

In the opinion of Arntson Stewart Wegner PC, Bismarck, North Dakota, Bond Counsel, the interest to be paid on the Bonds is not includable in gross income of the recipient for United States or State of North Dakota income tax purposes. (See "STATE AND FEDERAL TAX CONSIDERATIONS" herein).

## OFFICIAL STATEMENT

### **\$25,000,000 GENERAL OBLIGATION SCHOOL BUILDING BONDS, SERIES 2019A MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1 (MCKENZIE COUNTY, NORTH DAKOTA)**

**Dated:** June 27, 2019

**Principal Due:** August 1, 2020 through 2038

The \$25,000,000 General Obligation School Building Bonds, Series 2019A (the "Bonds") are being issued by the McKenzie County Public School District No. 1, North Dakota (the "District") pursuant to the provisions of Chapter 21-03 of the North Dakota Century Code. The proceeds of the Bonds will be issued for the purpose of (i) providing funds for the construction of a new elementary school and (ii) paying the costs associated with the issuance of the Bonds. The Bonds are valid and binding general obligations of the District payable from ad valorem taxes levied, without limitation as to rate and amount, against all taxable property within the District.

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"), New York, New York. DTC will act as securities depository of the Bonds. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive Bonds representing their interest in the Bonds purchased. Principal of the Bonds, payable annually on August 1, 2020 through 2038, and interest, payable semiannually on each February 1 and August 1 commencing February 1, 2020, will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein.

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

#### MATURITY SCHEDULE

<u>Year</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>	<u>Year</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>
2020	\$ 730,000	5.000%	1.470%	581535FC0	2030	\$ 1,355,000	5.000%	2.000%	581535FN6
2021	870,000	5.000%	1.490%	581535FD8	2031	1,420,000	5.000%	2.100%	581535FP1
2022	915,000	5.000%	1.510%	581535FE6	2032	1,490,000	5.000%	2.170%	581535FQ9
2023	960,000	5.000%	1.530%	581535FF3	2033	1,565,000	4.000%	2.500%	581535FR7
2024	1,010,000	5.000%	1.550%	581535FG1	2034	1,630,000	4.000%	2.570%	581535FS5
2025	1,060,000	5.000%	1.600%	581535FH9	2035	1,695,000	4.000%	2.630%	581535FT3
2026	1,115,000	5.000%	1.650%	581535FJ5	2036	1,760,000	4.000%	2.680%	581535FU0
2027	1,170,000	5.000%	1.710%	581535FK2	2037	1,835,000	4.000%	2.720%	581535FV8
2028	1,225,000	5.000%	1.800%	581535FL0	2038	1,905,000	4.000%	2.770%	581535FW6
2029	1,290,000	5.000%	1.900%	581535FM8					

The Bonds maturing on August 1, 2029, and thereafter are subject to optional redemption on August 1, 2028, and any date thereafter at a price of par plus accrued interest.

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

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

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

**Mesirow Financial, Inc.** has agreed to purchase the Bonds from the District for an aggregate price of **\$28,857,963.35**. The Bonds will be available for delivery on or about **June 27, 2019**.

The date of this Official Statement is June 12, 2019.

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

## MESIROW FINANCIAL, INC.





No dealer, broker, salesman or other person has been authorized by the District, the Municipal Advisor or the Underwriters to give any information or to make any representations other than those contained in this Official Statement or the Final Official Statement and, if given or made, such information and representations must not be relied upon as having been authorized by the District, the Municipal Advisor or the Underwriters. This Official Statement or the Final Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the District and other sources which are believed to be reliable, but it is not to be construed as a representation by the Municipal Advisor or Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement or the Final Official Statement nor any sale made thereafter shall, under any circumstances, create any implication that there has been no change in the affairs of the District or in any other information contained herein, since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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## **INTRODUCTION TO THE OFFICIAL STATEMENT**

*The following information is furnished solely to provide limited introductory information regarding the \$25,000,000 General Obligation School Building Bonds, Series 2019A (the "Bonds") issued by the McKenzie County Public School District No. 1, North Dakota (the "District") and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the appendices hereto.*

<b>Issuer:</b>	McKenzie County Public School District No. 1, North Dakota (the "District").
<b>Authority of Issuance:</b>	The Bonds are being issued by the District pursuant to Chapter 21-03 of the North Dakota Century Code, and pursuant to a resolution that has been duly adopted by the District.
<b>Purpose:</b>	The Bonds will be issued for the purpose of (i) providing funds for the construction of a new elementary school and (ii) paying the costs associated with the issuance of the Bonds.
<b>Security:</b>	Principal and interest on the Bonds will be payable from ad valorem taxes levied, without limitation as to rate and amount, against all taxable property within the District.
<b>Principal Payments:</b>	Principal of the Bonds is payable annually on August 1 of the years 2020 through 2038.
<b>Interest Payments:</b>	Interest on the Bonds is payable on February 1 and August 1, commencing February 1, 2020.
<b>Optional Redemption:</b>	The Bonds maturing on August 1, 2029, and thereafter are subject to optional redemption on August 1, 2028, and any date thereafter at a price of par plus accrued interest.
<b>Denominations:</b>	\$5,000 or multiples thereof.
<b>Book-Entry Only:</b>	The Bonds will be issued as book-entry only securities through the Depository Trust Company.
<b>Registrar &amp; Paying Agent:</b>	U.S. Bank, National Association
<b>Not Bank Qualified:</b>	The Bonds are <u>not</u> designated as "Qualified Tax-Exempt Obligations"
<b>Tax Status:</b>	Generally exempt from federal and state income taxes (see "State and Federal Tax Considerations" page 19).
<b>Professional Consultants:</b>	<i>Municipal Advisor:</i> PFM Financial Advisors LLC Fargo, North Dakota Minneapolis, Minnesota  <i>Bond Counsel:</i> Arntson Stewart Wegner PC Fargo, North Dakota  <i>Paying Agent:</i> U.S. Bank, National Association St. Paul, Minnesota
<b>Legal Matters:</b>	Validity, tax exemption, and legal matters incident to the authorization and issuance of the Bonds are subject to the opinion of Arntson Stewart Wegner, PC, Bond Counsel. The opinion will be substantially in the form set forth in Appendix B attached hereto.
<b>Dated Date/Delivery Date:</b>	On or about June 27, 2019.

The information set forth herein has been obtained from the District and other sources which are believed to be reliable, but it is not to be construed as a representation by the Municipal Advisor or Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made thereafter shall, under any circumstances, create any implication that there has been no change in the affairs of the District or in any other information contained herein, since the date hereof.

Questions regarding the Bonds or the Official Statement can be directed to, and additional copies of the Official Statement, the District's audited financial reports and the documents described herein may be obtained from, PFM Financial Advisors LLC, 50 South Sixth, Suite 2250, Minneapolis, Minnesota 55402 (612/338-3535 or 612/338-7264 fax), the District's Municipal Advisor.

## DESCRIPTION OF THE BONDS

### *Authority and Purpose*

The Bonds are issued pursuant to Chapter 21-03 of the North Dakota Century Code, and a special election of the voters of the District on January 8, 2019 at which the issuance of \$35,000,000 of general obligation bonds was authorized. The Bonds will be issued to (i) provide funds for the construction of a new elementary school and (ii) paying the costs associated with the issuance of the Bonds.

### *Security and Sources of Payment*

The Bonds are general obligation of the District for which its full faith, credit and unlimited taxing powers are pledged. All taxable property within the corporate limits of the District is subject to ad valorem taxation without limitation as to rate and amount to pay the Bonds. The District is required by law to include in its annual tax levy the principal and interest coming due on the Bonds to the extent the necessary funds are not provided from other sources.

### *Interest*

Interest on the Bonds will be payable annually on each February 1 and August 1, commencing February 1, 2020. Interest will be computed on a 360-day year, 30-day month basis, and paid to the owners of record as of the close of business on the fifteenth day of the immediately preceding month. Payments coming due on a non-business day will be paid on the next business day.

### *Redemption Provisions*

#### Optional Redemption

The Bonds maturing on August 1, 2029, and thereafter are subject to optional redemption on August 1, 2028, at a price of par plus accrued interest to the redemption date.

### *Sources and Uses of Funds*

Table 1 below presents the sources and uses of funds for the Bonds.

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

<b>Sources of Funds</b>	
Par Amount	\$ 25,000,000.00
Premium	<u>4,043,932.20</u>
Total Sources of Funds	<u>\$ 29,043,932.20</u>
<b>Uses of Funds</b>	
Project Fund	\$ 28,745,363.35
Cost of Issuance/ Underwriter's Discount	<u>298,568.85</u>
Total Uses of Funds	<u>\$ 29,043,932.20</u>

## ***Book-Entry Only System***

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

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

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Bonds”). The Bonds 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 Security certificate will be issued for each of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.
2. DTC, the world’s largest securities depository, 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 over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s 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. This eliminates the need for physical movement of securities Bonds. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. 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”). DTC has a Standard & Poor’s rating of AA+. 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](http://www.dtcc.com).
3. Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“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. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.
4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. 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.

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

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

8. Redemption proceeds, distributions, and dividend payments on the Bonds 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 the District or Agent, on 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, Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District 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.

9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond Bonds are required to be printed and delivered.

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

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

NEITHER THE DISTRICT NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS UNDER THE RESOLUTION; (III) THE SELECTION BY DTC OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS OF A SERIES; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF BONDS; OR (VI) ANY OTHER MATTER.



## *Continuing Disclosure*

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (the “Rule”), the District has agreed for the benefit of the holders and beneficial owners of the Bonds to provide an annual report relating to the District (the “Annual Report”), not later than 365 days after the end of each fiscal year, commencing with the fiscal year ending June 30, 2019, and to provide notices of the occurrence of certain enumerated material events. The Annual Report and material event notices are to be filed with the MSRB through its Electronic Municipal Market Access system (EMMA) at [www.emma.msrb.org](http://www.emma.msrb.org). The details and terms of the undertaking, as well as the information to be contained in the annual report or the notices of material events are set forth in the Continuing Disclosure Certificate to be executed and delivered by the District at the time the Bonds are delivered. Such undertaking will be in substantially the form attached hereto as Appendix C.

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

## **THE DISTRICT**

### ***General Description***

The District is based in the City of Watford City (the “City”), which is the seat of McKenzie County (the “County”) in western North Dakota. The primary industries in the area are natural-resource-based such as ranching, farming, tourism, and oil exploration.

The District covers an area of approximately 1,679 square miles and serves a population of approximately 7,390. The District currently has one elementary school for grades K-5, and a high school for grades 6-12. The table below shows, in more detail, the physical characteristics of the District’s existing buildings.

**Table 2**  
**District Facilities**

<u>Facility Name</u>	<u>Year Built</u>	<u>Year of Major Additions</u>	<u>Grades</u>	<u>Estimated Capacity</u>	<u>Enrollment</u>
Watford City Elementary	1976/81/13	2013	K-5	625	965
Watford City High School	1985	2016	6-12	550	837

Source: The District, RSP Report to the District

### ***Organization***

The Board of Education is made up of seven residents of the District elected at large to four-year terms. Annual school board elections for three or four positions on the board are held in conjunction with the county elections. New directors take their seat in July and the board elects new officers at that time. The school board and the current administration are presented in the following tables.

#### **Members of the School Board**

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Pam Ramage	President	2022
Heather Wisness	Vice-President	2020
Brad Sanford	Member	2020
Corey Meuchel	Member	2022
Dawn Maki	Member	2020
Virginia Ceynar	Member	2020
Jake Pennington	Member	2022

#### **Administration**

<u>Name</u>	<u>Position</u>
Steven Holen	Superintendent
Brant Hebert	Business Manager

## ***Enrollment***

The District's enrollment for the 2018/19 school year is 1,802. Enrollments in the District for the past five school years are set forth in Table 3 below.

**Table 3**  
**District Enrollment**

<u>School Year</u>	<u>Total</u>
2017/2018	1,539
2016/2017	1,424
2015/2016	1,374
2014/2015	1,325
2013/2014	1,021

Source: The District, RSP Report to the District

## ***Pension Plans***

### **North Dakota Teachers Fund for Retirement**

The following brief description of TFFR is provided for general information purposes only. Participants should refer to NDCC Chapter 15-39.1 for more complete information.

TFFR is a cost-sharing multiple-employer defined benefit pension plan covering all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, death and disability benefits. The cost to administer the TFFR plan is financed by investment income and contributions.

Responsibility for administration of the TFFR benefits program is assigned to a Board comprised of seven members. The Board consists of the State Treasurer, the Superintendent of Public Instruction and five members appointed by the Governor.

### **Pension Benefits**

For purposes of determining pension benefits, members are classified within one of three categories. *Tier 1 grandfathered* and *Tier 1 non-grandfathered* members are those with service credit on file as of July 1, 2008. *Tier 2* members are those newly employed and returning refunded members on or after July 1, 2008.

A *Tier 1 grandfathered* member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

A *Tier 1 non-grandfathered* member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

A *Tier 2* member is entitled to receive unreduced benefits when five or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR for all three categories are determined by NDCC Section 15 - 39. 1-10. *Tier 1* Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. *Tier 2* Monthly benefits under TFFR are equal to the five highest annual salaries earned divided by 60 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

### **Death and Disability Benefits**

Death benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are determined by the member's vesting status prior to death. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement.

An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teaching, (b) the member has accumulated five years of credited service in North Dakota, and (c) the Board of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and uses the member's actual years of credited service. There is no actuarial reduction for reason of disability retirement.

### **Member and Employer Contributions**

Member and employer contributions paid to TFFR are set by NDCC Section 15-39. 1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 11.75% of salary as defined by NDCC Section 15-39. 1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 12.75% of the teacher's salary. Member and employer contributions will be reduced to 7.75% each when the fund reaches 100% funded ratio on an actuarial basis. A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70.5. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

For more information regarding Pension Liabilities, Pension Expense, Deferred outflows of Resources, Deferred inflows of resources related to pensions, actuarial assumptions, discount rate, and fiduciary net position, see Note 15 of the Notes to the Financial Statements located on pages 28 through 33 in the District's Audit Report for the year ended June 30, 2017.

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

At June 30, 2018, the McKenzie County Public School District reported a liability of \$14,359,114 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The district's proportion of the net pension liability was based on the district's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At June 30, 2017 the district's proportion was 1.045420 percent, which was an increase of .043437 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018 the district recognized pension expense of \$1,839,615. At June 30, 2018 the district reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 55,077	\$ 156,750
Changes in assumptions	1,023,464	--
Net difference between projected and actual earnings on pension plan investments	198,340	--
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,151,687	--
District contributions subsequent to the measurement date	<u>967,526</u>	<u>--</u>
Total	<u>\$ 4,396,094</u>	<u>\$ 156,750</u>

\$967,526 reported as deferred outflows of resources related to pensions resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

Year Ended <u>June 30</u>	
2019	\$ 705,221
2020	1,016,324
2021	821,541
2022	479,825
2023	201,761
Thereafter	47,149

### Actuarial Assumptions

The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	4.25% to 14.50%, varying by service, including inflation and productivity
Investment rate of return	7.75% net of investment expenses
Cost-of-living adjustments	None

For active and inactive members, mortality rates were based on the RP-2014 Employee Mortality Table, projected generationally using Scale MP-2014. For healthy retirees, mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table set back on year, multiplied by 50% for ages under 75 and grading up to 100% by age 80, projected generationally using Scale MP-2014. For disabled retirees, mortality rates were based on the RP-2014 Disabled Mortality Table set forward four years.

The actuarial assumptions used were based on the results of an actuarial experience study dated April 30, 2015. They are the same as the assumptions used in the July 1, 2017, funding actuarial valuation for TFFR.

As a result of the April 30, 2015 actuarial experience study, the TFFR board adopted several assumption changes, including the following:

- Investment return assumption lowered from 8% to 7.75%.
- Inflation assumption lowered from 3% to 2.75%.
- Total salary scale rates lowered by 0.25% due to lower inflation.

- Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- Rates of turnover and retirement were changed to better reflect anticipated future experience.
- Updated mortality assumption to the RP-2014 tables with generational improvement.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equities	58%	6.7%
Global fixed income	23%	0.8%
Global real assets	18%	5.2%
Cash Equivalents	1%	0.0%

### **Discount Rate**

The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2017, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

### **Sensitivity of the district's proportionate share of the net pension liability to changes in the discount rate.**

The following presents the district's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the district's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of net pension liability	<u>\$ 19,090,697</u>	<u>\$ 14,359,114</u>	<u>\$ 10,420,214</u>

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

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54 - 52 for more complete information. NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the NDPERS plan is financed by investment income and contributions. Responsibility for administration of the NDPERS benefits program is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by active membership of the NDPERS system; and one member elected by the retired public employees.

## **Pension Benefits**

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

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

## **Death and Disability Benefits**

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary. Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

## **Refunds of Member Account Balance**

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

## **Member and Employer Contributions**

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

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

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

At June 30, 2018, the McKenzie County Public School District reported a liability of \$644,073 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The district's proportion of the net pension liability was based on the district's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2017 the district's proportion was .222782 percent, which was an increase of .0376790 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018 the district recognized pension expense of \$644,073. At June 30, 2018 the district reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 21,284	\$ 17,447
Changes in assumptions	1,468,385	80,764
Net difference between projected and actual earnings on pension plan investments	48,159	--
Changes in proportion and differences between employer contributions and proportionate share of contributions	396,161	(1)
Employer contributions subsequent to the measurement date	<u>185,214</u>	<u>--</u>
Total	<u>\$ 3,119,203</u>	<u>\$ 98,210</u>

\$185,214 reported as deferred outflows of resources related to pensions resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

Year Ended <u>June 30</u>	
2019	\$ 414,215
2020	480,296
2021	429,487
2022	334,777
2023	172,004
Thereafter	--



## Actuarial Assumptions

The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5%	
Salary increases	Service at the Beginning of Year	Increase Rate
	0	15.00%
	1	10.00%
	2	8.00%
	Age	
	Under 36	8.00%
	36-40	7.50%
	41-49	6.00%
	50+	5.00%
	* Age-based salary increase rates apply for employees with three or more years of service	
Investment rate of return	7.75% net of investment expenses	
Cost-of-living adjustments	None	

For active members, inactive members and healthy retirees, mortality rates were based on the RP -2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP – 2000 Disabled Retiree Morality Table with ages set back one year for males (not setback for females) multiplied by 125% .

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2017, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	31%	6.05%
International equity	21%	6.70%
Private equity	5%	10.20%
Domestic fixed income	17%	1.43%
International fixed income	5%	-0.45%
Global real assets	20%	5.16%
Cash equivalents	1%	0.00%

## Discount Rate

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

The Single Discount Rate {SDR} is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments {during the period in which the fiduciary net position is projected to be sufficient to pay benefits} and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date {to the extent that the contributions for use with the long-term expected rate of return are not met}.

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payment payments through the year 2061, Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061 and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate is 6.44%.

### Sensitivity of the district's proportionate share of the net pension liability to changes in the discount rate.

The following presents the district's proportionate share of the net pension liability calculated using the discount rate of 6.44 percent, as well as what the district's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage- point lower (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

	1% Decrease (5.44%)	Current Discount Rate (6.44%)	1% Increase (7.44%)
District's proportionate share of net pension liability	<u>\$ 4,861,097</u>	<u>\$ 3,580,838</u>	<u>\$ 2,515,716</u>

### Pension plan fiduciary net position.

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

### *Other Postemployment Benefits*

The District does not have any Other Post Employment liabilities as of June 30, 2018.

### *Labor Agreements*

The District completed its negotiation process with professional teaching staff; the contract will be in place from 2019-2021.

## ECONOMIC AND DEMOGRAPHIC INFORMATION

### *Population*

Table 4 shows the population for the City of Watford City (the “City”) and McKenzie County (the “County) for the past five decennial censuses and the most recent estimate available.

**Table 4**  
**Population**

<u>Census Year</u>	<u>City of Watford City</u>	<u>McKenzie County</u>
2018	6,523	13,632
2010	1,744	6,360
2000	1,435	5,737
1990	1,784	6,383
1980	2,119	7,132
1970	1,768	6,127

Source: U.S. Census Bureau, [www.census.gov](http://www.census.gov).

### *Retail Sales and Effective Buying Income*

Table 5 lists median household Effective Buying Income and Per Capita Retail Sales for McKenzie County and for the State of North Dakota for the years 2011 through 2017, as reported in the “Survey of Buying Power /Effective Buying Income Statistics” by Nielsen/Claritas.

**Table 5**  
**Buying Income/Retail Sales** <sup>(1)</sup>

<u>Year</u>	<u>Median Household Effective Buying Income</u>		<u>Per Capita Retail Sales</u>	
	<u>McKenzie County</u>	<u>State of North Dakota</u>	<u>McKenzie County</u>	<u>State of North Dakota</u>
2017	\$ 66,303	\$ 52,472	\$ 44,445	\$ 25,900
2016	63,728	49,198	11,064	30,345
2015	57,842	49,365	6,739	29,383
2014	51,504	46,365	9,017	27,920
2013	43,430	40,911	14,277	16,691

Source: Nielsen/Claritas.

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## *Labor Force and Unemployment Statistics*

Total labor force and average annual unemployment figures for the last five years, as well as the most recent figure available in 2019 for McKenzie County, the State of North Dakota, and the United States are listed in Table 6 below.

**Table 6**  
**Average Annual Employment Figures**

	<u>McKenzie County</u>		<u>Unemployment Rates</u>	
	<u>Labor Force</u>	<u>Unemployment Rate</u>	<u>North Dakota</u>	<u>United States</u>
2019 <sup>(1)</sup>	9,502	1.7%	3.0%	3.9%
2018	8,962	1.7%	2.6%	3.9%
2017	8,312	2.6%	2.7%	4.3%
2016	7,980	3.7%	3.1%	4.0%
2015	10,621	1.9%	2.4%	4.8%
2014	9,133	1.5%	2.8%	6.2%

<sup>(1)</sup> March, 2019.

Source: Job Service of North Dakota.

## *Economic Development and Major Employers*

The primary industries in the area are natural resource based such as ranching, farming, tourism and oil exploration. Table 7 below lists the major private employers within McKenzie County.

**Table 7**  
**Major Employers**

<u>Employer</u>	<u>Business/Service</u>	<u>Number of Employees</u>
4 Bears Casino & Lodge	Casinos	400
O Nuverra	Trucking	301
Three Affiliated Tribal Headquarters	Government	260
McKenzie County VA Clinic	Healthcare	200
McKenzie County Healthcare	Hospitals	134
Northwinds of Wyoming	General Contractors	100
Sentry Crane Svc LLC	Crane Service	100
United Piping Inc.	Pipe Line Contractors	100
Good Shepard Home	Nursing & Convalescent Homes	82
Pyramid Corp	Oil Field Electric Service	80

Source: District, Reference USA.

## FINANCIAL SUMMARY

Market Value 2018/19		\$ 3,804,157,260
Assessed Value 2018/19		\$ 1,902,078,630
Taxable Value 2018/19		\$ 187,558,755
Long-Term Debt		
General Obligation Debt		\$ 56,008,906
Limited Tax Debt		1,655,000
Lease Obligations		6,900,000
Certificates of Indebtedness		<u>7,820,000</u>
Total		\$ 72,383,906
Overlapping General Obligation Debt		\$ 21,845,000
Population (District Estimate)		7,448
<b>Debt Ratios:</b>		
	<u>Amount</u>	<u>Per Capita (7,448)</u>
		<u>Percent of Market Value</u>
General Obligation Debt	\$ 56,008,906	\$ 7,520
Limited Tax Debt	1,655,000	222
Lease Obligations	6,900,000	926
Certificates of Indebtedness	7,820,000	1,050
Overlapping Debt	<u>21,845,000</u>	<u>2,933</u>
Total	<u>\$ 94,228,906</u>	<u>\$ 12,652</u>
		1.5%
		0.0%
		0.2%
		0.2%
		<u>0.6%</u>
		<u>2.5%</u>

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## DISTRICT INDEBTEDNESS

### *General Obligation Long-Term Debt*

Table 8 and Table 9 summarize the District's general obligation bonds as of June 1, 2019, payable from ad valorem taxes assessed on all taxable property located within the District.

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

<u>Date</u>	<u>Purpose</u>	<u>Original Amount</u>	<u>Interest Rate Range Outstanding</u>	<u>Maturities Outstanding</u>	<u>Principal Outstanding</u>
2014	School Building Bonds	\$17,000,000	2.00% - 4.00%	08/01/19-29	\$ 15,050,000
2015	School Construction Loan	3,000,000	1.00%	06/01/19-34	2,414,672
2015	School Construction Loan	7,000,000	1.00%	06/01/19-34	5,634,234
2015	Building Fund Bonds	7,025,000	3.00% - 3.50%	08/01/19-34	6,105,000
2016	Building Fund Bonds	1,975,000	2.00-3.00%	08/01/19-35	1,805,000
2019	School Building Bonds	25,000,000	4.00% - 5.00%	08/01/20-38	<u>25,000,000</u>
Total					<u>\$ 56,008,906</u>

**Table 9**  
**General Obligation Debt Annual Maturity Schedule**

<u>Bond Year</u>	<u>Outstanding</u>		<u>This Issue</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2019	\$ 1,170,000	\$ 374,128	\$ --	\$ --	\$ 1,544,128
2020	1,780,028	802,145	730,000	1,254,343	4,566,516
2021	1,895,029	768,295	870,000	1,109,600	4,642,924
2022	2,005,079	712,745	915,000	1,066,100	4,698,924
2023	2,130,180	652,994	960,000	1,020,350	4,763,524
2024	2,295,332	588,492	1,010,000	972,350	4,866,174
2025	2,450,535	517,689	1,060,000	921,850	4,950,074
2026	2,620,790	440,458	1,115,000	868,850	5,045,098
2027	2,791,098	356,751	1,170,000	813,100	5,130,949
2028	2,956,459	284,264	1,225,000	754,600	5,220,323
2029	3,141,874	206,400	1,290,000	693,350	5,331,624
2030	1,077,343	123,081	1,355,000	628,850	3,184,274
2031	1,102,866	101,808	1,420,000	561,100	3,185,774
2032	1,128,445	79,348	1,490,000	490,100	3,187,893
2033	1,149,079	55,663	1,565,000	415,600	3,185,342
2034	1,174,770	30,298	1,630,000	353,000	3,188,068
2035	140,000	4,200	1,695,000	287,800	2,127,000
2036	--	--	1,760,000	220,000	1,980,000
2037	--	--	1,835,000	149,600	1,984,600
2038	--	--	<u>1,905,000</u>	<u>76,200</u>	<u>1,981,200</u>
Total	<u>\$ 31,008,906</u>	<u>\$ 6,098,759</u>	<u>\$ 25,000,000</u>	<u>\$ 12,656,743</u>	<u>\$ 74,764,409</u>

***Limited Tax Debt***

Table 10 and Table 11 summarize the District’s limited tax bonds, payable from the District’s HVAC levy, as of June 1, 2019.

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

<u>Date</u>	<u>Purpose</u>	<u>Original Amount</u>	<u>Interest Rate Range Outstanding</u>	<u>Maturities Outstanding</u>	<u>Principal Outstanding</u>
2013	Limited Tax Bonds	\$2,695,000	1.00% - 1.90%	08/01/19-27	<u>\$ 1,655,000</u>
Total					<u>\$ 1,655,000</u>

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

<u>Bond Year (August 1)</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2019	\$ 175,000	\$ 12,986	\$ 187,986
2020	175,000	24,223	199,223
2021	175,000	22,472	197,472
2022	180,000	20,023	200,023
2023	180,000	17,502	197,502
2024	185,000	14,353	199,353
2025	190,000	11,115	201,115
2026	195,000	7,505	202,505
2027	<u>200,000</u>	<u>3,800</u>	<u>203,800</u>
Total	<u>\$1,655,000</u>	<u>\$ 133,979</u>	<u>\$ 1,788,979</u>

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## *Lease Obligations*

The Bonds listed in Table 12 were issued by the McKenzie County School District Building Authority and are secured by lease payments of the District. The lease to the District is for one year, subject to annual renewal at the District's option and annual appropriation by the School Board of the District. Table 13 provides an annual maturity schedule for the District's outstanding lease payments as of June 1, 2019.

**Table 12**  
**Lease Obligations by Issue**

<u>Issue Date</u>	<u>Purpose</u>	<u>Original Amount</u>	<u>Interest Rate Range Outstanding</u>	<u>Maturities Outstanding</u>	<u>Principal Outstanding</u>
10/05/12	Elementary School	\$9,870,000	2.00% - 2.85%	05/01/19-32	<u>\$ 6,900,000</u>
Total					<u>\$ 6,900,000</u>

**Table 13**  
**Lease Obligations**  
**Annual Maturity Schedule**

<u>Bond Year (May 1)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 460,000	\$ 168,508	\$ 628,508
2021	470,000	159,307	629,307
2022	480,000	149,908	629,908
2023	490,000	140,067	630,067
2024	500,000	129,533	629,533
2025	515,000	118,282	633,282
2026	525,000	106,180	631,180
2027	540,000	93,318	633,318
2028	555,000	79,817	634,817
2029	565,000	65,388	630,388
2030	585,000	50,415	635,415
2031	600,000	34,327	634,327
2032	<u>615,000</u>	<u>17,528</u>	<u>632,528</u>
Total	<u>\$ 6,900,000</u>	<u>\$ 1,312,578</u>	<u>\$ 8,212,578</u>

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## *Certificates of Indebtedness*

Table 14 and Table 15 summarize the District's Certificates of Indebtedness, payable from the allocations of the District's Oil and Gas Production Tax, as of June 1, 2019.

**Table 14**  
**Certificates of Indebtedness**

<u>Issue Date</u>	<u>Purpose</u>	<u>Original Amount</u>	<u>Interest Rate Range Outstanding</u>	<u>Maturities Outstanding</u>	<u>Principal Outstanding</u>
10/10/18	Refunding	\$7,820,000	2.75% - 3.75%	08/01/19-26	<u>\$ 7,820,000</u>
Total					<u>\$ 7,820,000</u>

**Table 15**  
**Certificates of Indebtedness**  
**Annual Maturity Schedule**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 905,000	\$ 128,027	\$ 1,033,994
2020	890,000	224,050	1,114,050
2021	920,000	190,675	1,110,675
2022	955,000	156,174	1,111,174
2023	995,000	120,363	1,115,363
2024	1,025,000	90,513	1,115,512
2025	1,050,000	62,325	1,112,325
2026	<u>1,080,000</u>	<u>32,400</u>	<u>1,112,400</u>
Total	<u>\$ 7,820,000</u>	<u>\$ 1,005,494</u>	<u>\$ 8,825,494</u>

## *Future Financings*

The District plans to issue a \$10,000,000 State School Construction Loan later in 2019.

## *Overlapping Debt*

Listed below are the taxing jurisdictions which overlap the District, of which one has tax-supported debt outstanding as of March 1, 2019.

**Table 16**  
**Overlapping Debt**

<u>Jurisdiction</u>	<u>General Obligation Debt</u>	<u>% of Debt Allocable to the District</u>	<u>Portion Allocable to the District</u>
City of Watford City	\$ 21,845,000	100.00%	\$ 21,845,000
McKenzie County <sup>(1)</sup>	0	0.00%	<u>0</u>
Total			<u>\$ 21,845,000</u>

<sup>(1)</sup>McKenzie County debt excludes \$35,140,000 Certificates of Indebtedness that are payable from the County's distributions of the OGGPT.

***Debt Limitation***

According to Article X, Section 15 of the North Dakota Constitution and Section 21-03-04 of the North Dakota Century Code, North Dakota school districts may not become indebted for any purpose in excess of 5% of their assessed value unless the voters of the district have approved an increase in the limit to 10% of assessed value. Section 57-02-01(16) of the North Dakota Century Code defines “Assessed Value” as 50% of the true and full value of property. Table 17 shows the debt limit computation for the District.

**Table 17**  
**Debt Limit Computation**

2017/2018 Assessed Value	\$ 1,902,078,630
	<u>x 10%</u>
Authorized Debt Limit (100.0%)	\$ 190,207,863
Debt Subject to Limit (35.6%)	<u>67,663,906<sup>(1)</sup></u>
Debt Margin (64.4%)	<u>\$ 122,543,957</u>

<sup>(1)</sup> The District plans to issue \$10,000,000 State School Construction loan later in 2019.

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## FINANCIAL INFORMATION

### *Financial Reports*

The District's financial reports have been audited by an independent accountant. Copies of the District's audited financial reports for the years ended June 30, 2015 through 2018 are available upon request from PFM Financial Advisors, LLC, the District's Municipal Advisor.

### *Results of Operations*

Statements of revenues and expenditures of the General Fund of the District have been compiled from the District's financial reports. They have been organized in such a matter as to facilitate year-to-year comparisons. Table 18 below, presents a statement of revenues and expenditures of the District's General Fund for the fiscal years ended June 30, 2015 through 2018.

**Table 18**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance for the General Fund**  
**(Years Ended June 30)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Revenues</b>				
Local Sources	\$ 6,443,965	\$ 5,950,194	\$ 5,234,864	\$ 5,346,388
County Sources	3,127,891	2,299,102	2,255,670	3,199,661
State Sources	11,013,167	9,712,754	8,403,992	6,692,693
Federal Sources	2,851,614	2,072,459	1,678,987	2,017,491
Other Sources	<u>36,208</u>	<u>287,652</u>	<u>291,260</u>	<u>379,840</u>
Total Revenues	<u>\$ 23,472,845</u>	<u>\$ 20,322,161</u>	<u>\$ 17,864,773</u>	<u>\$ 17,636,073</u>
<b>Expenditures</b>				
<b>Current</b>				
Regular Instruction	\$ 8,493,362	\$ 7,979,320	\$ 7,690,452	\$ 6,866,362
Federal Programs	564,105	449,430	467,663	367,573
Special Education	1,493,909	1,385,320	1,097,924	967,911
Vocational Education	630,608	586,757	550,912	399,623
District Wide Services	675,489	754,841	1,015,453	541,012
Administration	621,755	640,447	576,045	513,094
Operation & Maintenance	3,947,643	2,238,377	2,163,416	2,523,562
Student Transportation	1,093,141	1,030,661	942,368	1,246,252
Early Childhood Education Community Prog.	81,017	--	--	--
Student Activities	372,355	364,906	345,247	294,191
Tuition and assessment	688,284	588,641	496,927	412,801
Capital Outlay	57,975	2,290,510	984,027	3,122,212
<b>Debt Service</b>				
Principal	1,521,886	1,545,771	45,418	420,000
Interest	<u>437,505</u>	<u>406,762</u>	<u>25,864</u>	<u>212,755</u>
Total Expenditures	<u>\$ 20,679,034</u>	<u>\$ 20,261,743</u>	<u>\$ 17,069,315</u>	<u>\$ 17,887,348</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	\$ 2,793,811	\$ 60,418	\$ 795,458	\$ (251,275)
<b>Other Financing Sources (Uses)</b>	<u>(1,078,964)</u>	<u>(23,147)</u>	<u>(560,327)</u>	<u>(212,194)</u>
<b>Net Changes in Fund Balances</b>	\$ 1,714,847	\$ 37,271	\$ 235,132	\$ (463,469)
<b>Fund Balance – July 1</b>	<u>\$ 3,806,593</u>	<u>\$ 3,769,322</u>	<u>\$ 3,534,190</u>	<u>\$ 3,997,659</u>
<b>Fund Balance – June 30</b>	<u>\$ 5,521,440</u>	<u>\$ 3,806,593</u>	<u>\$ 3,769,322</u>	<u>\$ 3,534,190</u>

## *General Fund Budget*

Table 19 below summarizes the District's budgets for the 2018 and 2019 fiscal years.

**Table 19**  
**General Fund Budgets**

<b>Revenues</b>	<u>2018</u>	<u>2019</u>
Property Taxes	\$ 6,121,287	\$ 7,000,000
Oil and Gas Production Tax	2,299,075	2,569,257
State Per Pupil Aid	8,212,576	8,429,704
Other Revenues	<u>5,722,700</u>	<u>3,771,902</u>
<b>Total Revenues</b>	<u>\$ 22,355,638</u>	<u>\$21,770,863</u>
<b>Expenditures</b>	<u>\$ 20,261,743</u>	<u>\$ 22,864,878</u>

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## PROPERTY VALUATIONS AND TAXES

The City Assessor's office establishes an estimated market value on all properties. The assessed value is computed at 50% of estimated market value. The taxable value is then computed in the following manner: on residential property the taxable value is 9% of the assessed value; on commercial property the taxable value is 10% of the assessed value. Table 20 shows the market, assessed and taxable values of taxable property in the District for assessment year 2018 collectible in 2019. Table 20 shows the trend in property valuations over the last five years.

**Table 20**  
**Property Values in the District**  
**(2018 Assessment Year)**

	<u>Market Value</u>	<u>Assessed Value</u>	<u>Taxable Value</u>
<b>Real Property</b>			
Residential	\$ 506,388,800	\$ 253,194,400	\$ 22,787,573
Agricultural	173,536,175	89,765,089	8,676,833
Commercial	1,105,387,268	552,693,635	55,268,749
<b>Utilities</b>			
Other Utilities	<u>2,018,845,020</u>	<u>1,009,422,510</u>	<u>100,942,251</u>
Total	<u>\$ 3,804,157,260</u>	<u>\$ 1,902,078,630</u>	<u>\$ 187,558,755</u>

Source: McKenzie County Auditor.

**Table 21**  
**Trend in Valuations in the District**

<u>Assessment Year</u>	<u>Market Value</u>	<u>Assessed Value</u>	<u>Taxable Value</u>
2017	\$ 3,823,436,230	\$ 1,911,718,119	\$ 188,772,766
2016	2,590,480,360	1,295,240,180	129,524,018
2015	2,105,113,940	1,052,556,970	105,255,697
2014	1,427,123,000	713,561,500	71,536,150
2013	1,079,686,880	539,843,440	53,984,344

Source: McKenzie County Auditor.

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

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

North Dakota residents over 65 years of age whose income is less than \$42,000 receive a homestead property tax credit. The credit is subtracted from their tax bill. Local government entities are reimbursed by the state for all homestead credits. Therefore, the District as well as other local government entities has no loss in tax revenues from the credit. Table 22 shows the District's tax levies and collections for collection years 2013 through 2019.

**Table 22**  
**Tax Collections in the District**

<u>Levy Year</u>	<u>Collection Years</u>	<u>Levy</u>	<u>Collected as of 2/28/2019</u>	
			<u>Amount</u>	<u>% of Levy</u>
2018	2019	\$ 11,022,611	In Process of Collection.....	
2017	2018	10,551,942	10,432,158	98.7%
2016	2017	9,902,517	9,872,255	99.7%
2015	2016	8,396,140	8,395,953	99.9%
2014	2015	6,653,097	6,653,097	100.0%
2013	2014	4,719,987	4,719,987	100.0%

Source: McKenzie County Auditor.

***Principal Taxpayers***

A list of the ten taxpayers in the District with the highest taxable valuations for the 2018 assessment for taxes payable in 2019, is presented in Table 23 below.

**Table 23**  
**Principal Taxpayers**

<u>Taxpayer</u>	<u>Taxable Valuation</u>	<u>Percent of Total Taxable Valuation</u>
Hess Bakken Crude Services LLC	\$ 23,830,691	12.7%
Oneok Rockies Midstream LLC	20,002,996	10.7%
Dakota Access LLC	12,691,010	6.8%
Hiland Partners LLC	6,042,239	3.2%
Oasis Petroleum	5,043,964	2.7%
Targa Badlands LLC	4,884,874	2.6%
Bear Paw Energy Inc.	4,594,124	2.5%
Bridger Pipeline LLC	4,180,751	2.2%
Hiland Crude LLC	4,162,701	2.2%
Bakkenlink Pipeline LLC	<u>3,754,005</u>	<u>2.0%</u>
Total	<u>\$ 89,187,355</u>	<u>47.6%</u>

Source: McKenzie County Auditor.

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## Mill Levy Summary

The table below shows the total mills levied by the District and other taxing entities in the City of Watford City for the last five years.

**Table 24**  
**Mill Levy Summary**

	<u>2018/2019</u>	<u>2017/2018</u>	<u>2016/2017</u>	<u>2015/2016</u>	<u>2014/2015</u>
<b>McKenzie County School District</b>					
General	34.77	30.78	40.16	44.00	56.94
Building Fund	10.01	10.00	10.00	10.00	10.00
Special Assessment	0.81	0.74	0.85	0.00	0.00
Special Reserve	--	3.00	3.00	3.00	--
Sinking and Interest	10.18	11.40	17.06	17.72	20.56
Misc	<u>3.00</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total	<u>58.77</u>	<u>55.92</u>	<u>71.07</u>	<u>74.72</u>	<u>87.50</u>
<b>Other Funding</b>					
State and County	19.94	19.70	26.55	26.33	24.36
City of Watford City	39.72	39.62	43.12	41.36	43.07
City of Arnegard	51.54	51.61	52.72	52.72	52.59
Watford City Park District	41.43	39.85	40.11	41.57	43.17
Arnegard City Park District	<u>25.86</u>	<u>25.90</u>	<u>26.46</u>	<u>25.59</u>	<u>25.59</u>
Total	<u>237.26</u>	<u>232.60</u>	<u>260.03</u>	<u>262.29</u>	<u>276.28</u>

Source: District and McKenzie County Auditor.

## RATING

Moody's Investor Service (Moody's) assigned a rating of "A1" to the Bonds. A rating is subject to withdrawal at any time; withdrawal of a rating may have an adverse effect on the marketability of the Bonds. For an explanation of the significance of the rating, an investor should communicate with the rating agency.

## STATE AND FEDERAL TAX CONSIDERATIONS

In the opinion of Bond Counsel, the interest to be paid on the Bonds is not includable in gross income of the recipient for United States or State of North Dakota income tax purposes.

Noncompliance by the District following the issuance of the Bonds with its covenants in the resolution under which the Bonds are issued relating to certain continuing requirements of the Internal Revenue Code of 1986 (the "Code") may result in inclusion of interest to be paid on the Bonds in gross income of the recipient for United States income tax purposes.

Interest on the Bonds is not includable as a preference item in calculating the alternative minimum taxable income of individual and corporations. Interest to be paid on the Bonds is includable in book income and in earnings and profits for purposes of determining the alternative minimum taxable income of corporations.

Interest to be paid on the Bonds is also includable in the computation of alternative minimum taxable income for purposes of the environmental tax imposed by Section 59A of the Code on corporations. In the case of an insurance company subject to the tax imposed by Section 831 of the Code the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to fifteen percent of the interest to be paid on the Bonds that is received or accrued during the taxable year. Interest on the Bonds may additionally be included in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code.

### ***Bond Premium***

The Bonds are being sold at a price greater than the principal amount payable on such Bonds at maturity. A holder that acquires a Bond for an amount in excess of its principal amount generally must, from time to time, reduce the holder's federal and Minnesota tax bases for the Bond. Premium generally is amortized for federal income tax purposes and Minnesota income and franchise tax purposes on the basis of a bondholder's constant yield to maturity or to certain call dates with semiannual compounding. Accordingly, holders who acquire Bonds at a premium might recognize taxable gain upon sale of the Bonds, even if such Bonds are sold for an amount equal to or less than their original cost. Amortized premium is not deductible for federal income tax purposes or for purposes of the Minnesota income tax applicable to individuals, estates, and trusts.

## **LEGISLATIVE PROPOSALS**

Bond Counsel's opinion is given as of its date and Bond Counsel assumes no obligation to update, revise, or supplement such opinion to reflect any changes in facts or circumstances or any changes in law that may hereafter occur. Proposals are regularly introduced in both the United States House of Representatives and the United States Senate that, if enacted, could alter or affect the tax-exempt status of municipal bonds. For example, legislation has been proposed by President Obama that would, among other things, limit the amount of exclusions (including tax-exempt interest) or deductions that certain higher-income taxpayers could use to reduce their tax liability. The likelihood of adoption of this or any other such legislative proposal relating to tax-exempt bonds cannot be reliably predicted. If enacted into law, current or future proposals may have a prospective or retroactive effect and could affect the value or marketability of tax-exempt bonds (including the Bonds). Prospective purchasers of the Bonds should consult their own tax advisors regarding the impact of any such change in law.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from ownership or disposition of the Bonds or receipt of interest on the Bonds. Prospective purchasers or bondholders should consult their tax advisors with respect to collateral tax consequences and applicable state and local tax rules in states other than North Dakota.

## **MUNICIPAL ADVISOR**

The District has retained PFM Financial Advisors LLC of Minneapolis, Minnesota, as municipal advisor (the "Municipal Advisor") in connection with the issuance of the Bonds. In preparing the Official Statement, the Municipal 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 Municipal Advisor has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. The Municipal Advisor is not a public accounting firm and has not been engaged by the District to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Municipal 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.

Requests for information concerning the District should be addressed to PFM Financial Advisors LLC, 50 South Sixth Street, Suite 2250, Minneapolis, Minnesota 55402 (612/338-3535) or 1726 Prairie Lane, Fargo, North Dakota 58103 (701/235-4416).



## **CERTIFICATION**

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

## **CLOSING DOCUMENTS**

Simultaneously with the delivery of and payment for the Bonds by the original purchasers thereof, the District will furnish to the original purchasers the customary closing documents in form satisfactory to Bond Counsel.

## **LEGAL MATTERS**

Legal matters incident to the authorization and issuance of the Bonds are subject to the opinion of Arntson Stewart Wegner PC, Bismarck, North Dakota, Bond Counsel, as to validity and tax exemption. Bond Counsel has not participated in the preparation of this Official Statement.

## **LITIGATION**

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

## **MISCELLANEOUS**

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

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

**MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1,  
MCKENZIE COUNTY, NORTH DAKOTA**

By: \_\_\_\_\_  
Superintendent

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**APPENDIX A**

**The District's Audited Financial Statements  
For the Year Ended June 30, 2018**

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# **AUDIT REPORT**

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1  
Watford City, North Dakota

For the Year Ended June 30, 2018

**RATH & MEHRER, P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1  
Watford City, North Dakota

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MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1  
Watford City, North Dakota

SCHOOL DISTRICT OFFICIALS

Pam Ramage	Board President
Brad Sanford	Vice President
Gary Bruins	Board Member
Virginia Ceynar	Board Member
Dawn Maki	Board Member
Beth Veeder	Board Member
Heather Wisness	Board Member
Steve Holen	Administrator
Becky Smith	Business Manager

# Rath & Mehrer

Certified Public Accountants

*Specializing in Governmental Auditing*

Phone: (701) 258-4560

Jayson Rath, CPA  
Ken Mehrer, CPA

425 North Fifth Street  
Bismarck, ND 58501

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
McKenzie County Public School District No. 1  
Watford City, North Dakota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the McKenzie County Public School District No. 1, Watford City, North Dakota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the school district's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the school district's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregated remaining fund information of the McKenzie County Public School District No. 1, Watford City, North Dakota, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.



## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9, budgeting comparison information on pages 38 through 39, and the schedules of employer's share of net pension liability on pages 40 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the school district's basic financial statements. The schedule of fund activity arising from client transactions is presented for additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is not a required part of the basic financial statements.

The schedule of fund activity arising from client transactions and the schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of fund activity arising from client transactions and the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2018 on our consideration of the school district's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the school district's internal control over financial reporting and compliance.

*Rath and Mehrer*

Rath and Mehrer, P.C.

Bismarck, North Dakota

November 30, 2018

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1

Management's Discussion and Analysis

June 30, 2018

The Management's Discussion and Analysis (MD&A) of the McKenzie County Public School District's financial performance provides an overall review of the school district's financial activities for the fiscal year ended June 30, 2018. The intent of the MD&A is to look at the school district's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

The MD&A is a new element of the Required Supplementary Information specified in the Government Accounting Standards Board's (GASB) Statement No. 34 "*Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*". Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the year ended June 30, 2018 are as follows:

- \* Net position of the school district increased \$5,119,519 as a result of the current year's operations.
- \* Governmental net position as of the end of the fiscal year totaled \$29,781,178.
- \* Total revenues from all sources were \$29,434,318.
- \* Total expenses were \$24,314,799.
- \* The school district's general fund had \$23,472,845 in total revenues and \$20,679,034 in total expenditures. There was a total of \$1,078,964 paid from other financing uses. Overall, the general fund balance increased by \$1,714,847 for the year ended June 30, 2018.

**USING THIS ANNUAL REPORT**

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand the school district as a financial whole. The statements then proceed to provide an increasingly detailed look at financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole school district, presenting both an aggregate view of the school district's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the school district's general fund, special reserve fund, sinking and interest fund and building fund with all other governmental funds presented in total in one column.

## REPORTING ON THE SCHOOL DISTRICT AS A WHOLE

### Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the school district to provide programs and activities and attempt to answer the question "How did the school district do financially during the year ended June 30, 2018?"

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

The Statement of Activities presents information on how the school district's net position changed during the fiscal year. This statement is presented using the accrual basis of accounting, which means that all changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused sick leave and/or vacation leave).

These two statements report the school district's net position and changes in that position. This change in net position is important because it tells the reader whether, for the school district as a whole, the financial position of the school district has improved or deteriorated. The causes of this change may be the result of many factors, some financial and some not.

In the Statement of Net Position and the Statement of Activities, the school district reports governmental activities. Governmental activities are the activities where most of the school district's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of buildings and grounds, student transportation, co-curricular activities and debt service.

## REPORTING ON THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

### Balance Sheet - Governmental Funds

The school district uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the school district to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the school district's major funds. Using the criteria established by GASB Statement No. 34, the school district's general fund, special reserve fund, sinking and interest fund and building fund are considered "major funds".

The school district's other fund, which is used to account for the financial transactions of the school district's food service program, is summarized under the heading "Food Service".

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE**

Table I provides a summary of the school district's net position as of June 30, 2018. A comparative analysis of district-wide data is presented for both current and prior year.

As indicated in the financial highlights above, the school district's net position increased by \$5,119,519 for the year ended June 30, 2018. Changes in net position may serve over time as a useful indicator of the school district's financial position.

The school district's net position of \$29,781,178 is segregated into three separate categories. Net investment in capital assets totals \$20,334,725. It should be noted that these assets are not available for future spending. The restricted component of net position is \$9,830,606 of the school district's net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position is (\$384,153) which includes (\$11,679,615) relating to the reporting of it's share of the unfunded liability for the North Dakota Teachers Fund for Retirement and the North Dakota Public Employees Retirement System as required by GASB Statement No. 68. The net amount of \$11,295,462 is available to meet the school district's ongoing obligations.

Table I  
Net Position  
As of June 30, 2018  
(With comparative totals for June 30, 2017)

	2018	2017
<u>Assets</u>		
Current Assets	21,836,171	16,860,953
Capital Assets (net of accumulated depreciation)	69,880,540	71,556,226
Total Assets	91,716,711	88,417,179
Deferred Outflows of Resources	6,515,297	6,401,810
<u>Liabilities</u>		
Current Liabilities	3,365,232	3,527,012
Long-Term Liabilities	46,890,686	49,864,850
Net Pension Liability	17,939,952	16,589,137
Total Liabilities	68,195,870	69,980,999
Deferred Inflows of Resources	254,960	176,331
<u>Net Position</u>		
Net Investment in Capital Assets	20,334,725	18,903,348
Restricted	9,830,606	7,686,466
Unrestricted	(384,153)	(1,928,156)
Total Net Position	29,781,178	24,661,659

Table II shows the changes in net position for the fiscal year ended June 30, 2018. A comparative analysis of district-wide data is presented for both current and prior year.

Table II  
Changes in Net Position  
As of June 30, 2018  
(With comparative totals for June 30, 2017)

	<u>2018</u>	<u>2017</u>
<b>Revenues</b>		
<u>Program Revenues:</u>		
Charges for Services	708,258	505,200
Operating Grants and Contributions	4,005,932	2,535,139
<u>General Revenues:</u>		
Property Taxes	11,084,068	10,069,713
Other Taxes	3,160,865	2,330,962
State Aid - Unrestricted	7,902,948	8,212,576
Federal Aid - Unrestricted	2,396,711	1,509,951
Interest Earnings and Other Revenue	175,535	154,971
Gain on Sale of Capital Assets		77,465
 Total Revenues	 <u>29,434,318</u>	 <u>25,395,977</u>
 <b>Expenses</b>		
Regular Instruction	9,785,681	8,982,416
Federal Programs	564,105	449,430
Special Education	1,493,909	1,385,320
Vocational Education	630,608	586,757
District Wide Services	675,489	754,841
Administration	621,755	640,447
Operations and Maintenance	4,042,029	2,478,152
Student Transportation	1,712,048	1,532,526
Early Childhood Ed. Comm. Program	81,017	
Student Activities	438,151	430,699
Tuition and Assessments	688,284	588,641
Food Services	928,880	837,675
Special Assessments	290,386	
Interest on Long-Term Debt	1,329,730	1,323,277
Unallocated Depreciation	1,032,727	1,032,727
 Total Expenses	 <u>24,314,799</u>	 <u>21,022,907</u>
 Net Change in Position	 <u>5,119,519</u> =====	 <u>4,373,070</u> =====

Property taxes constituted 38%, other taxes 11%, unrestricted state aid 27%, unrestricted federal aid 8%, operating grants and contributions 14% and charges for services made up 2% of the total revenues of governmental activities of the school district for the fiscal year ended June 30, 2018.

Regular instruction constituted 40%, federal programs 2%, special education 6% and vocational education 3% of total expenses for governmental activities during the fiscal year ended June 30, 2018.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table III shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

Table III  
Total and Net Cost of Services  
As of June 30, 2018

	Total Cost Year Ended <u>June 30, 2018</u>	Net Cost Year Ended <u>June 30, 2018</u>
Regular Instruction	9,785,681	9,483,368
Federal Programs	564,105	129,203
Special Education	1,493,909	302,762
Vocational Education	630,608	523,511
District Wide Services	675,489	663,964
Administration	621,755	621,755
Operations and Maintenance	4,042,029	2,678,800
Student Transportation	1,712,048	1,346,900
Early Childhood Ed. Comm. Program	81,017	81,017
Student Activities	438,151	424,151
Tuition and Assessments	688,284	688,284
Food Services	928,880	4,052
Special Assessments	290,386	290,386
Interest on Long-Term Debt	1,329,730	1,329,730
Unallocated Depreciation	1,032,727	1,032,727
Total Expenses	<u>24,314,799</u> =====	<u>19,600,609</u> =====

**FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS**

The purpose of the school district's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the school district's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting. The school district's governmental funds had total revenue of \$29,389,745 and expenditures of \$24,464,511 for the year ended June 30, 2018. As of June 30, 2018, the unassigned fund balance of the school district's general fund was \$5,502,273.

**GENERAL FUND BUDGET HIGHLIGHTS**

During the course of fiscal year 2018, the school district amended the general fund budget. The gross effect of these amendments was to increase estimated revenues and appropriations by \$18,030.

Actual revenue for the year ended June 30, 2018 was \$2,191,954 more than budgeted. The budget variance is due to the school underestimating collections for oil and gas production taxes, flood control revenue and Bankhead Jones revenue. Actual expenditures for the year ended June 30, 2018 were under budget by \$522,876.

**CAPITAL ASSETS**

As of June 30, 2018, the school district had \$69,880,540 invested in capital assets. Table IV shows the balances as of June 30, 2018.

Table IV  
Capital Assets  
(Net of Accumulated Depreciation)  
As of June 30, 2018  
(With comparative totals for June 30, 2017)

	<u>2018</u>	<u>2017</u>
Buildings	68,780,956	69,879,470
Vehicles	1,099,584	1,676,756
Total (net of depreciation)	<u>69,880,540</u> =====	<u>71,556,226</u> =====

This total represents a decrease of \$1,675,686 in capital assets from July 1, 2017. For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 7 to the audited financial statements which follow this analysis.

**DEBT ADMINISTRATION**

As of June 30, 2018, the school district had \$49,623,068 in outstanding debt, of which \$2,732,383 was due within a year. During fiscal year 2018, the school district did not issue any new long-term debt obligations.

For a detailed breakdown of the long-term debt, readers are referred to Note 11 to the audited financial statements which follow this analysis.

**CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our parents, taxpayers and creditors with a general overview of the school district's finances and to show the school district's accountability for the money it receives to provide the best possible education to all students enrolled in the McKenzie County Public School. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Becky Smith, Business Manager, McKenzie County Public School, Watford City, ND 58854; phone 701-444-3626.

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1  
 Watford City, North Dakota

Statement of Net Position  
 June 30, 2018

	Governmental Activities
<u>ASSETS:</u>	
Cash and Investments	20,101,679.59
Prepaid Expense	19,167.24
Taxes Receivable	457,508.68
Due from County Treasurer	66,667.52
Intergovernmental Receivables	1,191,147.57
Capital Assets (net of accumulated depreciation):	
Buildings	68,780,956.00
Vehicles	1,099,584.00
Total Capital Assets	69,880,540.00
Total Assets	91,716,710.60
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>	
Changes in Resources Related to Pensions	6,515,297.00
<u>LIABILITIES:</u>	
Payroll Benefits Payable	254,548.03
Interest Payable	378,301.69
Long-Term Liabilities:	
Due Within One Year:	
General Obligation Bonds Payable	1,230,000.00
G.O. School Construction Loans Payable	1,052,382.72
Revenue Bonds Payable	450,000.00
Due After One Year:	
General Obligation Bonds Payable	24,615,000.00
G.O. School Construction Loans Payable	15,298,432.48
Revenue Bonds Payable	6,900,000.00
Compensated Absences Payable	77,253.07
Net Pension Liability	17,939,952.00
Total Liabilities	68,195,869.99
<u>DEFERRED INFLOWS OF RESOURCES:</u>	
Changes in Resources Related to Pensions	254,960.00
<u>NET POSITION:</u>	
Net Investment in Capital Assets	20,334,724.80
Restricted for:	
Special Purposes	1,849,995.86
Food Service	8,407.10
Capital Projects	5,561,424.16
Debt Service	2,410,778.43
Unrestricted	(384,152.74)
Total Net Position	29,781,177.61

The accompanying notes are an integral part of these financial statements.



MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1  
Watford City, North Dakota

Statement of Activities  
For the Year Ended June 30, 2018

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
Regular Instruction	9,785,681.06	7,500.00	294,813.00	(9,483,368.06)
Federal Programs	564,105.31		434,902.70	(129,202.61)
Special Education	1,493,909.21	43,396.54	1,147,751.03	(302,761.64)
Vocational Education	630,608.35		107,097.67	(523,510.68)
District Wide Services	675,488.53		11,524.80	(663,963.73)
Administration	621,754.64			(621,754.64)
Operations and Maintenance	4,042,029.33	66,819.00	1,296,410.00	(2,678,800.33)
Student Transportation	1,712,047.54		365,147.50	(1,346,900.04)
Early Childhood Education Community Program	81,017.10			(81,017.10)
Student Activities	438,151.23	14,000.00		(424,151.23)
Tuition and Assessments	688,283.80			(688,283.80)
Food Services	928,879.98	576,542.68	348,284.96	(4,052.34)
Special Assessments	290,385.56			(290,385.56)
Interest on Long-Term Debt	1,329,730.30			(1,329,730.30)
Unallocated Depreciation	1,032,727.00			(1,032,727.00)
Total Governmental Activities	24,314,798.94	708,258.22	4,005,931.66	(19,600,609.06)
<u>General Revenues:</u>				
Taxes:				
Property taxes; levied for general purposes				6,696,489.93
Property taxes; levied for debt service				2,258,716.54
Property taxes; levied for building purposes				2,128,861.65
Homestead tax credit				6,891.41
Telecommunication taxes				26,082.67
Oil and gas production tax				3,127,891.35
State aid - not restricted to specific program				7,902,948.43
Federal aid - not restricted to specific program				2,396,711.03
Earnings on investments and other revenue				175,534.80
Total General Revenues				24,720,127.81
Change in Net Position				5,119,518.75
Net Position - July 1				24,661,658.86
Net Position - June 30				29,781,177.61

The accompanying notes are an integral part of these financial statements.

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1  
Watford City, North Dakota

Balance Sheet  
Governmental Funds  
June 30, 2018

Major Funds

	General	Special Reserve	Sinking and Interest	Building	Food Service	Total Governmental Funds
<b>ASSETS:</b>						
Cash and Investments	4,525,753.18	2,822,965.73	2,539,695.81	10,204,195.50	9,069.37	20,101,679.59
Prepaid Expense	19,167.24					19,167.24
Taxes Receivable	252,791.96	23,863.40	95,382.56	85,470.76		457,508.68
Due from County Treasurer	39,257.59	3,166.73	12,783.60	11,459.60		66,667.52
Intergovernmental Receivables	1,191,147.57					1,191,147.57
<b>Total Assets</b>	<b>6,028,117.54</b>	<b>2,849,995.86</b>	<b>2,647,861.97</b>	<b>10,301,125.86</b>	<b>9,069.37</b>	<b>21,836,170.60</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:</b>						
<b>Liabilities:</b>						
Payroll Benefits Payable	253,885.76				662.27	254,548.03
<b>Deferred Inflows of Resources:</b>						
Unavailable Revenue	252,791.96	23,863.40	95,382.56	85,470.76		457,508.68
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>506,677.72</b>	<b>23,863.40</b>	<b>95,382.56</b>	<b>85,470.76</b>	<b>662.27</b>	<b>712,056.71</b>
<b>Fund Balances:</b>						
<b>Nonspendable:</b>						
Prepaid Expense	19,167.24					19,167.24
<b>Restricted for:</b>						
Special Purposes		1,826,132.46				1,826,132.46
Food Service					8,407.10	8,407.10
Debt Service			2,552,479.41			2,552,479.41
Capital Projects				5,579,226.85		5,579,226.85
<b>Assigned to:</b>						
Special Purposes		1,000,000.00				1,000,000.00
Capital Projects				4,636,428.25		4,636,428.25
Unassigned	5,502,272.58					5,502,272.58
<b>Total Fund Balances</b>	<b>5,521,439.82</b>	<b>2,826,132.46</b>	<b>2,552,479.41</b>	<b>10,215,655.10</b>	<b>8,407.10</b>	<b>21,124,113.89</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>6,028,117.54</b>	<b>2,849,995.86</b>	<b>2,647,861.97</b>	<b>10,301,125.86</b>	<b>9,069.37</b>	<b>21,836,170.60</b>

The accompanying notes are an integral part of these financial statements.

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1  
Watford City, North Dakota

Reconciliation of Governmental Funds Balance Sheet  
to the Statement of Net Position  
For the Year Ended June 30, 2018

Total Fund Balances for Governmental Funds		21,124,113.89
<p>Total net position reported for government activities in the statement of net position is different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.</p>		
Cost of Capital Assets	79,226,932.00	
Less Accumulated Depreciation	(9,346,392.00)	
Net Capital Assets	69,880,540.00	69,880,540.00
<p>Property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as unavailable revenue in the funds.</p>		
		457,508.68
<p>The deferred outflows and inflows of resources reported on the statement of net position are the result of changes in resources related to pensions and do not affect current financial resources.</p>		
Total Deferred Outflows of Resources	6,515,297.00	
Total Deferred Inflows of Resources	(254,960.00)	
Net Deferred Outflows/Inflows of Resources	6,260,337.00	6,260,337.00
<p>Long-term liabilities applicable to the school district's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities -both current and long-term- are reported in the statement of net position. Balances at June 30, 2018 are:</p>		
General Obligation Bonds Payable	(25,845,000.00)	
G.O. School Construction Loans Payable	(16,350,815.20)	
Revenue Bonds Payable	(7,350,000.00)	
Interest Payable	(378,301.69)	
Compensated Absences Payable	(77,253.07)	
Net Pension Liability	(17,939,952.00)	
Total Long-Term Liabilities	(67,941,321.96)	(67,941,321.96)
Total Net Position of Governmental Activities		29,781,177.61
		=====

The accompanying notes are an integral part of these financial statements.

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1  
Wattford City, North Dakota

Statement of Revenues, Expenditures and Changes  
in Fund Balances - Governmental Funds  
For the Year Ended June 30, 2018

	Major Funds					Total Governmental Funds
	General	Special Reserve	Sinking and Interest	Building	Food Service	
<u>Revenues:</u>						
Local Sources	6,443,964.61	587,501.56	2,263,874.00	2,128,269.67	588,969.82	12,012,579.66
County Sources	3,127,891.35				9,214.66	3,127,891.35
State Sources	11,013,167.63				339,070.30	11,022,382.29
Federal Sources	2,851,613.73					3,190,684.03
Other Sources	36,207.99					36,207.99
Total Revenues	23,472,845.31	587,501.56	2,263,874.00	2,128,269.67	937,254.78	29,389,745.32
<u>Expenditures:</u>						
Current:						
Regular Instruction	8,493,361.57					8,493,361.57
Federal Programs	564,105.31					564,105.31
Special Education	1,493,909.21					1,493,909.21
Vocational Education	630,608.35					630,608.35
District Wide Services	675,488.53					675,488.53
Administration	621,754.64					621,754.64
Operations and Maintenance	3,947,642.75			78,155.58		4,025,798.33
Student Transportation	1,093,140.54					1,093,140.54
Early Childhood Education Community Prog.	81,017.10					81,017.10
Student Activities	372,355.23					372,355.23
Tuition and Assessments	688,283.80					688,283.80
Food Services					928,879.98	928,879.98
Special Assessments				290,385.56		290,385.56
Capital Outlay	57,975.00					57,975.00
Debt Service:						
Principal	1,521,886.40		1,190,175.94		395,000.00	3,107,062.34
Interest and Service Charges	437,505.43		649,524.09		253,356.26	1,340,385.78
Total Expenditures	20,679,033.86		1,839,700.03	1,016,897.40	928,879.98	24,464,511.27
Excess (Deficiency) of Revenues Over Expenditures	2,793,811.45	587,501.56	424,173.97	1,111,372.27	8,374.80	4,925,234.05

Other Financing Sources (Uses):

Transfers In		1,000,000.00			78,964.18	1,078,964.18
Transfers Out	(1,078,964.18)					(1,078,964.18)
Total Other Financing Sources (Uses)	(1,078,964.18)	1,000,000.00			78,964.18	
Net Change in Fund Balances	1,714,847.27	1,587,501.56	424,173.97	1,111,372.27	87,338.98	4,925,234.05
Fund Balance - July 1	3,806,592.55	1,238,630.90	2,128,305.44	9,104,282.83	(78,931.88)	16,198,879.84
Fund Balance - June 30	5,521,439.82	2,826,132.46	2,552,479.41	10,215,655.10	8,407.10	21,124,113.89
=====						

The accompanying notes are an integral part of these financial statements.

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1  
Watford City, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures  
and Changes in Fund Balances to the Statement of Activities  
For the Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds 4,925,234.05

The change in net position reported for governmental activities in the statement of activities is different because:

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

Current Year Capital Outlay	57,975.00	
Current Year Depreciation Expense	(1,733,661.00)	(1,675,686.00)

The proceeds of debt issuances are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayment of debt exceeded debt proceeds.

Debt Proceeds	0.00	
Repayment of Debt	3,107,062.34	3,107,062.34

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

Net Decrease in Interest Payable	10,655.48	
Net Decrease in Compensated Absences Payable	23,637.51	
Net Increase to Pension Expense	(1,315,957.00)	(1,281,664.01)

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

Net Increase in Taxes Receivable		44,572.37
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Change in Net Position of Governmental Activities 5,119,518.75

The accompanying notes are an integral part of these financial statements.

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1  
 Watford City, North Dakota

Statement of Fiduciary Net Position  
 Fiduciary Funds  
 June 30, 2018

	Private-Purpose Trust Fund	Agency Fund
<u>Assets:</u>		
Cash and Investments	6,980.01	191,638.74
<u>Liabilities:</u>		
Due to Student Activities Groups		191,638.74
<u>Net Position:</u>		
Held in Trust For:		
Individuals	6,980.01	0.00
	=====	

The accompanying notes are an integral part of these financial statements.

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1  
Watford City, North Dakota

Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
For the Year Ended June 30, 2018

	Private-Purpose Trust Fund
<u>Additions:</u>	
Interest Income	7.08
<u>Deductions:</u>	
Scholarship Awarded	2,000.00
Change in Net Position	(1,992.92)
Net Position - July 1	8,972.93
Net Position - June 30	6,980.01

The accompanying notes are an integral part of these financial statements.



MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1  
Watford City, North Dakota

Notes to the Financial Statements  
June 30, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the McKenzie County Public School District No. 1 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

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

Based on these criteria, there is one component unit to be included within the McKenzie County Public School District No. 1 as a reporting entity.

**COMPONENT UNIT**

In conformity with accounting principles generally accepted in the United States of America, the financial statements of the component unit have been included in the financial reporting as a blended component unit.

Blended Component Unit. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government.

McKenzie County Public School District Building Authority. This authority was created in August 2012 under state law. Its board is made up of the school board, the administrator and the business manager of the McKenzie County Public School District. Its purpose is to lease land and construct improvements by issuing revenue bonds. The land and/or improvements are for the district's use only. Bond payments are made by lease payments from the district. Upon payment of the bonds in full, title to improvements will vest with the district.

## B. Basis of Presentation

*Government-wide Financial Statements:* The statement of net position and the statement of activities display information about the primary government, McKenzie County Public School District No. 1 and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

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

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

The school district reports the following major governmental funds:

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

*Special Reserve Fund.* This fund accounts for a special mill levy reserved to supplement the budget when revenues are insufficient to meet the requirements of said budget.

*Sinking and Interest Fund.* This fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

*Capital Projects Fund.* This fund accounts for financial resources dedicated to the construction of new school buildings, additions to old school buildings, the making of major repairs to existing buildings, or to make annual debt service payments on outstanding debt issues related to the building fund.

The school district reports the following fund types:

*Private Purpose Trust Fund.* This fund is used to account for resources legally held in trust for scholarships to students. All resources of the fund, including earnings on investments, are used for scholarships.

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

C. Measurement Focus, Basis of Accounting  
and Financial Statement Presentation

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

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

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

D. Cash and Investments

Cash includes amounts in demand deposits and money market accounts.

Investments consist of certificates of deposit stated at cost.

E. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

#### F. Capital Assets

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

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Buildings	25 to 75 years
Vehicles	6 to 10 years

#### G. Compensated Absences

Vested or accumulated sick leave is reported in the government-wide statement of net position. Compensation for unused sick leave will be granted to all certified employees and administrators upon termination of 10 or more years. The district's personnel policy requires a payout of \$25 for each day up to a maximum of 120 days for accumulated sick leave. In addition, unused personal leave is reported in the government-wide statement of net position. Compensation for unused personal leave is granted to full time ancillary employees, upon retirement from the district. Compensated absences represents the liability of the district for these employee benefits.

#### H. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

#### I. Pensions

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

## J. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

**Fund Balance** - Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the school district is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

**Nonspendable** - Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash such as inventories or prepaid expenses) or (b) legally or contractually required to be maintained intact (i.e., endowment funds).

**Restricted** - Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the school district or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments (i.e., funds restricted by state statute, unspent bond proceeds, grants earned but not spent, debt covenants or taxes raised for a specific purpose).

**Committed** - Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the school board through the adoption of a resolution. The school board also may modify or rescind the commitment.

**Assigned** - Fund balances are reported as assigned when amounts are constrained by the school district's intent to be used for specific purposes, but are neither restricted nor committed.

**Unassigned** - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The school district reports positive unassigned fund balance only in the general fund. Negative fund balances may be reported in all funds.

**Flow Assumptions** - When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the school district's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the school district's policy to use fund balance in the following order:

- \* Committed
- \* Assigned
- \* Unassigned

**Net Position** - Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the school district has not spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

#### K. Interfund Transactions

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

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

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

#### L. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

#### Note 2 DEPOSITS AND INVESTMENTS

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

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

Authorized collateral includes bills, notes or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investments companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district or any other political subdivision of the State of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or other securities approved by the banking board.

At June 30, 2018 the school district's carrying amount of deposits was \$20,300,298 and the bank balance was \$20,372,132. Of the bank balance, \$755,421 was covered by Federal Depository Insurance. The remaining balance of \$19,616,711 was collateralized with securities held by the pledging financial institution's agent in the government's name.

### Credit Risk

The school district may invest idle funds as authorized in North Dakota Statutes, as follows:

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

At June 30, 2018 the school district held certificates of deposit in the amount of \$1,501,038, which are all considered deposits.

### Concentration of Credit Risk

The school district does not have a limit on the amount the school district may invest in any one issuer.

#### Note 3 PREPAID EXPENSE

Prepaid expense consists of amounts paid in 2018, which are applicable to 2019. It is the intent of the school district to expense these items in the subsequent year.

#### Note 4 TAXES RECEIVABLE

Taxes receivable represents the past three years of uncollected current and delinquent taxes. No allowance has been established for uncollectible taxes receivable.

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

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

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

#### Note 5 DUE FROM COUNTY TREASURER

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

#### Note 6 INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of the reimbursement due from the Wil-Mac Multidistrict Special Education Unit for special education tuition and excess special education costs for the year ending June 30, 2018 but received subsequent to that date.

Note 7 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2018:

	Balance July 1	Increases	Decreases	Balance June 30
Governmental Activities:				
<i>Capital assets</i>				
<i>being depreciated:</i>				
Buildings	75,253,756			75,253,756
Vehicles	3,967,165	57,975	51,964	3,973,176
Total	<u>79,220,921</u>	<u>57,975</u>	<u>51,964</u>	<u>79,226,932</u>
<i>Less accumulated depreciation for:</i>				
Buildings	5,374,286	1,098,514		6,472,800
Vehicles	2,290,409	635,147	51,964	2,873,592
Total	<u>7,664,695</u>	<u>1,733,661</u>	<u>51,964</u>	<u>9,346,392</u>
Governmental Activities Capital Assets, Net	71,556,226	(1,675,686)	-0-	69,880,540
	=====	=====	=====	=====

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

Operations and Maintenance	16,231
Student Transportation	618,907
Student Activities	65,796
Unallocated Depreciation	1,032,727
Total Depreciation Expense	<u>1,733,661</u>
	=====

Note 8 PAYROLL BENEFITS PAYABLE

Payroll benefits payable consists of benefits owed to federal, state and private agencies for amounts withheld from teacher's salaries as of June 30 but not yet remitted.

Note 9 INTEREST PAYABLE

Interest payable consists of interest on long-term liabilities accrued to June 30, 2018.

Note 10 UNAVAILABLE REVENUE

Unavailable revenue on the fund financial statements consists of amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available and includes taxes receivable.



Note 11 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended June 30, 2018, the following changes occurred in liabilities reported in the long-term liabilities - Governmental Activities:

	Balance July 1	Increases	Decreases	Balance June 30	Due Within One Year
Gen. Obligation Bonds	26,940,000		1,095,000	25,845,000	1,230,000
State School					
Construction Loans	17,917,878		1,567,063	16,350,815	1,052,383
Revenue Bonds	7,795,000		445,000	7,350,000	450,000
Compensated Absences *	100,891		23,638	77,253	
<b>Total</b>	<u>52,753,769</u>	<u>-0-</u>	<u>3,130,701</u>	<u>49,623,068</u>	<u>2,732,383</u>

\* The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of increases and decreases.

Outstanding debt at June 30, 2018 consists of the following:

General Obligation Debt. General obligation debt is a direct obligation and pledges the full faith and credit of the government.

Bonds and Loans Payable. The school district has issued general obligation bonds and loans to provide funds for the construction and renovation of major capital facilities.

\$2,695,000 Limited Tax Bonds, Series 2013, due in annual installments of \$170,000 to \$200,000 through August 1, 2027; interest is at .7% to 1.9%.	1,825,000.00
\$17,000,000 General Obligation School Building Bonds, Series 2014, due in annual installments of \$660,000 to \$2,085,000 through August 1, 2029; interest is at 2% to 4%.	15,710,000.00
\$7,000,000 State School Construction Loan, Series 2015, due in annual payments of \$406,362.27 through June 1, 2034; payments include interest at 1%.	5,980,788.66
\$3,000,000 State School Construction Loan, Series 2015B, due in annual payments of \$174,155.26 through June 1, 2034; payments include interest at 1%.	2,563,195.13
\$7,025,000 General Obligation Building Fund Bonds, Series 2015, due in annual installments of \$315,000 to \$470,000 through August 1, 2034; interest is at 3% to 3.5%.	6,420,000.00
\$1,975,000 General Obligation Building Fund Bonds, Series 2016, due in annual installments of \$85,000 to \$140,000 through August 1, 2035; interest is at 2% to 3%.	1,890,000.00
\$10,000,000 State Aid Certificate of Indebtedness, Series 2015, due in semi-annual payments of \$547,458.12 through May 19, 2026; payments include interest at 3.50468%.	7,806,831.41
<b>Total Bonds and Loans Payable</b>	<u>42,195,815.20</u>

The annual requirements to amortize the outstanding general obligation bond and loan debt are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2019	2,282,383	1,410,050
2020	2,442,082	1,338,406
2021	2,599,665	1,261,348
2022	2,760,335	1,168,902
2023	2,924,310	1,059,868
2024-2028	17,799,054	3,344,145
2029-2033	9,493,218	668,845
2034-2036	1,894,770	56,610
Total	<u>42,195,815</u>	<u>10,308,174</u>
	=====	=====

Component Unit Debt

Revenue Bonds. The McKenzie County Public School District Building Authority issued bonds whereby the authority pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at June 30, 2018 are as follows:

\$9,870,000 Lease Revenue Bonds, Series 2012, due in annual installments of \$450,000 to \$615,000 through May 1, 2032; interest is at 2% to 2.85%.	7,350,000.00
	=====

The annual requirements to amortize the outstanding revenue bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2019	450,000	177,508
2020	460,000	168,508
2021	470,000	159,308
2022	480,000	149,908
2023	490,000	140,068
2024-2028	2,635,000	527,130
2029-2032	2,365,000	167,658
Total	<u>7,350,000</u>	<u>1,490,085</u>
	=====	=====

Note 12 TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended June 30, 2018:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Food Service General Fund	78,964.18	78,964.18
To subsidize expenditures.		
Special Reserve General Fund	1,000,000.00	1,000,000.00

To set-aside funds for future projects.

Note 13 RISK MANAGEMENT

The McKenzie County Public School District No. 1 is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The school district pays an annual premium to NDIRF for its general liability and automobile insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile.

The school district also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The school district pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the school district with a blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The school district has worker's compensation with the Department of Workforce Safety and Insurance; and purchases commercial insurance for employee health and accident insurance.

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

Note 14 PENSION PLANS

1. North Dakota Teachers Fund for Retirement

The following brief description of TFFR is provided for general information purposes only. Participants should refer to NDCC Chapter 15-39.1 for more complete information.

TFFR is a cost-sharing multiple-employer defined benefit pension plan covering all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, death and disability benefits. The cost to administer the TFFR plan is financed by investment income and contributions.

Responsibility for administration of the TFFR benefits program is assigned to a Board comprised of seven members. The Board consists of the State Treasurer, the Superintendent of Public Instruction and five members appointed by the Governor.

## Pension Benefits

For purposes of determining pension benefits, members are classified within one of three categories. *Tier 1 grandfathered* and *Tier 1 non-grandfathered* members are those with service credit on file as of July 1, 2008. *Tier 2* members are those newly employed and returning refunded members on or after July 1, 2008.

A *Tier 1 grandfathered* member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

A *Tier 1 non-grandfathered* member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

A *Tier 2* member is entitled to receive unreduced benefits when five or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR for all three categories are determined by NDCC Section 15-39.1-10. *Tier 1* Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. *Tier 2* Monthly benefits under TFFR are equal to the five highest annual salaries earned divided by 60 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

### **Death and Disability Benefits**

Death benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are determined by the member's vesting status prior to death. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement.

An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teaching, (b) the member has accumulated five years of credited service in North Dakota, and (c) the Board of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and uses the member's actual years of credited service. There is no actuarial reduction for reason of disability retirement.

### **Member and Employer Contributions**

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 11.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 12.75% of the teacher's salary. Member and employer contributions will be reduced to 7.75% each when the fund reaches 100% funded ratio on an actuarial basis.

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70.5. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

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

At June 30, 2018, the McKenzie County Public School District reported a liability of \$14,359,114 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The district's proportion of the net pension liability was based on the district's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At June 30, 2017 the district's proportion was 1.045420 percent, which was an increase of .043437 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018 the district recognized pension expense of \$1,839,615. At June 30, 2018 the district reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

	Deferred Outflows of Resources -----	Deferred Inflows of Resources -----
Differences between expected and actual experience	55,077	156,750
Changes in assumptions	1,023,464	
Net difference between projected and actual earnings on pension plan investments	198,340	
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,151,687	
District contributions subsequent to the measurement date (see below)	967,526	
Total	----- 4,396,094 -----	----- 156,750 -----

\$967,526 reported as deferred outflows of resources related to pensions resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

Year ended June 30: -----	
2019	705,221
2020	1,016,324
2021	821,541
2022	479,825
2023	201,761
Thereafter	47,149

**Actuarial assumptions.** The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	4.25% to 14.50%, varying by service, including inflation and productivity.
Investment rate of return	7.75%, net of investment expenses.
Cost-of-living adjustments	None

For active and inactive members, mortality rates were based on the RP-2014 Employee Mortality Table, projected generationally using Scale MP-2014. For healthy retirees, mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table set back on year, multiplied by 50% for ages under 75 and grading up to 100% by age 80, projected generationally using Scale MP-2014. For disabled retirees, mortality rates were based on the RP-2014 Disabled Mortality Table set forward four years.

The actuarial assumptions used were based on the results of an actuarial experience study dated April 30, 2015. They are the same as the assumptions used in the July 1, 2017, funding actuarial valuation for TFFR.

As a result of the April 30, 2015 actuarial experience study, the TFFR board adopted several assumption changes, including the following:

- \* Investment return assumption lowered from 8% to 7.75%.
- \* Inflation assumption lowered from 3% to 2.75%.
- \* Total salary scale rates lowered by 0.25% due to lower inflation.
- \* Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- \* Rates of turnover and retirement were changed to better reflect anticipated future experience.
- \* Updated mortality assumption to the RP-2014 tables with generational improvement.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	58%	6.70%
Global Fixed Income	23%	0.80%
Global Real Assets	18%	5.20%
Cash Equivalents	1%	0.00%

**Discount rate.** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2017, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

**Sensitivity of the district's proportionate share of the net pension liability to changes in the discount rate.** The following presents the district's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the district's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)
The district's proportionate share of the net pension liability	19,090,697	14,359,114	10,420,214

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

## 2. North Dakota Public Employees Retirement System (Main System)

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

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

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

### **Pension Benefits**

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

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

### **Death and Disability Benefits**

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



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

#### **Refunds of Member Account Balance**

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

#### **Member and Employer Contributions**

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

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

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

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

At June 30, 2018, the McKenzie County Public School District reported a liability of \$644,073 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The district's proportion of the net pension liability was based on the district's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2017 the district's proportion was .222782 percent, which was an increase of .0376790 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018 the district recognized pension expense of \$644,073. At June 30, 2018 the district reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	-----	-----
Differences between expected and actual experience	21,284	17,447
Changes in assumptions	1,468,385	80,764
Net difference between projected and actual earnings on pension plan investments	48,159	
Changes in proportion and differences between employer contributions and proportionate share of contributions	396,161	(1)
District contributions subsequent to the measurement date (see below)	185,214	
Total	----- 2,119,203 -----	----- 98,210 -----

\$185,214 reported as deferred outflows of resources related to pensions resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

Year ended June 30:	
-----	
2019	414,215
2020	480,296
2021	429,487
2022	334,777
2023	172,004
Thereafter	0

**Actuarial assumptions.** The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%	
Salary increases	Service at Beginning of Year	Increase Rate
	-----	-----
	0	15.00%
	1	10.00%
	2	8.00%
	Age *	
	-----	
	Under 36	8.00%
	36 - 40	7.50%
	41 - 49	6.00%
	50+	5.00%

\* Age-based salary increase rates apply for employees with three or more years of service.

Investment rate of return 7.75%, net of investment expenses.  
 Cost-of-living adjustments None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Morality Table with ages set back one year for males (not set back for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2017, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
-----	-----	-----
Domestic Equity	31%	6.05%
International Equity	21%	6.70%
Private Equity	5%	10.20%
Domestic Fixed Income	17%	1.43%
International Equity Income	5%	-0.45%
Global Real Assets	20%	5.16%
Cash Equivalents	1%	0.00%

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

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payment payments through the year 2061, Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061. and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate is 6.44%.

**Sensitivity of the district's proportionate share of the net pension liability to changes in the discount rate.** The following presents the district's proportionate share of the net pension liability calculated using the discount rate of 6.44 percent, as well as what the district's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

	1% Decrease (5.44%)	Current Rate (6.44%)	1% Increase (7.44%)
	-----	-----	-----
The district's proportionate share of the net pension liability	4,861,097	3,580,838	2,515,716

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

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1  
Watford City, North Dakota

Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Local Sources	6,305,544.15	6,305,544.15	6,443,964.61	138,420.46
County Sources	2,100,026.51	2,100,026.51	3,127,891.35	1,027,864.84
State Sources	11,200,132.03	11,200,132.03	11,013,167.63	(186,964.40)
Federal Sources	1,652,158.29	1,670,188.47	2,851,613.73	1,181,425.26
Other Sources	5,000.00	5,000.00	36,207.99	31,207.99
<b>Total Revenues</b>	<b>21,262,860.98</b>	<b>21,280,891.16</b>	<b>23,472,845.31</b>	<b>2,191,954.15</b>
<u>Expenditures:</u>				
Current:				
Regular Instruction	8,833,899.05	8,833,899.05	8,493,361.57	340,537.48
Federal Programs	400,450.14	418,480.32	564,105.31	(145,624.99)
Special Education	1,993,717.28	1,993,717.28	1,493,909.21	499,808.07
Vocational Education	667,667.13	667,667.13	630,608.35	37,058.78
District Wide Services	705,515.06	705,515.06	675,488.53	30,026.53
Administration	670,906.89	670,906.89	621,754.64	49,152.25
Operations and Maintenance	4,231,120.38	4,231,120.38	3,947,642.75	283,477.63
Student Transportation	1,186,550.05	1,186,550.05	1,093,140.54	93,409.51
Early Childhood Education Community Prog.			81,017.10	(81,017.10)
Student Activities	398,376.66	398,376.66	372,355.23	26,021.43
Tuition and Assessments	660,834.31	660,834.31	688,283.80	(27,449.49)
Capital Outlay	100,000.00	100,000.00	57,975.00	42,025.00
Debt Service:				
Principal	1,334,842.97	1,334,842.97	1,521,886.40	(187,043.43)
Interest			437,505.43	(437,505.43)
<b>Total Expenditures</b>	<b>21,183,879.92</b>	<b>21,201,910.10</b>	<b>20,679,033.86</b>	<b>522,876.24</b>
Excess (Deficiency) of Revenues Over Expenditures	78,981.06	78,981.06	2,793,811.45	2,714,830.39
<u>Other Financing (Uses):</u>				
Transfers Out	(78,964.18)	(78,964.18)	(1,078,964.18)	(1,000,000.00)
<b>Net Change in Fund Balances</b>	<b>16.88</b>	<b>16.88</b>	<b>1,714,847.27</b>	<b>1,714,830.39</b>
Fund Balance - July 1	3,806,592.55	3,806,592.55	3,806,592.55	
Fund Balance - June 30	3,806,609.43	3,806,609.43	5,521,439.82	1,714,830.39

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1  
 Watford City, North Dakota

Notes to the Budgetary Comparison Schedule  
 June 30, 2018

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

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

School district taxes must be levied by the governing board on or before August 15. The taxes levied must be certified to the county auditor by August 25. The governing board may amend its tax levy and budget, but the certification must be filed with the county auditor by October 10. The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.

Note 2 LEGAL COMPLIANCE

Budget Amendments

The governing board approved the following amendments to the school district's budget for the year ending June 30, 2018:

	<u>Estimated Revenues</u>		
	<u>Original Budget</u>	<u>Amendments</u>	<u>Amended Budget</u>
General Fund	21,262,861	18,030	21,280,891
	<u>Appropriations</u>		
	<u>Original Budget</u>	<u>Amendments</u>	<u>Amended Budget</u>
General Fund	21,183,880	18,030	21,201,910

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1  
Watford City, North Dakota

Schedule of Employer's Share of Net Pension Liability  
ND Teacher's Fund for Retirement  
Last 10 Fiscal Years\*

	2018	2017	2016	2015
	-----	-----	-----	-----
District's proportion of the net pension liability	1.045420%	1.001983%	0.909210%	0.767411%
District's proportionate share of the net pension liability	14,359,114	14,785,128	11,891,150	8,041,107
District's covered-employee payroll	7,052,705	6,556,747	5,585,064	4,451,391
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	203.60%	225.49%	212.91%	180.64%
Plan fiduciary net position as a percentage of the total pension liability	63.2%	59.2%	62.1%	66.6%

Schedule of Employer Contributions  
ND Teacher's Fund for Retirement  
Last 10 Fiscal Years\*

	2018	2017	2016	2015
	-----	-----	-----	-----
Statutorily required contribution	899,219	835,986	712,700	478,509
Contributions in relation to the statutorily required contribution	(899,219)	(835,986)	(712,700)	(478,509)
Contribution deficiency (excess)	0	0	0	0
District's covered-employee payroll	7,052,705	6,556,747	5,585,064	4,451,391
Contributions as a percentage of covered-employee payroll	12.75%	12.75%	12.76%	10.75%

\* Complete data for this schedule is not available prior to 2015.

- For changes of assumptions, see Note 14 to the financial statements.

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1  
Watford City, North Dakota

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

	2018	2017	2016	2015
	-----	-----	-----	-----
District's proportion of the net pension liability	0.222782%	0.185103%	0.181762%	0.154311%
District's proportionate share of the net pension liability	3,580,838	1,804,009	1,235,951	979,445
District's covered-employee payroll	2,291,553	2,076,932	1,935,882	1,433,167
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	156.26%	86.86%	63.84%	68.34%
Plan fiduciary net position as a percentage of the total pension liability	61.98%	70.46%	77.15%	77.70%

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

	2018	2017	2016	2015
	-----	-----	-----	-----
Statutorily required contribution	163,149	147,878	137,937	96,139
Contributions in relation to the statutorily required contribution	(163,149)	(147,878)	(137,937)	(96,139)
Contribution deficiency (excess)	0	0	0	0
District's covered-employee payroll	2,291,553	2,076,932	1,935,882	1,433,167
Contributions as a percentage of covered-employee payroll	7.12%	7.12%	7.13%	6.71%

\* Complete data for this schedule is not available prior to 2015.

- For changes of assumptions, see Note 14 to the financial statements.



MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1  
Watford City, North Dakota

Schedule of Fund Activity Arising from Client Transactions  
For the Year Ended June 30, 2018

	Balance 7-1-17	Revenues	Transfers In	Transfers Out	Expenditures	Balance 6-30-18
General Fund	3,609,126.12	22,439,906.58		1,078,964.18	20,679,033.86	4,291,034.66
<u>Special Revenue Funds</u>						
Special Reserve	1,224,712.33	598,253.40	1,000,000.00			2,822,965.73
Food Service	(78,931.88)	887,659.90	78,964.18		879,285.10	8,407.10
Total Special Revenue Funds	1,145,780.45	1,485,913.30	1,078,964.18		879,285.10	2,831,372.83
<u>Debt Service Fund</u>						
Sinking and Interest	2,047,229.22	2,332,166.62			1,839,700.03	2,539,695.81
<u>Capital Projects Fund</u>						
Building	9,053,164.15	2,167,928.75			1,016,897.40	10,204,195.50
<u>Fiduciary Funds</u>						
<u>Private Purpose Trust Fund</u>						
Scholarships	8,972.93	7.08			2,000.00	6,980.01
<u>Agency Fund</u>						
Student Activity Funds	108,766.74	425,126.30			342,254.30	191,638.74
Total Fiduciary Funds	117,739.67	425,133.38			344,254.30	198,618.75
Total All Funds	15,973,039.61	28,851,048.63	1,078,964.18	1,078,964.18	24,759,170.69	20,064,917.55

The above schedule is reported on a client basis, which includes an adjustment to cash and investments for prepaid expense and payroll benefits payable in the general fund and payroll benefits payable in the food service fund.

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1  
Watford City, North Dakota

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2018

Federal Grantor Pass-Through Grantor <u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Passed Through State Department of Public Instruction:			
Child Nutrition Cluster:			
School Breakfast Program	10.553		54,753.65
National School Lunch Program	10.555		234,721.77
Commodity Assistance for Schools	10.555		49,594.88
Total Passed Through State Department of Public Instruction			339,070.30
Passed Through McKenzie County:			
Bankhead Jones - Schools and Roads - Grants to Counties	10.666		707,200.00
Total Department of Agriculture			1,046,270.30
<u>U.S. Department of the Interior</u>			
Passed Through McKenzie County:			
Flood Control Act Lands	15.433		1,399,091.03
Mineral Leasing Act	15.437		290,420.00
Total U.S. Department of the Interior			1,689,511.03
<u>U.S. Department of Education</u>			
Passed Through Tioga Public School District:			
Career and Technical Education - Basic Grants to States	84.048		20,000.00
Passed Through State Department of Public Instruction:			
English Language Acquisition State Grants	84.365		2,704.63
Passed Through Great Northwest Regional Education Association:			
English Language Acquisition State Grants	84.365		7,129.27
Total English Language Acquisition State Grants			9,833.90

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1  
 Watford City, North Dakota

Schedule of Expenditures of Federal Awards  
 For the Year Ended June 30, 2018  
 (Continued)

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	<u>Expenditures</u>
Passed Through State Department of Public Instruction:			
Title I, Grants to Local Education Agencies	84.010		321,836.55
Education for Homeless Children and Youth	84.196		15,000.00
Improving Teacher Quality State Grants	84.367		78,232.25
Student Support and Academic Enrichment Grants	84.424		10,000.00
Total Passed Through State Department of Public Instruction			<u>425,068.80</u>
Total Department of Education			<u>454,902.70</u>
Total Expenditures of Federal Awards			<u>3,190,684.03</u> =====

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is prepared on the modified accrual basis of accounting.

The de minimis indirect cost rate was not used.

# Rath & Mehrer

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*Specializing in Governmental Auditing*

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

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
McKenzie County Public School District No. 1  
Watford City, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregated remaining fund information of the McKenzie County Public School District No. 1, Watford City, North Dakota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the school district's basic financial statements, and have issued our report thereon dated November 30, 2018.

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the school district's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2018-001 and 2018-002, that we consider to be significant deficiencies.

### Compliance and Other Matters

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

### School District's Response to Findings

The school district's response to the findings identified in our audit are described in the accompanying *Schedule of Findings and Responses*. The school district's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the school district's internal control or on compliance. This is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the school district's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rath and Mehrer, P.C.

Bismarck, North Dakota

November 30, 2018

# Rath & Mehrer

Certified Public Accountants

*Specializing in Governmental Auditing*

Phone: (701) 258-4560

Jayson Rath, CPA  
Ken Mehrer, CPA

425 North Fifth Street  
Bismarck, ND 58501

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
McKenzie County Public School District No. 1  
Watford City, North Dakota

### **Report on Compliance for Each Major Federal Program**

We have audited the McKenzie County Public School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the school district's major federal program for the year ended June 30, 2018. The school district's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and responses.

### **Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to each of its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the school district's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the school district's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the school district's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the school district complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

## Report on Internal Control Over Compliance

Management of McKenzie County Public School District No. 1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the school district's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



Rath and Mehrer, P.C.

Bismarck, North Dakota

November 30, 2018

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1  
Watford City, North Dakota

Schedule of Findings and Responses  
For the Year Ended June 30, 2018

SECTION I - SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

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

Internal control over financial reporting:

\* Material weakness(es) identified?       Yes       No

\* Significant deficiency(ies) identified?       Yes       None Reported

Noncompliance Material to financial  
statements noted?       Yes       No

Federal Awards

Internal control over major program(s):

\* Material weakness(es) identified?       Yes       No

\* Significant deficiency(ies) identified?       Yes       None Reported

Type of auditor's report issued on  
compliance for major program(s):

Unmodified

Any audit findings disclosed that are  
required to be reported in accordance  
with 2 CFR 200.516 (a)?

Yes       No

Identification of major program(s):

<u>CFDA Number</u>	<u>Name of Federal Program</u>
15.433	Flood Control Act Lands

Dollar threshold used to distinguish  
between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes       No



**SECTION II - FINANCIAL STATEMENT FINDINGS:**

Significant Deficiencies

1. 2018-001 - Segregation of Duties

*Condition:* The school district has one person responsible for most accounting functions.

*Criteria:* There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over assets of the school district.

*Effect:* There is no segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger and prepare financial statements. This increases the risk of misstatement of the school district's financial condition.

*Recommendation:* Due to the size of the school district, it is not feasible to obtain proper separation of duties and no recommendation will be made.

*Client Response:* No response is considered necessary.

2. 2018-002 - Financial Statement Preparation

*Condition:* The school district's financial statements as of June 30, 2018 are prepared by the school district's external auditors.

*Criteria:* A good system of internal controls requires the school district to determine that the financial statements are prepared based on accounting principles generally accepted in the United States of America. This means that the school district must maintain knowledge of current accounting principles and required financial statement disclosures.

*Effect:* A control system is not in place to determine that the financial statements are properly stated and in compliance with accounting principles generally accepted in the United States of America.

*Recommendation:* We recommend the school district obtain the necessary knowledge of current accounting principles to prepare financial statements or outsource the preparation of its financial statements.

*Client Response:* It is not cost effective for the school district to prepare its own financial statements.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported

# Rath & Mehrer

Certified Public Accountants

*Specializing in Governmental Auditing*

Phone: (701) 258-4560  
Jayson Rath, CPA  
Ken Mehrer, CPA

425 North Fifth Street  
Bismarck, ND 58501

Governing Board  
McKenzie County Public School District No. 1  
Watford City, North Dakota

Our audit of the financial records of the McKenzie County Public School District No. 1, Watford City, North Dakota, for the year ended June 30, 2018 has disclosed opportunities for improvements in the operations of the school. Items which we believe should be brought to your attention are set forth below:

\* \* \* \* \*

ACCOUNTING RECORDS

The accounting records of the district are not being maintained on an accurate and timely basis.

The general checking account and general ledger should be accurately reconciled and updated shortly after each month-end. Any errors should be found and corrected immediately.

\* \* \* \* \*

This letter is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this letter which, upon acceptance by the school district, is a matter of public record.

We would like to acknowledge all the assistance and many courtesies extended to us by the personnel of the school district during our audit.

*Rath and Mehrer*

Rath and Mehrer, P.C.

November 30, 2018



# *McKenzie County Public School Dist. No. 1*

100 East Third Street P. O. Box 589  
Ph: (701) 444-3626

Watford City, North Dakota 58854  
(701) 444-6345

January 2019

This letter is to provide confirmation that account reconciliations and entries have been completed to date.

Becky Smith  
Business Manager

*Home of the Watford City Wolves!*

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**APPENDIX B**

**Form of Legal Opinion**

*(This page has been left blank intentionally.)*

June 27, 2019

McKenzie County Public School District No. 1  
PO Box 589  
Watford City, ND 58854

Mesirow Financial, Inc.  
353 North Clark Street  
Chicago, IL 60654

**\$25,000,000**  
**McKenzie County Public School District No. 1**  
**General Obligation School Building Bonds, Series 2019A**

We have acted as Bond Counsel to McKenzie County Public School District No. 1, McKenzie County, North Dakota (the "Issuer") in connection of the issuance of its \$25,000,000 General Obligation School Building Bonds, Series 2019A dated June 27, 2019 (the "Bonds"). In such capacity, we have examined such law and such certified proceedings and other documents as we deemed necessary to render this opinion.

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

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

Based on our examination, we are of the opinion, as of the date hereof and under existing law, as follows:

1. The Bonds are valid and binding general obligations of the Issuer.
2. All taxable property within the corporate limits of the Issuer is subject to ad valorem taxation without limitation as to rate or amount to pay the Bonds. The Issuer is required by law

to include in its annual tax levy the principal and interest coming due on the Bonds to the extent the necessary funds are not provided from other sources.

3. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

4. The interest on the Bonds is excluded from gross income for State of North Dakota income tax purposes.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights generally to the extent applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Sincerely,

**ARNTSON STEWART WEGNER PC**



**APPENDIX C**

**Form of Continuing Disclosure Agreement**

*(This page has been left blank intentionally.)*

## CONTINUING DISCLOSURE CERTIFICATE

**THIS CONTINUING DISCLOSURE CERTIFICATE** (this “Disclosure Certificate”) is made and entered into as of June 27, 2019, by McKenzie County Public School District No. 1 of McKenzie County, North Dakota (the “District”), in connection with the issuance of the District’s \$25,000,000 General Obligation School Building Bonds, Series 2019A (the “Bonds”). The Bonds are being issued pursuant to a Resolution adopted June 10, 2019 (the “Resolution”), and the Bonds will be delivered to the Purchaser on the date hereof. Pursuant to Section 7.02 of the Resolution, the District covenants and agrees as follows:

**SECTION 1. PURPOSE OF THIS DISCLOSURE CERTIFICATE.** This Disclosure Certificate is being executed and delivered by the District for the benefit of the Owners of the Bonds and 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 definitions set forth in the Resolution, which apply to any capitalized term use 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 District pursuant to and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

**“Dissemination Agent”** means any Dissemination Agent appointed hereunder, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

**“Final Official Statement”** means the deemed final official statement dated June \_\_\_\_, 2019, which constitutes the final official statement delivered in connection with the Bonds, which is available from the MSRB.

**“Financial Obligation”** means: (i) a debt obligation; (ii) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of a debt obligation or derivative instrument. Financial Obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

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

**“Fiscal Year”** means the fiscal year of the District.

**“MSRB”** means the Municipal Securities Rulemaking Board located at 1300 I Street NW, Suite 1000, Washington, DC 20005.

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

**“Participating Underwriter”** means any of the original underwriters of the Bonds (including the Purchaser) required to comply with the Rule in connection with the offering of the Bonds.

**“Repository”** means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (EMMA®) system or any other nationally recognized municipal securities information repository recognized from time to time by the SEC for purposes of the Rule.

**“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 the Securities and Exchange Commission.

**“Specified Event”** means any of the events listed in Section 5(a) of this Disclosure Certificate.

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

(a) The District shall, or shall cause any Dissemination Agent to, not later than 365 days after the end of each fiscal year, commencing with the fiscal year ending June 30, 2019, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent, if any. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited Financial Statements of the District may be submitted separately from the balance of the Annual Report.

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

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

(d) The Disclosure Representative or the Dissemination Agent, if any, shall:

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

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

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

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

(a) audited Financial Statements; and

(b) updated information contained in the Final Official Statement as listed in Exhibit B to this Disclosure Certificate.

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

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

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

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties (the Bond issue has no debt service reserve);
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform (the Bond issue has no credit or liquidity providers);
- (vi) Adverse tax opinions the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the bonds, or other material events affecting the tax status of the Bonds;
- (vii) Modifications to rights of Owners of the Bonds, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the Bonds;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar events of the District;
- (xiii) The consummation of a merger, consolidation or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (xv) Incurrence of a Financial Obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar

terms of a Financial Obligation of the District, any of which affect security holders, if material; and

(xvi) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties.

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

(c) Unless otherwise required by law and subject to technical and economic feasibility, the District shall employ such methods of information transmission as shall be requested or recommended by the designated recipients of the District's information.

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

**SECTION 7. DISSEMINATION AGENT.** The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is no other designated Dissemination Agent, the Business Manager of the District shall be the Dissemination Agent.

**SECTION 8. AMENDMENT; WAIVER.** Notwithstanding any other provision of this Disclosure Certificate, the District and the Dissemination Agent may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the District) 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 herein to violate the Rule. This Disclosure Certificate, or any provision hereof, shall be null and void in the event that the District receives 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 receipt by the District of 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 by the District with the Rule.

**SECTION 9. ADDITIONAL INFORMATION.** Nothing in this Disclosure Certificate shall be deemed to prevent the District 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 Annual Report or notice of occurrence of a Specified Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to

include any information in any Annual Report or notice of occurrence of a Specified Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Specified Event.

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

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

**SECTION 12. BENEFICIARIES.** This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters, and Owners, including beneficial owners, from time to time of the Bonds, and shall create no rights in any other person or entity.

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



**IN WITNESS WHEREOF**, the District has caused this Disclosure Certificate to be executed by its duly authorized officers, all as of the date first above written.

**MCKENZIE COUNTY PUBLIC SCHOOL  
DISTRICT NO. 1, MCKENZIE  
COUNTY, NORTH DAKOTA**

---

President of the School Board

ATTEST:

---

Business Manager

**EXHIBIT A**

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

Name of Issuer: McKenzie County Public School District No. 1

Name of Bond Issue: General Obligation School Building Bonds, Series 2019A

Name of District: McKenzie County Public School District No. 1

Date of Issuance: June 27, 2019

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named bonds as required by Section 7.02 of the Resolution adopted June 10, 2019. The District anticipates that the Annual Report will be filed by \_\_\_\_\_.

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

on behalf of the DISTRICT

cc: District

## **EXHIBIT B**

Financial Summary	
Table 8	General Obligation Long-Term Debt by Issue
Table 9	General Obligation Long-Term Debt, Annual Maturity Schedule
Table 10	Limited Tax Long-Term Debt by Issue
Table 11	Limited Tax Long-Term Debt, Annual Maturity Schedule
Table 12	Lease Obligations by Issue
Table 13	Lease Obligations, Annual Maturity Schedule
Table 14	Certificates of Indebtedness
Table 15	Certificates of Indebtedness, Annual Maturity Schedule