

	BEGINNING FISCAL YEAR LIABILITY	CURRENT-YEAR CLAIMS AND CHANGES IN ESTIMATES	CLAIM PAYMENTS	BALANCE AT FISCAL YEAR- END
2005	\$ 849,434	\$ 164,045	\$ 358,612	\$ 654,867
2004	850,596	233,458	234,820	849,434
2003	850,596	372,379	372,379	850,596

INSURED RISKS

The City purchases commercial insurance for the risk of damage to or destruction of buildings and equipment. Present coverage is provided by the State Fire and Tornado Fund as our primary property insurance carrier. Other commercial insurance is also purchased for boiler, specialty equipment floaters, and aircraft liability coverages. A schedule of insurance in force is included in the supplementary information portions of this report. There have been no significant reductions to insurance coverage in the past year. There have been no insurance settlements in excess of the City's coverage in the past three years.

B. PENSION PLANS

The City of Fargo contributes to three separate pension plans which cover substantially all full-time employees. They are the Employees' Pension Plan, Police Pension Plan, and the Fargo Firefighters' Relief Association Retirement Plan. All of these plans are defined benefit pension systems. The Fargo Firefighters' Relief Association Retirement Plan is a separate legal entity and is not administered by the City. This plan has not been included in the reporting entity and is not shown in the accompanying financial statements.

Summary of Significant Accounting Policies

Basis of Accounting - The City's financial statements are prepared using the accrual basis of accounting. Employer and plan member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments - Investments are reported at fair value. Certificates of deposit are reported at cost, which approximates fair value. Securities traded on national or international exchange are valued at the last reported sales price at current exchange rates. Life insurance is reported at cash savings value.

Plan Description, Contribution and Reserves Information

Employees' Pension Plan
Plan Description - The City of Fargo Employees' Pension plan is a cost-sharing multiple employer public employee retirement system. The plan is integrated with social security and therefore, is considered a supplemental plan. All full-time City employees not covered by another plan are eligible for participation in the Employees' Pension Plan.

Membership in the plan on January 1, 2005 (date of most recent actuarial study) is as follows:

Retirees and beneficiaries	168
Terminated vested and deferred beneficiaries	14
Active plan members	488

Number of participating employers: 2

Employees may be eligible for early, normal or disability retirement. The plan permits early retirements at age 55 with at least 5 years of service. Normal retirement age for full benefits is

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

age 62 or when an employee's age plus their years of service as a full time city employee reaches a sum of 90.

Employee death benefits of \$20,000 are paid to a designated beneficiary for a participant who dies prior to retirement. If a participant dies after retirement, the designated beneficiary will receive a \$3,000 death benefit.

Participants are fully vested in the plan benefit after five years of full-time employment. Non-vested participants are eligible for a full refund of their contributions plus interest at 5%. Upon termination of employment prior to retirement age, vested participants may elect a deferred vested benefit to begin between ages 55-62 or a lump sum payment. Lump sum settlements are allowable up to age 55. Lump sum payments are computed as the greater of the actuarial value of plan assets or the "cash balance" in their plan account. The cash balance consists of the employee contributions, plus one-half of the employer's contribution since January 1, 1990, plus interest at 5%.

The City makes a matching contribution of \$25 per month to a deferred compensation plan on behalf of pension plan members who also contribute a minimum of \$25 per month to the deferred compensation plan.

Benefit provisions are established under the authority of the City Commission.

Contributions - Participating employees contribute to the plan at a rate of 4.5% of salary and the employers contribute at a rate of 6.0% of regular salary for all employees. The contribution rates are established by local ordinance, and the employers contribution rate is set by the City Commission. Costs of administering the plan are financed by the employer and employee contributions, and by the Plan's investment earnings.

Reserves - The net assets at December 31, 2005 are \$27,539,782 and the entire amount is reserved for employee pension benefits.

The Employees' Pension Plan is included in the City of Fargo financial statements. It does not issue a stand-alone report, nor is it included in the report of any other entity.

Police Pension Plan
Plan Description - The Police Pension Plan is a single employer public employee retirement system. The plan is not integrated with Social Security and has elected to make contributions on a pre-tax basis as of January 1, 1988.

All full-time employees of the Police department, except the Chief of Police, are required to enroll in the plan.

Membership on January 1, 2006, (date of most recent actuarial study) in the plan is as follows:

Retirees and beneficiaries currently receiving pension payments	67
Fully vested members contributing	60
Non vested members contributing	82
Terminated vested employees	8

Number of participating employers: 1

Plan participants are eligible for normal retirement benefits after age 50 with 10 years of service under 2.85% per year of service formula, plus \$8.33 per year of service, maximum \$250. This is applicable to all new members who participate on or after August 1, 1990. Members who first participated prior to August 1, 1990, can elect this retirement age formula or remain under the Rule of 88, 60% formula.

The Plan purchases life insurance for active employees, the proceeds of which are paid to a designated beneficiary in the amount of \$65,000. The designated beneficiary will also receive the

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

participant's employee contribution plus interest earned on contributions at 6% per annum. Interest is accrued on contributions starting January 1, 1970. Non-active participants death benefit is \$40,000 for retirements after September 1985, and \$25,000 for retirements between July 25, 1983 and September 30, 1985.

Participants are fully vested in plan benefits after 10 years of service. Upon termination of employment prior to retirement age, participants may elect a deferred vested benefit to begin at the early retirement date, or may elect a refund of all employee contributions plus interest at 6% per annum, in lieu of a deferred vested benefit.

Benefit provisions are established under the authority of the City Commission.

Contributions. Employees contribute at a rate of 8.0% of salary. The City contributes at a rate of 13.65% of salary for members employed prior to April 1, 1986, and a rate of 12.20% of salary for members employed after April 1, 1986. Costs of administering the plan are financed by the employer and employee contributions, and by the Plan's investment earnings.

Reserve. The net assets at December 31, 2005 are \$31,047,481 and the entire amount is reserved for employee pension benefits.

The Police Pension Plan is included in the City of Fargo financial statements. It does not issue a stand-alone report, nor is it included in the report of any other entity.

Fargo Firefighters' Relief Association Retirement Plan

Plan Description. The Fargo Firefighters' Relief Association Retirement Plan is a single employer public employee retirement system governed by Section 18-11 of the North Dakota State Century Code. The Association is organized, operated, and maintained in accordance with its own articles of incorporation and by-laws. The plan is not integrated with social security and has elected to make employee contributions on a pre-tax basis as of January 1, 1998.

All full time firefighters are eligible members, however participation is voluntary.

Membership in the plan as of June 1, 2004 (date of most recent actuarial valuation) is as follows:

Retirees and beneficiaries receiving pension benefits	76
Fully vested participants contributing	53
Non vested participants contributing	35

Number of participating employers: 1

Plan participants are eligible for normal retirement at age 55 with 10 years of eligible service. Effective August 1, 2001, the benefit formula was improved to provide 2.50% of earnings times years of service. The result is taken times the salary of a first class firefighter to determine the monthly pension benefit amount. A monthly disability service pension benefit is also provided under an alternative formula along with family death benefits.

In lieu of any other benefits from the plan, a member may request a lump sum payment of employee contributions without interest.

Benefit provisions and changes to benefit formulas are established under the authority of the plan's Board of Directors.

Contributions. Participating employees contribute to the plan at a rate of 8.4% of salary and the City contributes at a rate of 13.65% for pre-1986 employees and 12.20% for post 1986 employees covered by Medicare. Costs of administering the plan are financed by the employer and employee contributions, and by the Plan's investment earnings.

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

The City is legally obligated to contribute to the plan based upon a certain formula established by State law. The City has chosen to fund this obligation by paying the same percentage of pay as other defined benefit plans which exceeded the legal obligation by \$26,484.

The Fargo Firefighters' Relief Association Retirement Plan is not included in the City of Fargo financial statements, nor is it included in the report of any other entity. The Firefighters' Relief Association issues a stand-alone, publicly available financial report. This report can be obtained by contacting: City of Fargo Fire Department Headquarters, 627 N.P. Avenue, Fargo, ND 58102, Attention: Secretary/Treasurer of the Fargo Firefighters Pension Association.

SCHEDULES OF FUNDING PROGRESS (GASB's 25 & 27)

EMPLOYEES' PENSION PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
04/01/97	\$16,580,254	\$19,809,285	\$3,229,031	83.7%	\$10,718,136	30.1%
01/01/99	20,627,311	22,788,324	2,159,013	90.5%	12,173,649	17.8%
01/01/01	22,431,456	27,817,109	5,385,653	80.6%	13,704,295	39.3%
01/01/03	19,946,931	32,403,936	12,455,005	61.6%	15,508,120	80.3%
01/01/05	25,817,436	35,828,009	10,010,573	72.1%	18,727,768	53.6%

Prior to the actuarial valuation dated 04/01/97, the Employees' Pension Plan used the aggregate actuarial cost method which does not identify or separately amortize unfunded liabilities. Therefore, no prior years are presented in the above Schedule of Funding Progress.

For the Employees' Pension Plan, contributions for the years ended December 31, 2005, 2004 and 2003 were \$2,025,101, \$1,884,415, and \$1,801,589, respectively, which were 80%, 83%, and 71%, respectively, of the required contributions for each year. The annual pension cost for the years ended December 31, 2005, 2004, and 2003 were \$2,280,929, \$2,301,185, and \$2,332,702, respectively. The percentage funded was 87%, 82%, and 69% for the years 2005, 2004, and 2003, respectively. The Net Pension Obligation (NPO) at the end of each year was negative (an asset).

Annual Pension Cost Components

Year Ended December 31	Annual Required Contribution (ARC)	Interest on NPO	ARC Adjustment	Change in NPO	NPO Balance
1999	\$ 874,579	\$(85,606)	\$(139,368)	\$ (95,167)	\$(1,236,583)
2000	874,579	(92,744)	(141,235)	(315,683)	(1,552,268)
2001	1,337,830	(116,420)	(177,868)	10,588	(1,541,878)
2002	1,337,830	(115,826)	(178,652)	(99,902)	(1,641,580)
2003	2,262,592	(123,119)	(193,229)	737,961	(903,619)
2004	2,262,592	(87,771)	(108,384)	416,788	(486,851)
2005	2,280,278	(38,514)	(57,185)	253,828	(231,023)

POLICE PENSION PLAN

The Police Pension Plan uses the aggregate actuarial cost method which does not identify or separately amortize unfunded liabilities. Therefore, no Schedule of Funding Progress is presented.

For the Police Pension Plan, employer contributions for the years ended December 31, 2005, 2004 and 2003 were \$839,530, \$770,880 and \$680,804, respectively, which were 117%, 128%, and 115%, respectively, of the required contributions for each year. The annual pension cost for

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

the years ended December 31, 2005, 2004 and 2003 was \$730,363, \$623,438 and \$602,503, respectively. The percentage funded was 100% or more for each year. The Net Pension Obligation (NPO) at the end of each year was negative (an asset).

Annual Pension Cost Components

Year Ended 12/31	Annual Required Contribution (ARC)	Interest on NPO	ARC Adjustment	Change in NPO	NPO Balance
1998	\$ 589,856	\$ (6,012)	\$ (6,893)	\$ (9,388)	\$ (89,549)
2000	347,853	(6,716)	(7,700)	(292,210)	(381,759)
2001	419,300	(28,632)	(32,825)	(251,327)	(633,086)
2002	415,746	(47,481)	(54,436)	(269,343)	(902,429)
2003	592,591	(67,692)	(77,595)	(78,300)	(980,729)
2004	612,665	(73,555)	(84,328)	(147,422)	(1,128,151)
2005	717,971	(84,611)	(97,004)	(109,167)	(1,237,318)

FARGO FIREFIGHTERS' RELIEF ASSOCIATION RETIREMENT PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAA) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAA as a Percentage of Covered Payroll (b-a/c)
01/01/97 (1)	\$ 9,629,455	\$12,720,395	\$3,091,940	75.7%	\$2,799,480	110.4%
01/01/98 (2)	11,188,822	13,977,102	2,788,280	80.1%	3,012,024	92.6%
01/01/99 (2)	12,981,409	15,936,307	2,954,898	81.5%	3,093,898	95.5%
01/01/00 (2)	13,981,204	16,705,751	2,724,547	83.7%	3,217,444	84.7%
05/01/00 (2)	14,455,282	16,947,114	2,491,832	85.3%	3,209,112	77.6%
06/01/02 (2)	15,468,405	20,753,134	5,284,729	74.5%	3,467,994	152.4%
06/01/04 (2)	15,770,498	22,296,992	6,526,494	70.7%	4,103,457	159.0%

- (1) Revised to reflect audited financial statements.
(2) Revised plan provisions and/or changed actuarial assumptions.

For the Fargo Firefighters' Relief Association Retirement Plan, employer contributions for the years ended May 31, 2005, 2004 and 2003 were \$549,528, \$448,903 and \$395,374, respectively, which were 90%, 74%, and 126%, respectively, of the required contributions for each year. The annual pension cost for the years ended May 31, 2005, 2004 and 2003, was \$586,007, \$566,007 and \$281,424, respectively. The percentage funded was 94%, 77%, and 136% for the years 2005, 2004, and 2003, respectively. The Net Pension Obligation (NPO) at the end of each year was negative (an asset).

Annual Pension Cost Components

Year Ended	Annual Required Contribution (ARC)	Interest on NPO	ARC Adjustment	Change in NPO	NPO Balance
12/31/1997	\$ 244,384	-	-	\$(124,246)	\$(124,246)
12/31/1998	224,361	(9,629)	(6,012)	(167,831)	(292,079)
12/31/1999	288,651	(22,636)	(14,305)	(121,810)	(413,889)
5/31/2000*	115,478	(13,359)	(9,551)	(58,222)	(472,311)
5/31/2001	280,982	(38,604)	(22,810)	(147,700)	(620,011)
5/31/2002	312,340	(48,051)	(30,268)	(132,804)	(752,815)
5/31/2003	312,340	(58,328)	(37,412)	(103,950)	(856,565)
5/31/2004	609,144	(66,384)	(43,247)	137,104	(719,461)
5/31/2005	609,144	(66,384)	(43,247)	137,104	(719,461)

* Prorated for short (five month) plan year.

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

SCHEDULES OF EMPLOYER CONTRIBUTIONS (GASB 25)

Year Ended	CITY EMPLOYEES' PENSION		POLICE PENSION		FIREFIGHTERS' RELIEF ASSOCIATION	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
1986	\$402,037	97%				
1987	402,037	137%	\$303,107	100%		
1988	372,694	145%	312,466	102%		
1989	372,694	144%	316,498	102%		
1990	450,990	131%	336,788	103%		
1991	450,990	123%	350,817	101%		
1992	671,516	107%	387,847	98%		
1993	671,516	110%	410,419	98%		
1994	664,881	115%	432,051	94%		
1995	664,881	121%	465,575	94%		
1996	791,327	108%	425,114	109%	\$244,364	157%
1997	791,327	117%	477,505	105%	224,361	173%
1998	757,008	123%	511,845	112%	266,651	139%
1999	874,579	118%	589,858	102%	115,478	147%
2000	874,579	142%	347,853	184%	280,982	148%
2001	1,337,830	104%	419,300	168%	312,340	138%
2002	1,337,830	112%	415,746	151%	312,340	126%
2003	2,262,592	71%	592,591	115%	609,144	74%
2004	2,262,592	83%	612,665	126%	609,144	90%
2005	2,262,278	90%	717,971	117%		

SIGNIFICANT ACTUARIAL ASSUMPTIONS

The information presented in the above schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	City Employees'	Police	Firefighters'
Valuation Date	01/01/05	1/01/06	6/01/04
Actuarial Cost Method	Entry Age Normal Method	Aggregate Method	Entry Age Normal Method
Amortization Method	Level Percent	N/A*	Level Percent
Amortization Period	Closed	N/A*	Closed
Remaining Amortization Period	14, 11, 10, 13, 20, 15**	N/A*	33
Asset Valuation Method	Market Value plus contributions receivable less benefits payable	Market Value	Five Year Smoothed Market Value
Assumed rate of return on investments	7.5%	7.5%	7.75%
Inflation Rate	3.0%	3.0%	4.0%
Projected salary increases	3.5%	4.0%	3.0% & 5.0%***

* The aggregate actuarial cost method does not identify or separately amortize unfunded liabilities.
** The method of amortizing the unfunded liability is a twenty-year level percent of pay amortization for the 1999 unfunded liability (14 years remaining) and plan amendments (remaining years are 16 for 2001 and 20 for 2005) along with a fifteen year level percent of pay amortization for actuarial gains and losses (remaining years are 11 for 2001, 13 for 2003 and 15 for 2005).
*** First class firefighter salaries are assumed to increase 3.00% per annum. Officers or members of higher rank salaries are assumed to increase 3.50% per annum for the first 11 years and 5.00% per annum thereafter.

Separate, GAAP financial reports have not been issued for the individual City and Police Pension plans; therefore, the financial statements for those plans are presented here:

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

PENSION TRUST FUNDS
COMBINING STATEMENT OF NET ASSETS

	CITY EMPLOYEES' PENSION	POLICE PENSION	TOTAL
ASSETS			
Cash	\$ 462,894	\$ 200,216	\$ 663,110
Equity in Pooled Cash & Investments	400,798	467,808	868,604
Receivables:			
Employer	4,974	-	4,974
Employee	4,364	-	4,364
Interest	92,931	3,309	96,240
Total Receivables	102,269	3,309	105,578
Investments, at Fair Value			
US Government Obligations	5,748,365	-	5,748,365
Corporate Bonds	3,223,248	-	3,223,248
Corporate Stocks	17,607,835	4,072,185	21,679,820
Mutual Funds	-	25,933,822	25,933,822
Cash Savings Value of Life Insurance	-	501,561	501,561
Total Investments	26,579,248	30,507,568	57,086,816
Prepaid Expense	-	18,555	18,555
TOTAL ASSETS	\$ 27,545,209	\$ 31,197,254	\$ 58,742,463
LIABILITIES			
Vouchers/Benefits Payable	\$ 5,427	\$ 149,773	\$ 155,200
TOTAL LIABILITIES	5,427	149,773	155,200
NET ASSETS			
Held In Trust for Pension Benefits	\$ 27,539,782	\$ 31,047,481	\$ 58,587,263

CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

	CITY EMPLOYEES' PENSION	POLICE PENSION	TOTAL
ADDITIONS			
Contributions			
Employer	\$ 1,104,628	\$ 839,530	\$ 1,944,158
Employee	920,473	532,205	1,452,678
Total Contributions	2,025,101	1,371,735	3,396,836
Investment Income			
Net Appreciation (Depreciation) in Fair Value of Investments, and Interest and Dividends	1,612,117	2,453,486	4,065,603
Less Investment Expense	(179,760)	(216,736)	(396,496)
Net Investment Income (Loss)	1,432,357	2,236,750	3,669,107
TOTAL ADDITIONS	3,457,458	3,608,485	7,065,943
DEDUCTIONS			
Pension Benefit Payments	1,489,697	1,986,609	3,476,306
Member Contribution Refunds	223,001	32,227	255,228
Administrative Expenses	22,413	5,786	28,199
Insurance Premiums	-	35,697	35,697
TOTAL DEDUCTIONS	1,735,111	2,060,319	3,795,430
CHANGE IN NET ASSETS	1,722,347	1,548,166	3,270,513
NET ASSETS - BEGINNING OF YEAR	25,817,435	29,499,315	55,316,750
NET ASSETS - END OF YEAR	\$ 27,539,782	\$ 31,047,481	\$ 58,587,263

Related Party Investments
During 2005, and as of December 31, 2005, the pension plans (City Employees', Police or Firefighters Relief Association) held no securities issued by the City of Fargo or other related parties.

C. JOINT POWERS AGREEMENT

Regional Dispatch Center
In December of 2002, the City of Fargo, ND, City of Moorhead, MN, Clay County of MN and Cass County of ND entered into a joint powers agreement to establish a framework that allows for the joint operation of dispatch functions by the named entities. By combining the communications and dispatch of these four agencies, duplication of equipment and staff time is reduced or eliminated. The goal was to reduce the financial burden to the respective governments' taxpayers through the sharing of one communication center, as well as to improve communications services. For the past two years, budgeted contributions from the participating entities have been adequate to fund the operations of the center.

Each governmental entity will contribute to the joint operations in the following percentages:

City of Fargo - 53%
City of Moorhead - 22%
Cass County - 15%
Clay County - 10%

**CITY OF FARGO, NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

The joint powers agreement will be in effect until terminated by action of all of its members during the first five years. Thereafter, any governmental entity may elect to withdraw from participation upon giving a 6-month written notice. Additional financial information may be obtained by contacting: Attn: Director, Red River Regional Dispatch Center, 915 9th Ave. N., Moorhead, MN 56560.

D. CONTINGENCIES

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

During 2004, the City was notified by the Internal Revenue Service that it had commenced an examination of the City's Refunding Water Revenue Bonds of 1997. The City received a preliminary adverse determination dated November 21, 2005, from the IRS that interest paid on the 1997 Bonds is not excludable from gross income for federal income tax purposes. The City has filed a material event notice pursuant to Rule 15c2-12 of the securities regulations [17 C.F.R. §240.15c2-12], a copy of which may be obtained at the NRMSIR locations or at www.DisclosureUSA.org. The City is aggressively defending the bonds and working to settle the matter with the IRS so the bonds retain their tax exempt status. The City is of the opinion that the monetary results of the examination, if any, will not have a material effect on the financial statements.

E. SUBSEQUENT EVENTS

At the April 10, 2006, the Board of City Commissioners voted to approve a debt defeasance proposal to pay off all existing FargoDome special assessments in the amount of \$1,195,000 and a portion of the 1995 Sales Tax Revenue bonds 2009 maturity (CUSIP 307490DB5) as of July 1, 2006, in the amount of \$1,445,000, for a total payoff of \$2,640,000.

OFFICIAL BID FORM

SALE DATE: February 13, 2007

TO: Mr. Shawn Dobberstein, Executive Director
Municipal Airport Authority of the City of Fargo, North Dakota
c/o Springsted Incorporated
380 Jackson Street, Suite 300
St. Paul, MN 55101-2887
Phone: (651) 223-3000
Fax: (651) 223-3046

RE: \$7,755,000* Airport Reserve Revenue Bonds (AMT), Series 2007A

For the Bonds of this Issue which shall mature and bear interest at the respective annual rates, as follow, we offer a price of \$_____ (Note: This amount may not be less than \$7,677,450) and accrued interest to the date of delivery.

_____ %	2008	_____ %	2011	_____ %	2014	_____ %	2017
_____ %	2009	_____ %	2012	_____ %	2015	_____ %	2018
_____ %	2010	_____ %	2013	_____ %	2016		

Designation of Term Maturities

Years of Term Maturities

_____	_____
_____	_____
_____	_____

* *The Airport Authority reserves the right, after bids are opened and prior to award, to increase or reduce the principal amount of the Bonds offered for sale. Any such increase or reduction will be made in multiples of \$5,000 in any of the maturities. In the event the principal amount of the Obligations is increased or reduced, any premium offered or any discount taken by the successful bidder will be increased or reduced by a percentage equal to the percentage by which the principal amount of the Obligations is increased or reduced.*

In making this offer we accept all of the terms and conditions of the Official Terms of Offering published in the Official Statement dated February 2, 2007. In the event of failure to deliver these Bonds in accordance with the Official Terms of Offering as printed in the Official Statement and made a part hereof, we reserve the right to withdraw our offer, whereupon the deposit accompanying it will be immediately returned. All blank spaces of this offer are intentional and are not to be construed as an omission.

Subject to any applicable exemption in the Rule, this offer to purchase/bid is subject to the Airport Authority's covenant and agreement to take all steps necessary to assist us in complying with SEC Rule 15c2-12, as amended.

Not as a part of our offer, the above quoted prices being controlling, but only as an aid for the verification of the offer, we have made the following computations:

NET INTEREST COST: \$ _____

TRUE INTEREST RATE: _____ %

Account Members

_____ Account Manager

By: _____

Phone: _____

.....
The foregoing offer is hereby accepted by the Airport Authority on the date of the offer by its following officers duly authorized and empowered to make such acceptance.

Chairman
_____ SURE-BID

Secretary
_____ Good Faith Check Submitted