

*In the opinion of Arntson Stewart Wegner PC, Bismarck, North Dakota, Bond Counsel, the interest to be paid on the Certificates 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**

**\$35,140,000 STATE AID REFUNDING CERTIFICATES OF INDEBTEDNESS, SERIES 2018  
MCKENZIE COUNTY, NORTH DAKOTA**

**Dated:** December 12, 2018**Principal Due:** August 1, 2019 through 2027

The \$35,140,000 State Aid Refunding Certificates of Indebtedness, Series 2018 (the "Certificates") are being issued by the McKenzie County, North Dakota (the "County") pursuant to the provisions of Chapter 21-02 of the North Dakota Century Code. The proceeds of the Certificates will be issued for the purpose of (i) refunding the Certificate of Indebtedness, Series 2015, and (ii) paying the costs associated with the issuance of the Certificates. The Certificates are a valid and binding limited obligation of the County, payable from the State Appropriations to be received from the allocations of the Oil and Gas Gross Production Tax ("OGGPT") to the County.

The Certificates will be issued as fully registered certificates 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 Certificates. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Certificates purchased. Principal of the Certificates, payable annually on August 1, 2019 through 2027, and interest, payable semiannually on each February 1 and August 1 commencing February 1, 2019, 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 Certificates as described herein.

The Certificates 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>
2019	\$ 3,710,000	5.00%	2.12%	58153P AA5	2024	\$ 4,015,000	5.00%	2.60%	58153P AF4
2020	3,305,000	5.00%	2.25%	58153P AB3	2025	4,220,000	4.00%	2.80%	58153P AG2
2021	3,470,000	5.00%	2.35%	58153P AC1	2026	4,385,000	4.00%	2.92%	58153P AH0
2022	3,645,000	5.00%	2.44%	58153P AD9	2027	4,565,000	4.00%	3.05%	58153P AJ6
2023	3,825,000	5.00%	2.53%	58153P AE7					

The Certificates maturing on August 1, 2024, and thereafter are subject to optional redemption on August 1, 2023, and any date thereafter at a price of par plus accrued interest. (See "Redemption Provisions" herein)

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

**TRUSTEE:** Bank of North Dakota, Bismarck, North Dakota

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

**Bank of America Merrill Lynch** has agreed to purchase the Certificates from the District for an aggregate price of **\$37,231,391.10**. The Certificates will be available for delivery on or about December 12, 2018.

The date of this Official Statement is December 4, 2018.

(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.)

**BANK OF AMERICA MERRILL LYNCH**





No dealer, broker, salesman or other person has been authorized by the County, 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 County, 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 Certificates 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 County 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 County or in any other information contained herein, since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES 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 \$35,140,000 State Aid Refunding Certificates of Indebtedness, Series 2018 (the "Certificates") issued by McKenzie County, North Dakota (the "County") 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, North Dakota (the "County").						
<b>Authority of Issuance:</b>	The Certificates are being issued by the County pursuant to Chapter 21-02 of the North Dakota Century Code, and a resolution that has been duly adopted by the County.						
<b>Purpose:</b>	The Certificates will be issued to (i) refund the Certificate of Indebtedness, Series 2015, and (ii) pay the costs associated with the issuance of the Certificates.						
<b>Security:</b>	The Certificates are special limited obligations of the County for the payment of which it pledges its allocations of the Oil and Gas Gross Production Tax appropriated by the State Legislature.						
<b>Principal Payments:</b>	Principal of the Certificates is payable annually on August 1 of the years 2019 through 2027.						
<b>Interest Payments:</b>	Interest on the Certificates is payable on February 1 and August 1, commencing February 1, 2019.						
<b>Optional Redemption:</b>	The Certificates maturing on August 1, 2024, and thereafter are subject to optional redemption on August 1, 2023, 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 Certificates will be issued as book-entry only securities through the Depository Trust Company.						
<b>Registrar &amp; Trustee:</b>	Bank of North Dakota						
<b>Tax Status:</b>	Generally exempt from federal and state income taxes (see "State and Federal Tax Considerations" page 19).						
<b>Professional Consultants:</b>	<table><tr><td><i>Municipal Advisor:</i></td><td>PFM Financial Advisors LLC Fargo, North Dakota Minneapolis, Minnesota</td></tr><tr><td><i>Bond Counsel:</i></td><td>Arntson Stewart Wegner PC Fargo, North Dakota</td></tr><tr><td><i>Trustee:</i></td><td>Bank of North Dakota Bismarck, North Dakota</td></tr></table>	<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>Trustee:</i>	Bank of North Dakota Bismarck, North Dakota
<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>Trustee:</i>	Bank of North Dakota Bismarck, North Dakota						
<b>Legal Matters:</b>	Validity, tax exemption, and legal matters incident to the authorization and issuance of the Certificates 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 December 12, 2018.						

The information set forth herein has been obtained from the County 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 County or in any other information contained herein, since the date hereof.

*The Official Statement is in a form deemed final as of its date for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1) (the "Rule"), but is subject to minor revision or amendment in accordance with the Rule. Not later than seven business days following the award of the Certificates, the County shall provide copies of the Final Official Statement, as that term is used in the Rule, to the purchaser of the Certificates. The purchaser of the Certificates will be supplied with Final Official Statements in a quantity sufficient to meet its request. Up to 25 copies of the Final Official Statement will be furnished without cost.*

Questions regarding the Certificates or the Official Statement can be directed to, and additional copies of the Official Statement, the County'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 County's Municipal Advisor.

## **DESCRIPTION OF THE CERTIFICATES**

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

The Certificates are issued pursuant to Chapter 21-02 of the North Dakota Century Code. The Certificates will be issued to (i) refund the Certificate of Indebtedness, Series 2015 (the “Refunded Certificates”) and (ii) pay the costs associated with the issuance of the Certificates.

The County will prepay the Refunded Certificate on December 13, 2018 in the amount of \$ 37,093,824.37 which includes accrued interest. The Refunded Certificates were issued for the purpose of financing construction of a combined law enforcement center in Watford City, North Dakota and related improvements.

### ***Security and Sources of Payment***

The Certificates are payable from State Appropriations to the County expects to receive from allocations of the Oil and Gas Gross Production Tax, Section 57-51-15, N.D.C.C. Pledged Revenues means that State Appropriations, earnings on any Funds or Accounts created under this Indenture, and any source or additional sources of revenues, fees, and income which may be added from time to time to the Pledged Revenues under the provisions of the Indenture or any amended or supplemental indenture, including any revenues, fees, income or any other sources of monies which may be authorized by action of the County.

**The Certificates are limited obligations of the County and do not constitute an indebtedness, a general or moral obligation or a charge against the general credit or taxing powers of the County or against any property of the County**

The Certificates are special, limited obligations of the County payable solely from the Pledged Revenues deposited in the funds and accounts created and maintained by the Issuer pursuant to the terms of the Indenture. State Appropriations distributed by the State to the County will be deposited into an account of the County at the Bank of North Dakota. In connection with the issuance of the Certificates, the County will irrevocably direct, in writing, the Trustee that from and after the delivery of the Certificates, the Trustee shall withdraw on a monthly basis all amounts deposited in the County’s account at the Bank of North Dakota, derived from allocations of the Oil and Gas Gross Production Tax distributed by the North Dakota State Treasurer, and deposit such amounts in the Debt Service Fund until the Debt Service Fund is fully funded for a Bond Year. Any State Appropriations in excess of the amount necessary to provide 100% coverage for the Certificate Fund in any fiscal year may be used by the County for any lawful purpose. All moneys and investments in the Certificate Fund are irrevocably pledged and appropriated to the equal and ratable payment of the principal of and interest on the Certificates.

### **Oil and Gas Gross Production Tax (OGGPT)**

#### **Imposition and Rates**

The oil and gas gross production tax is imposed in lieu of property taxes on oil and gas producing properties.

**Oil** A 5% rate is applied to the gross value at the well of all oil produced, except royalty interest in oil produced from a state, federal or municipal holding and from an interest held by an organized Indian tribe. Both the producer and purchaser of the oil are required to submit reports to the Tax Commissioner on a monthly basis. The reports show the volume and taxable value of sales of the production from each well. The producer remits the tax on oil not sold at the well. The purchaser is primarily responsible for remitting the tax on oil bought during a production month. The Tax Commissioner has the authority to waive a producer’s filing requirement if certain conditions are met. Purchasers are required to file monthly reports electronically.

**Gas** The gross production tax on gas is an annually adjusted flat rate per thousand in the state. The annual adjustments are made according to the average producer price index for gas fuels. Rates through June 30, 2019 are as follows:

<u>Time Period</u>	<u>Tax Rate</u>
July 1, 2014 – June 30, 2015	\$.0982
July 1, 2015 – June 30, 2016	\$.1106
July 1, 2016 – June 30, 2017	\$.0601
July 1, 2017 – June 30, 2018	\$.0555
July 1, 2018 – June 30, 2019	\$.0705

Exempt from the tax is gas used on the lease for production purposes and the royalty interest in gas produced from a state, federal or municipal holding and from an interest held by an organized Indiana tribe.

Shallow gas produced during the first 24 months of production from and after the first date of sales from a shallow gas zone, is exempt from gross production tax.

Gas, that would otherwise be flared, is exempt from the gross production tax when it is used in a generation unit producing electricity for use on site.

Monthly reports to the Tax Commissioner are required from both the producer and the purchaser/processor of the gas. The producer remits the tax on unprocessed gas and the purchaser/processor remits the tax on processed gas. The Tax Commissioner has the authority to waive a producer's filing requirement if certain conditions are met. Purchasers/processors are required to file monthly reports electronically.

#### **History of State Allocations for the County**

The following table shows the State Allocations received by the County.

**Table 1**  
**OGGPT Revenues**

<u>Fiscal Year</u>	<u>Total State Collections</u>	<u>Allocations to the County</u>
2018*	\$ 1,073,020,264	\$ 60,287,831
2017	734,935,000	46,463,101
2016	750,474,504	38,058,424
2015	1,286,652,421	43,992,406
2014	1,492,982,452	61,249,902
2013	1,130,369,449	35,626,926
2012	795,681,003	20,613,674
2011	481,083,658	12,752,331
2010	302,099,211	3,031,169
2009	221,462,334	3,579,703

\*Receipts as of October 19, 2018

Source: North Dakota State Treasurer

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## **Debt Service Coverage**

The following table sets forth debt service coverage of the Certificates based on the OGGPT allocations available for debt service.

**Table 2**  
**Debt Service Coverage**

<u>Calendar Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Coverage to State Allocations<sup>(1)</sup></u>
2019	\$ 3,710,000	\$ 1,033,871	\$ 4,743,871	10.54x
2020	3,305,000	1,439,800	4,744,800	10.54x
2021	3,470,000	1,274,550	4,744,550	10.54x
2022	3,645,000	1,101,050	4,746,050	10.54x
2023	3,825,000	918,800	4,743,800	10.54x
2024	4,015,000	727,550	4,782,550	10.55x
2025	4,220,000	526,800	4,746,800	10.54x
2026	4,385,000	358,000	4,743,000	10.54x
2027	4,565,000	182,600	4,747,600	10.53x

(1) Coverage calculation is based on the total projected State Allocations of \$50,010,333.43, the average Allocation of the five year period from 2014-2018.

## ***Debt Service Reserve Fund***

There shall be established and maintained with the Trustee the Reserve Fund. So long as any Series 2018 Certificates are Outstanding under the Indenture, the County shall deposit or cause to be deposited such amounts from bond proceeds, County equity, Pledged Revenues, or a surety bond, letter of credit, or other credit or liquidity facility such amounts as are necessary from time to time to maintain the Reserve Requirement. Reserve Requirement means an amount equal to the least of (i) 10% of the principal amount of the Series 2018 Certificates, (ii) the maximum annual principal and interest requirement on the Series 2018 Certificates or (iii) 125% of the average annual principal and interest requirement on the Series 2018 Certificates. At any time the moneys available in the Debt Service Fund are insufficient to pay Debt Service Requirements, the Trustee, in accordance with Section 5.05 of the Indenture and without further authority, may draw moneys to the extent necessary from the Reserve Fund. The Trustee shall notify the County at least two (2) Business Days prior to any such withdrawals from the Reserve Fund. The County will fund at closing the Reserve Fund from County equity.

## ***Flow of Funds***

### **Application of Pledged Revenues**

The County shall deposit or cause to be deposited all Pledged Revenues distributed by the North Dakota State Treasurer with the Trustee on a monthly basis. The Trustee shall credit all Pledged Revenues to the Debt Service Fund or the Surplus Fund and shall apply the Pledged Revenues as provided in Article VI of the Indenture.

Pursuant to the Indenture, all Pledged Revenues shall be accounted for and maintained by the Trustee in the Debt Service Fund, and shall be expended and used only in the manner and order of priority specified below:

- (a) As a first charge and lien on the Pledged Revenues, the Trustee shall deposit all Pledged Revenues into the Debt Service Fund until the amounts held in the Debt Service Fund for that particular Bond Year equal 100% of the Debt Service Requirements on the Series 2018 Certificates and any Parity Obligations.
- (b) As a second charge and lien on the Pledged Revenues, the Trustee shall deposit Pledged Revenues to establish or restore the Reserve Fund to the level of the Reserve Balance, if necessary.
- (c) As a third charge and lien on the Pledged Revenues, the Trustee shall deposit to the Rebate Fund, not less than every fifth (5th) Bond Year, the amounts required to be deposited thereto (i.e. the Rebate Amount) by the Indenture and the amounts required to be deposited to the Rebate Fund shall be rebated to the United States of America in the manner required by Sections 5.06 and 8.07(b)(ix) of the Indenture.



(d) Subject to making the foregoing required payments and deposits, all Pledged Revenues received by the Trustee in excess of the Debt Service Requirements for a Bond Year shall be transferred to the Surplus Fund for application as set forth in Article V of the Indenture.

(e) The Trustee shall deposit to the Surplus Fund all Pledged Revenues in excess of the Debt Service Requirements for a Bond Year. Provided, that Pledge Revenues in excess of the Debt Service Requirements for a Bond Year may be returned to or retained by the County.

(f) The Trustee shall apply the Surplus Fund as follows:

- (i) first, to fund any shortfalls in the Debt Service Fund;
- (ii) second, to establish or restore the Reserve Fund, if necessary;
- (iii) third, to the payment of any required payments from the Rebate Fund;
- (iv) fourth, remain on deposit in the Surplus Fund and used as directed by the County to optionally redeem outstanding Certificates after the first optional redemption date for such Series of Certificates;
- (v) fifth, for release to the County as directed by the County; and
- (vi) sixth, to specifically redeem the Series 2018 Certificates in accordance with the provisions of Sections 5.09 and 7.01(c) of the Indenture.

### ***Investment Consideration/Risk Factors***

The discussion of risk factors is not intended to be exhaustive, and should be read in conjunction with all other parts of this Official Statement.

#### **General**

NO REPRESENTATION OR ASSURANCE CAN BE MADE THAT STATE ALLOCATIONS WILL BE REALIZED BY THE COUNTY IN AMOUNT SUFFICIENT TO PAY MATURING PRINCIPAL OF AND INTEREST OF THE CERTIFICATES. Prospective purchasers of the Certificates should be aware that investment in the Certificates entail some degree of risk. Each prospective investor in the Certificates is encouraged to read the Official Statement in its entirety. Particular attention should be given to the factors described below which, among others, could affect the payment of debt service on the Certificates and which could also affect the market price of the Certificates to an extent that cannot be determined. This discussion of risk factors is not, and is not intended to be, exhaustive.

#### **Special Obligation**

The Certificates are a special limited revenue obligation of the County. The full faith and credit and taxing powers of the County are not pledged to pay debt service on the Certificates, and the County does not have the authority to levy ad valorem property taxes without limit in order to pay debt service on the Certificates. As further described elsewhere herein, debt service on the Certificates is payable solely from Pledged Revenues derived from allocations of the OGGPT to the County. While it is believed that the Pledged Revenues will be sufficient to pay debt service on the Certificates when due, a number of factors described below, or factors not presently anticipated, may affect the receipt of sufficient Revenue for such purposes.

#### **Factors that May Affect Sufficiency of Pledged Revenues**

Payment of debt service on the Certificates and Pledged Revenues are dependent upon the continued collection of the OGGPT by the State which is determined by the level of oil and gas production. The level of activity in the oil and gas field in the State are volatile (see Table 1 herein) and affected by global economic and geopolitical factors beyond the control of the State and the County. The distribution by the State of OGGPT revenues to local governments in the State is also subject to legislative changes and could affect the amount of Pledged Revenues received by the County.

## ***Parity Obligations***

The County may issue additional parity certificates and bonds (the "Parity Obligations") without the consent of the owners, to provide funds to finance the acquisition, construction and equipping of County facilities, the repair and improvement of facilities, or the refunding of outstanding evidences of indebtedness, upon the following conditions:

(i) A certificate of the County stating and confirming that the State Appropriations received by the County for each of the two Fiscal Years preceding the issuance of the Parity Obligations was equal to at least 3.0 times the maximum annual Debt Service on the Outstanding Certificates or bonds, the proposed Parity Obligations and all other existing indebtedness of the County payable from the State Appropriations. In calculating the maximum annual Debt Service, there shall be deducted from such Debt Service the amount on deposit in any reserve fund (to the extent expected to pay Debt Service on the Outstanding Certificates or Parity Obligations) or in any irrevocable escrow fund being held for the payment of principal of and/or interest on the Certificates or Bonds.

All Certificates or Bonds issued in accordance with this Section shall have a lien on the State Appropriations which is equal to the lien of the Certificates and all Parity Obligations issued in accordance with this Section. Nothing in this Resolution shall preclude the County from issuing additional bonds which are expressly made subordinate to the pledge of State Appropriations to the Certificates authorized hereunder. Notwithstanding the foregoing, the County may issue parity bonds with the written consent of the owners of all of the outstanding principal of the Certificates.

## ***Interest***

Interest on the Certificates will be payable annually on each February 1 and August 1, commencing February 1, 2019. 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 Certificates maturing on August 1, 2024, and thereafter are subject to optional redemption on August 1, 2023, at a price of par plus accrued interest to the redemption date.

### **Special Extraordinary Optional Redemption**

The Series 2018 Certificates are subject to special extraordinary redemption from excess Pledged Revenues deposited in the Surplus Fund as provided in Section 5.03 of the Indenture. From the Surplus Fund the Trustee shall redeem the Series 2018 Certificates, in whole or in part, as directed by the County at its option, commencing August 1, 2021 and on any Interest Payment Date thereafter (each, a "Special Redemption Date"). The Series 2018 Certificates shall be redeemed at a redemption price equal to the principal amount of the Series 2018 Certificates being redeemed, plus accrued interest thereon to the Special Redemption Date. The Trustee shall redeem the Series 2018 Certificates pursuant to the procedures set forth in Article VII of the Indenture.

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## ***Estimated Sources and Uses of Funds***

Table 3 below presents the sources and uses of funds for the Certificates.

**Table 3**  
**Estimated Sources and Uses of Funds**

<b>Sources of Funds</b>	
Par Amount	\$ 35,140,000.00
Premium	2,205,710.30
Cash Funded DSRF	<u>3,514,000.00</u>
Total Estimated Sources of Funds	<u>\$ 40,859,710.30</u>
<b>Uses of Funds</b>	
Refunded Obligations	\$ 37,096,289.32
Cost of Issuance/ Underwriter's Discount	247,319.20
Reserve Fund	3,514,000.00
Additional Proceeds	<u>2,101.78</u>
Total Estimated Uses of Funds	<u>\$ 40,859,710.30</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 County believes to be reliable, but the County 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 County believes to be reliable, but the County 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 "Certificates"). The Certificates 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 Certificates, 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 certificates. 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 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates 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 Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.
4. To facilitate subsequent transfers, all Certificates 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 Certificates 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 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates 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 Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County 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 Certificates 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 County 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 County, 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 County 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 Certificates at any time by giving reasonable notice to the County or Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.
10. The County may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates 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 County believes to be reliable, but the County takes no responsibility for the accuracy thereof.

NEITHER THE COUNTY 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 CERTIFICATES 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 CERTIFICATES 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 CERTIFICATES; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF CERTIFICATES; 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 County has agreed for the benefit of the holders and beneficial owners of the Certificates to provide an annual report relating to the County (the “Annual Report”), not later than 270 days after the end of each fiscal year, commencing with the fiscal year ending June 30, 2018, 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 County at the time the Certificates are delivered. Such undertaking will be in substantially the form attached hereto as Appendix C.

The County has no previous undertakings under the Rule to provide annual reports or notices of material events. A failure by the County to comply with the undertaking will not constitute an event of default on the Bonds (although holders will have any available remedy at law or in equity). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

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## **THE COUNTY**

### ***General Description***

McKenzie County covers an area of approximately 2,861 square miles in western North Dakota. The County's current population is estimated at 12,724. The County seat is Watford City, which lies about 190 miles northwest of Bismarck; The county is bordered by the Yellowstone River, Lake Sakakawea and the Missouri River and the Little Missouri River. Other cities in the County are Alexander and Arnegard.

McKenzie County is at the center of the Bakken Shale Oil Play and McKenzie County produces over 40% of all the oil that is currently being produced within the State of North Dakota. The populations of the communities continue to rise. The County continues to see new businesses open in the region and 5 new gas plants will soon be operational within the County to continue to support the oil and gas industry. The schools in McKenzie County continue to see record enrollments, with 1,824 students currently enrolled for the 2018-19 school year. A new elementary school is planned to begin construction next year. Quality of life opportunities are being expanded to include a new \$90M Rough Rider event center, 18 hole golf course (expanded from 9 holes), gun range, biking/hiking trails including the Maah Daah Hay Trail, and a new Nature Park. The Rough Rider Center alone includes a fieldhouse, arena, two sheets of hockey ice, gymnastics, and a ballroom/conference center. The County is investing in infrastructure and has reconstructed or paved over 225 miles of road and replaced more than 14 bridges/structures. McKenzie County has seen a 1062% increase in the County's taxable value from 2010. The County has invested in more than \$73M of new capital expenditures, including a law enforcement center, courthouse addition & remodel, expanded court facilities, and a new shop in Cartwright. Construction on a new County Public Works Shop, with a budget of \$20M, is currently underway and expected to be completed in the fall of 2019. The County has also invested in area projects including new fire halls in Alexander and Arnegard, lagoon facilities in Arnegard, new hospital, new and expanded Veterans Memorial Park, Skills Initiative, Wolf Pup daycare facility, and affordable rent apartment buildings.

### ***Organization***

The County is governed by a five-member Board of County Commissioners. Regular meetings of the Board of the County Commissioners are held in the Commissioners Room at the McKenzie County Courthouse in Watford City on the first and third Tuesday of the month.

#### **Board of County Commissioners**

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Thomas McCabe	Chairman	11/30/2020
Kathy Skarda	Vice Chairman	12/05/2022
Douglas Nordby	Member	11/30/2020
Gene Veeder	Member	11/30/2020
Howdy Lawlar	Member	12/05/2022

#### **County Administration**

<u>Name</u>	<u>Position</u>
Erica Johnsrud	Auditor/Treasurer
Jodee Lawlar	Clerk of Court
Katie Paulson	Recorder
Matthew Johansen	Sheriff
Charles Neff *	State's Attorney

\*Ty Skarda will assume office as of 01/01/2019

## *Pension Plans*

### **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 plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of 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 the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2016, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

### **Pension Benefits**

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc postretirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 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 for disabled is set by the NDPERS in the North Dakota Administrative Code.

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

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

## Member and Employer Contributions

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

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

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

## Net Pension Liability

At December 31, 2016, the Employer's proportionate share of the net pension liability was \$7,955,415. The net pension liability was measured as of July 1, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At July 1, 2016, the Employer's proportion was 0.816277 percent. The Employer's proportionate share of the net pension liability is not reported in financial statements shown under the modified cash basis of accounting.

## Actuarial Assumptions

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary Increases (Payroll Growth)	4.50% per annum for Main System
Investment Rate of Return	8.00%, net of investment expenses, including inflation

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 Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2016. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

As a result of the 2016 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2016. 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 of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Real Rate of Return</u>
Domestic Equity	31%	6.60%
International Equity	21%	7.30%
Private Equity	5%	10.90%
Domestic Fixed Income	17%	1.49%
International Fixed Income	5%	-0.45%
Global Real Assets	20%	5.24%
Cash Equivalents	1%	0.00%



## Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. 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, 2016, 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, 2016. 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, 2016.

## Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease in Discount Rate (7%)	Discount Rate	1% Increase in Discount Rate (9%)
County's proportionate share of the NDPERS net pension liability	\$ 11,284,603	\$ 7,955,415	\$ 5,150,402

## 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 County does not have any Other Postemployment liabilities as of December 31, 2016.

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## **ECONOMIC AND DEMOGRAPHIC INFORMATION**

### *Population*

Table 4 shows the population for the County for the past five decennial censuses and the most recent estimate available.

**Table 4**  
**Population**

<u>Census Year</u>	<u>McKenzie County</u>
2017	12,724
2010	6,360
2000	5,737
1990	6,383
1980	7,132
1970	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 2018 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>
2018 <sup>(1)</sup>	8,575	2.1%	2.9%	4.7%
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> July, 2018.

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. The County has developed an extensive community plan focusing on telecommunication and recreational infrastructure to attract new development.

**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	351
Three Affiliated Tribal Headquarters	Government	260
McKenzie County Healthcare	Hospitals	134
Pyramid Corp	General Contractors	120
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
Travel Centers of America	Truck Stops & Plazas	80

Source: County, Reference USA.

## FINANCIAL SUMMARY

(This summary is subject in all respects to more complete information contained in this Official Statement. The information contained in Tables 8-17 of this Preliminary Official Statement is included for informational purposes only. The Certificates are not general obligations of the County.)

Market Value 2017/18	\$ 4,991,763,211
Assessed Value 2017/18	\$ 2,495,881,612
Taxable Value 2017/18	\$ 246,833,775
Long-Term Debt	
Certificates of Indebtedness (This Issue)	\$ 35,140,000
Overlapping General Obligation Debt	\$ 59,518,984
Population (Census Estimate)	12,724

### **Debt Ratios:**

	<u>Amount</u>	<u>Per Capita (12,724)</u>	<u>Percent of Market Value</u>
Certificates of Indebtedness	\$ 35,140,000	\$ 2,762	0.70%
Overlapping Debt	<u>59,518,984</u>	<u>4,678</u>	<u>1.19%</u>
Total	<u>\$ 94,658,984</u>	<u>\$ 7,439</u>	<u>1.89%</u>

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## **COUNTY INDEBTEDNESS**

### ***General Obligation Debt***

The County has no general obligation debt as of November 1, 2018.

### ***Certificates of Indebtedness***

Table 8 and Table 9 summarize the County's State Aid Refunding Certificates of Indebtedness, payable from the allocations of the County's Oil and Gas Production Tax, as of November 1, 2018.

**Table 8**  
**State Aid Refunding 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>
12/12/18	Refunding Certificate	\$35,140,000	Series 2018	08/01/19-27	<u>\$ 35,140,000</u>
Total					<u>\$ 35,140,000</u>

**Table 9**  
**State Aid Refunding Certificates of Indebtedness**  
**Annual Maturity Schedule**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 3,710,000	\$ 1,033,871	\$ 4,743,871
2020	3,305,000	1,439,800	4,744,800
2021	3,470,000	1,274,550	4,744,550
2022	3,645,000	1,101,050	4,746,050
2023	3,825,000	918,800	4,743,800
2024	4,015,000	727,550	4,742,550
2025	4,220,000	526,800	4,746,800
2026	4,385,000	358,000	4,743,000
2027	<u>4,565,000</u>	<u>182,600</u>	<u>4,747,600</u>
Total	<u>\$ 35,140,000</u>	<u>\$ 7,563,021</u>	<u>\$ 42,703,021</u>

### ***Future Financings***

The County does not anticipate any additional debt in the next year.

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## ***Overlapping Debt***

Listed below are the taxing jurisdictions which overlap the County, of which one has tax-supported debt outstanding as of November 1, 2018.

**Table 10**  
**Overlapping Debt**

<u>Jurisdiction</u>	<u>General Obligation Debt</u>	<u>% of Debt Allocable to the County</u>	<u>Portion Allocable to the County</u>
City of Watford City <sup>(1)</sup>	\$ 21,845,000	100.00%	\$ 21,845,000
Alexander Public School District No. 2	6,170,000	100.00%	6,170,000
McKenzie County Public School District No. 1 <sup>(2)</sup>	<u>31,503,984</u>	<u>100.00%</u>	<u>31,503,984</u>
Total	\$ 59,518,984	100.00%	<u>\$ 59,518,984</u>

<sup>(2)</sup>City of Watford City does not include Series 2015A through 2015D Certificates of Indebtedness and Oil and Gas Tax Revenue Refunding Bonds, Series 2013 and Sales Tax Revenue Bonds, Series 2015.

<sup>(2)</sup>McKenzie County Public School District No. 1 debt excludes 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 counties or cities may not become indebted for any purpose in excess of 5% of their 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 the property. Table 11 shows the debt limit computation for the County.

**Table 11**  
**Debt Limit Computation**

2017/2018 Assessed Value	\$ 2,495,881,612
	<u>x 5%</u>
Authorized Debt Limit (100.00%)	\$ 124,794,080
Debt Subject to Limit (0.00%)	<u>0</u>
Debt Margin (100.00%)	<u>\$ 124,794,080</u>

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## **FINANCIAL INFORMATION**

### ***Financial Reports***

The County's financial reports are audited biennially by an independent accountant. Copies of the County's audited financial reports for the years ended December 31, 2013 through 2016 are available upon request from PFM Financial Advisors, LLC, the County's Municipal Advisor.

### ***Results of Operations***

Statements of revenues and expenditures of the General Fund of the County have been compiled from the County's financial reports. They have been organized in such a manner as to facilitate year-to-year comparisons. Table 20 below, presents a statement of revenues and expenditures of the County's General Fund for the fiscal years ended December 31, 2013 through 2016 and unaudited figures for the fiscal year ended December 31, 2017.

**Table 12**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance for the General Fund**  
**(Years Ended December 30)**

	<u>2017<sup>(1)</sup></u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Revenues</b>					
Taxes	\$ 983,507	\$ 860,378	\$ 306,928	\$ 61,503	\$ 56,681
Licenses, permits and fees	4,914,084	3,543,477	3,754,243	4,246,411	2,795,448
Intergovernmental	45,697,403	39,522,044	46,019,543	62,649,822	27,170,449
Charges for services	3,562,373	3,038,010	3,894,718	4,365,547	4,578,227
Royalties	6,573,698	4,974,907	7,536,585	11,206,757	7,449,954
Interest income	160,801	122,879	107,881	88,397	62,267
Miscellaneous	<u>641,875</u>	<u>909,146</u>	<u>1,024,476</u>	<u>597,527</u>	<u>339,520</u>
Total Revenues	<u>\$ 62,533,741</u>	<u>\$ 52,970,841</u>	<u>\$ 62,644,374</u>	<u>\$ 83,215,964</u>	<u>\$ 42,452,546</u>
<b>Expenditures</b>					
Current					
General government	\$ 13,770,345	\$ 9,025,786	\$ 13,879,918	\$ 8,665,127	\$ 7,301,764
Public Safety	10,462,938	9,165,797	7,850,582	5,102,772	3,322,327
Health and Welfare	50,000	121,544	86,813	41,703	38,274
Culture and recreation	558,000	340,677	219,930	97,778	84,676
Conservation of Natural Resources	--	168,058	666,610	130,551	124,752
Economic Development	26,000	159,080	173,933	165,191	149,545
Other	108,863	427,000	500,100	237,600	225,000
Capital Outlay	<u>--</u>	<u>32,085,343</u>	<u>19,183,436</u>	<u>18,544,257</u>	<u>5,710,908</u>
Total Expenditures	<u>\$ 24,976,146</u>	<u>\$ 51,493,285</u>	<u>\$ 42,561,322</u>	<u>\$ 32,984,979</u>	<u>\$ 16,957,246</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>\$ 12,657,595</u>	<u>\$ 1,477,556</u>	<u>\$ 20,083,052</u>	<u>\$ 50,230,985</u>	<u>\$ 25,495,300</u>
<b>Other Financing Sources (Uses)</b>	<u>(24,900,000)</u>	<u>(4,413,785)</u>	<u>(34,302,066)</u>	<u>(38,558,038)</u>	<u>(8,748,941)</u>
<b>Net Changes in Fund Balances</b>	<u>\$ 12,421,771</u>	<u>\$ (2,936,229)</u>	<u>\$ (14,219,014)</u>	<u>\$ 11,672,947</u>	<u>\$ 16,746,359</u>
<b>Fund Balance – January 1</b>	<u>\$ 32,325,568</u>	<u>\$ 40,703,108</u>	<u>\$ 54,922,122</u>	<u>\$ 43,249,175</u>	<u>\$ 26,502,816</u>
<b>Fund Balance – December 31</b>	<u>\$ 44,747,339</u>	<u>\$ 37,766,879</u>	<u>\$ 40,703,108</u>	<u>\$ 11,672,947</u>	<u>\$ 16,746,359</u>

(1) Unaudited

## *General Fund Budget*

Table 13 below summarizes the County's final budgets for the 2017 and 2018 fiscal years.

**Table 13**  
**General Fund Budgets**

<b>Revenues</b>	<b><u>Budget 2017</u></b>	<b><u>Final 2017</u></b>	<b><u>Budget 2018</u></b>
Property Taxes	\$ 860,000	\$ 981,265	\$ 592,400
Oil and Gas Production Tax	34,800,000	45,413,498	28,000,000
Telecommunications Tax	2,242	2,242	2,242
State Aid Distribution	90,000	95,574	85,000
Other Revenues	<u>20,230,507</u>	<u>16,041,162</u>	<u>3,605,107</u>
<b>Total Revenues</b>	<b><u>\$ 55,982,749</u></b>	<b><u>\$ 62,533,741</u></b>	<b><u>\$ 32,284,749</u></b>
<b>Expenditures</b>	<b><u>\$ 42,100,000</u></b>	<b><u>\$ 24,976,146</u></b>	<b><u>\$ 24,800,000</u></b>

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## **PROPERTY VALUATIONS AND TAXES**

The County Assessor's office establishes an estimated market value on all properties. The assessed value is computed at 50% of estimated market value. The taxable value is then computed in the following manner: on residential property the taxable value is 9% of the assessed value; on commercial property the taxable value is 10% of the assessed value. Table 14 shows the market, assessed and taxable values of taxable property in the County for assessment year 2017 collectible in 2018. Table 15 shows the trend in property valuations over the last five years.

**Table 14**  
**Property Values in the County**  
**(2017 Assessment Year)**

	<u>Market Value</u>	<u>Assessed Value</u>	<u>Taxable Value</u>
<b>Real Property</b>			
Residential	\$ 551,581,501	\$ 275,790,751	\$ 24,824,195
Agricultural	297,537,590	148,768,796	14,876,898
Commercial	1,545,4613,039	772,806,520	77,281,128
<b>Utilities</b>			
Railroad	860,741	430,372	43,037
Other Utilities	<u>2,596,170,340</u>	<u>1,298,085,170</u>	<u>129,808,517</u>
<b>Total</b>	<u>\$ 4,991,763,211</u>	<u>\$ 2,495,881,612</u>	<u>\$ 246,833,775</u>

Source: McKenzie County Auditor.

**Table 15**  
**Trend in Valuations in the County**

<u>Assessment Year</u>	<u>Market Value</u>	<u>Assessed Value</u>	<u>Taxable Value</u>
2016	\$ 1,488,920,380	\$ 744,460,190	\$ 84,200,353
2015	1,472,198,510	735,099,256	72,386,212
2014	1,097,466,130	548,723,065	53,839,314
2013	808,304,670	404,152,335	41,552,994
2012	505,111,781	252,555,890	26,011,123

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 County as well as other local government entities has no loss in tax revenues from the credit. Table 16 shows the County's tax levies and collections for collection years 2013 through 2018.

**Table 16**  
**Tax Collections in the County**

<u>Levy Year</u>	<u>Collection Years</u>	<u>Levy</u>	<u>Collected as of 9/30/2018</u>	
			<u>Amount</u>	<u>% of Levy</u>
2017	2018	\$ 5,857,470	\$ 5,684,053	97.1%
2016	2017	5,261,164	5,280,782	100.4%
2015	2016	4,284,700	4,286,166	100.1%
2014	2015	2,975,159	2,974,306	99.9%
2013	2014	1,895,912	1,895,912	100.0%
2012	2013	1,397,276	1,397,276	100.0%

Source: McKenzie County Auditor.

### ***Principal Taxpayers***

A list of the ten taxpayers in the County with the highest taxable valuations for the 2017 assessment for taxes payable in 2018, is presented in Table 17 below.

**Table 25**  
**Principal Taxpayers**

<u>Taxpayer</u>	<u>Taxable Valuation</u>	<u>Percent of Total Taxable Valuation</u>
Oneok Rockies Midstream LLC	\$ 24,933,687	10.10%
Hess North Dakota Pipelines LLC	24,648,400	9.99%
Dakota Access LLC	14,715,371	5.96%
Hiland Partners LLC	11,589,189	4.70%
Targa Badlands LLC	8,647,100	3.50%
Hiland Crude LLC	6,097,954	2.47%
Bear Paw Energy Inc	6,081,400	2.46%
Caliber Midstream Partners	5,223,188	2.12%
Oasis Petroleum LLC	5,062,059	2.05%
Bridger Pipeline LLC	4,498,808	1.82%
Total	<u>\$ 111,497,156</u>	<u>45.17%</u>

Source: McKenzie County Auditor.

## **RATINGS**

Moody's Investors Service has assigned an "A3" rating to the Certificates and a "Aa3" issuer rating. A rating is subject to withdrawal at any time; withdrawal of a rating may have an adverse effect on the marketability of the Certificates. 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 Certificates is excludable in gross income of the recipient for United States or State of North Dakota income tax purposes.

Noncompliance by the County following the issuance of the Certificates with its covenants in the resolution under which the Certificates 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 Certificates in gross income of the recipient for United States income tax purposes.

Interest on the Certificates is not includable as a preference item in calculating the alternative minimum taxable income of individual and corporations. Interest to be paid on the Certificates 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 Certificates 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 Certificates that is received or accrued during the taxable year. Interest on the Certificates 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.

### ***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. The likelihood of adoption of 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 Certificates). Prospective purchasers of the Certificates 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 Certificates or receipt of interest on the Certificates. 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.

### ***Premium Certificates***

The Certificates maturing in the years 2019-2027 are being issued at a premium to the principal amount payable at maturity. Except in the case of dealers, which are subject to special rules, Certificate holders who acquire Certificates at a premium, even Certificates that were not initially offered at a premium, must, from time to time, reduce their federal and North Dakota tax bases for the Certificates for purposes of determining gain or loss on the sale or payment of such Certificates. Premium generally is amortized for federal and North Dakota income tax purposes on the basis of a bondholder’s constant yield to maturity or to certain call dates with semiannual compounding. Accordingly, Certificate holders who acquire Certificates at a premium might recognize taxable gain upon sale of the Certificates, even if such Certificates are sold for an amount equal to or less than their original cost. Amortized premium is not deductible for federal or North Dakota income tax purposes. Certificate holders who acquire Certificates at a premium should consult their tax advisors concerning the calculation of certificate premium and the timing and rate of premium amortization, as well as the state and local tax consequences of owning and selling Certificates acquired at a premium.

## **MUNICIPAL ADVISOR**

The County has retained PFM Financial Advisors LLC of Minneapolis, Minnesota, as municipal advisor (the “Municipal Advisor”) in connection with the issuance of the Certificates. 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 County 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 Certificates.

Requests for information concerning the County 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 County 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 Certificates by the original purchasers thereof, the County 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 Certificates 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 County officials, threatened which questions the validity of the Certificates or of any proceedings of the County 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 County Auditor has been duly authorized by the County.

### **MCKENZIE COUNTY, NORTH DAKOTA**

By: Erica Johnsrud  
County Auditor

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## **APPENDIX A**

### **The Trust Indenture**

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**INDENTURE OF TRUST**

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*between*

**MCKENZIE COUNTY, NORTH DAKOTA**

*and*

**BANK OF NORTH DAKOTA  
as Trustee**

*relating to*

**\$35,140,000  
MCKENZIE COUNTY, NORTH DAKOTA  
STATE AID REFUNDING CERTIFICATES OF INDEBTEDNESS, SERIES 2018**

**Dated as of December 1, 2018**

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but is for convenience of reference only)

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## **INDENTURE OF TRUST**

**THIS INDENTURE OF TRUST** (the "Indenture") is dated as of December 1, 2018, by and between **McKENZIE COUNTY, NORTH DAKOTA** (the "County"), a political subdivision duly organized and existing under the laws and Constitution of the State of North Dakota, and **BANK OF NORTH DAKOTA**, organized by the State of North Dakota, authorized to accept and execute trusts of the character herein set out, and having a principal corporate trust office located in Bismarck, North Dakota, as trustee (the "Trustee");

### **WITNESSETH:**

**WHEREAS**, McKenzie County, North Dakota (the "County"), previously issued its \$57,200,000 State Aid Certificate of Indebtedness, Series 2015 (the "Series 2015 Certificate"), for the purpose of financing construction of a combined law enforcement center in Watford City, North Dakota and related improvements (the "Facilities"); and

**WHEREAS**, the Series 2015 Certificate is subject to redemption and prepayment on any date at par plus accrued interest; and

**WHEREAS**, the County Commission of the County deems it to be in the best interest of the County to issue its \$35,140,000 State Aid Refunding Certificates of Indebtedness, Series 2018 (the "Series 2018 Certificates"), pursuant to Chapter 21-02 of the North Dakota Century Code ("N.D.C.C.") to (a) refund the Series 2015 Certificate and (b) pay Costs of Issuance of the Series 2018 Certificates; and

**WHEREAS**, it is in the best interest of the County to borrow in anticipation of the collection of State of North Dakota appropriations the County expects to receive from allocations of the Oil and Gas Gross Production Tax, Section 57-51-15, N.D.C.C. (the "State Appropriations") by issuing the Series 2018 Certificates; and

**WHEREAS**, State Appropriations are revenues, as defined in Section 21-02-01, N.D.C.C., which the County may borrow against through the issuance of the Series 2018 Certificates; and

**WHEREAS**, the County will offer the Series 2018 Certificates for sale at a public sale pursuant to the terms and conditions of this Indenture; and

**WHEREAS**, the execution and delivery of this Indenture, and the issuance of the Series 2018 Certificates have been in all respects duly and validly authorized by the County; and

**WHEREAS**, the Series 2018 Certificates are not general obligations of the County, are not a debt or charge on the ad valorem taxing powers of the County, the State of North Dakota or any political subdivision thereof, and constitute special, limited revenue obligations of the County as described below payable solely from the proceeds of the Pledged Revenues (as defined below); and

**WHEREAS**, all things necessary to make the Series 2018 Certificates, when authenticated by the Trustee and issued as in this Indenture provided, the valid, legal and binding obligations of the County, enforceable against the County in accordance with their terms, and to constitute this Indenture a valid, legal and binding pledge and assignment of the Trust Estate (as defined below) heretofore and herein made for the security of the payment of the principal of and interest on the Series 2018 Certificates (as defined below), have been done and performed, and the execution and, delivery of this Indenture and the execution and issuance of the Series 2018 Certificates, subject to the terms thereof, have in all respects been duly authorized and approved;

**NOW, THEREFORE, THIS INDENTURE OF TRUST WITNESSETH:**

### **GRANTING CLAUSES**

That the County, in consideration of the premises and the acceptance by the Trustee of the trusts hereby created and of the purchase and acceptance of the Certificates (as herein defined) by the Owners thereof, and of the sum of one dollar (\$1.00), lawful money of the United States of America, duly paid by the County to the Trustee at or before the execution and delivery of these presents, and for other good and valuable considerations, the receipt of which is hereby acknowledged, and in order to secure the payment of the principal of, premium, if any, and interest on the Certificates according to their tenor and effect, and to secure the performance and observance by the County of all the covenants expressed or implied herein and in the Certificates, does hereby grant, bargain, convey and assign a security interest in the following to the Trustee and its successors in trust and assigns forever, for the securing of the performance of the obligations of the County hereinafter set forth:

## GRANTING CLAUSE FIRST

The Pledged Revenues (as defined below), together with all right, title and interest of the County in and to the Pledged Revenues, including, but not limited to, the present and continuing right to make claim for, collect, receive and receipt for any of the Pledged Revenues, and other sums of money payable or receivable under this Indenture, and to bring actions and proceedings hereunder or for the enforcement hereof; it being understood that the Certificates and the obligations of the County with respect thereto shall be secured by and payable from the Pledged Revenues, all as specifically provided herein.

## GRANTING CLAUSE SECOND

All moneys and securities from time to time held by the Trustee under the terms of this Indenture, except for moneys deposited in the Rebate Fund and moneys deposited with or paid to the Trustee for the redemption of the Certificates, notice of which has been duly given and which are to be held and applied by the Trustee under this Indenture for such specific purpose pursuant to the express provisions of Article XII hereof.

**TO HAVE AND TO HOLD** all and singular as the Trust Estate, whether now owned or hereafter acquired, unto the Trustee and its respective successors in said trust and assigns forever;

**IN TRUST NEVERTHELESS**, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all present and future Owners of the Certificates, from time to time, issued under and secured by this Indenture, without privilege, priority or distinction as to the lien or otherwise of any of the Certificates over any of the other Certificates;

**PROVIDED, HOWEVER**, that if the County, its successors or assigns, shall well and truly pay, or cause to be paid, the principal of, premium, if any, and interest on the Certificates due or to become due thereon, at the times and in the manner set forth in the Certificates according to the true intent and meaning thereof, and shall cause the payments to be made on the Certificates as required hereby, or shall provide, as permitted by this Indenture, for the payment thereof by depositing with the Trustee an amount sufficient to pay, including amounts derived from investments as authorized herein, the entire amount due or to become due thereon, and shall well and truly cause to be kept, performed and observed all of its covenants and conditions pursuant to the terms of this Indenture, and shall pay or cause to be paid to the Trustee all sums of money due or to become due to the Trustee in accordance with the terms and provisions of this Indenture, then upon the final payment or deposit thereof, this Indenture and the rights thereby granted shall cease, determine and be void; otherwise this Indenture shall remain in full force and effect.

**THIS INDENTURE OF TRUST FURTHER WITNESSETH**, and it is expressly declared, that all Certificates issued and secured under this Indenture are to be issued, authenticated and delivered and all said property, rights and interests, including, without limitation, any amounts hereby assigned and pledged, are to be dealt with and disposed of under, upon and subject to the express terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes as expressed in this Indenture, and the County has agreed and covenanted, and does hereby agree and covenant with the Trustee and with the respective Owners of the Certificates, as follows:

## ARTICLE I

### DEFINITIONS; INDENTURE TO CONSTITUTE A CONTRACT

**SECTION 1.01. DEFINITIONS.** The following words and terms defined for all purposes of this Indenture and of any indenture amendatory thereof or supplemental thereto, and of any other instrument or document pertaining thereto, shall have the following meanings, unless the context or use indicates another or different meaning or intent:

**"Accounts"** means the trust accounts created and established by Article III of this Indenture.

**"Additional Facilities"** means any real or personal property or other facilities constituting an expansion, addition, remodel, equipping, enhancement or other improvement to the Facilities financed by the County under the provisions of Section 2.07, Section 2.08, or otherwise, of this Indenture.

**"Bond Counsel"** means an attorney at law or firm of attorneys of nationally recognized standing in matters pertaining to the Tax-exempt nature of interest on bonds issued by states and their political subdivisions and familiar with and having expertise in connection with the transactions contemplated under and by this Indenture and the Certificates, which counsel shall be selected by the County and shall be duly admitted to the practice of law before the highest court of any state of the United States or the District of Columbia.

**"Bond Year"** means each annual period of twelve (12) months ending on August 1; provided, however, that the first annual period commences on the date of the Closing Date and ends on August 1, 2019, and the last of which ends on the maturity of the Certificates or such other period selected by the County.

**"Book-Entry System"** means the system established for the registration of Certificates of any Series in the name of the nominee of a Depository as the Owner thereof pursuant to the terms and provisions of Section 2.12 of this Indenture.

**"Business Day"** means any day other than a Saturday or Sunday or legal holiday, or a day on which the Trustee is required or authorized by law to remain closed or a day on which the New York Stock Exchange is closed.

**"Certificates"** means the Series 2018 Certificates and any Parity Obligations issued pursuant to this Indenture.

**"Closing Date"** means each date established and approved by the County as the date for the issuance and delivery of a series of Certificates hereunder in exchange for payment of the purchase price for the Certificates. The Closing Date for the Certificates shall be December 12, 2018.

**"Code "** means the United States Internal Revenue Code of 1986, as amended.

**"Continuing Disclosure Certificate"** means the Continuing Disclosure Certificate delivered by the County dated as of the Closing Date, as amended from time to time.

**"Costs of Issuance"** means expenses of administration chargeable to the issuance of the Series 2018 Certificates, legal expenses and fees, financing charges, costs of any audits, publication and printing expenses, the Trustee's initial fees, bond insurance premiums or other credit enhancement and other related costs incident to the issuance of the Certificates including but not limited to Trustee's fees, bond counsel fees and financial consultant's fees.

**"Cost of Issuance Fund"** means the Cost of Issuance Fund created in Section 3.06 of this Indenture.

**"Counsel"** means an attorney at law or a firm of attorneys (who may be an employee of or counsel to the County or the Trustee) duly admitted to the practice of law before the highest court of any state of the United States of America or of the District of Columbia.

**"County"** means the County of McKenzie, North Dakota, acting through its Board of County Commissioners or, if said County shall be abolished, the County or body succeeding to the principal functions thereof.

**"County Representative"** means the Person or Persons at the time designated to act on behalf of the County by written certificate furnished to the Trustee containing the specimen signatures of such Person or Persons and signed on behalf of the County by its duly authorized agent.

**"Debt Service Fund"** means the Fund created in Section 3.02 of this Indenture.

**"Debt Service Requirements"** mean, with respect to any Bond Year, the regularly scheduled principal of, any redemption premiums due in connection with, and the interest on the Certificates or other securities issued under this Indenture and which by the terms thereof and of this Indenture, are Outstanding and are payable from the Pledged Revenues.

**"Default"** and **"Event of Default"** mean with respect to any Default or Event of Default under this Indenture any occurrence or event specified in and defined by Section 9.01 of this Indenture.

**"Depository"** means The Depository Trust Company or any other securities depository acting as Depository pursuant to Section 2.12 hereof.

**"Facilities"** means the construction and equipping of a combined law enforcement center in Watford City, North Dakota and related improvements.

**"Fiscal Year"** means the period beginning on January 1 and ending on December 31 of each year or such other fiscal year determined by the County.

**"Fitch"** means Fitch Ratings Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, Fitch shall be deemed to refer to any other nationally recognized rating agency designated by the County by notice to the Trustee.

**"Funds"** means the trust funds created and established by Article III of this Indenture.

**"Governmental Obligations"** means direct general obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by the United States of America.

**"Indenture"** means this Indenture of Trust creating and authorizing the issuance of the Certificates and any indenture or indentures supplemental thereto or amendatory thereof entered into in accordance with the provisions of this Indenture.

**"Independent Accountant"** means the Office of the North Dakota State Auditor or any certified public accountant, or any firm of certified public accountants, as from time to time determined by the County, duly licensed to practice and practicing as such under the laws of the State, appointed and compensated by the County on behalf and in the name of the County:

- (a) who is, in fact, independent and not under the domination of the County,
- (b) who does not have any substantial interest, direct or indirect, with the County, and
- (c) who is not connected with the County as an officer or employee thereof, but who may be regularly retained to make annual or similar audits of any books or records of the County.

**"Interest Payment Date"** means (a) the dates required for payment of interest or principal of, premium, if any, and interest on the Certificates, i.e., February 1 and August 1, until the Certificates are paid (or provision made therefor), the first Interest Payment Date being February 1, 2019, and (b) for Certificates subject to redemption on any date, the date of such redemption.

**"Investment Agreement"** means any investment agreement entered into between the Trustee and a financial institution or insurance company and relating to the investment of the proceeds of the Certificates, including any bond executed by the obligor thereunder.

**"Investment Company"** means an open-end diversified management investment company registered under the Investment Company Act of 1940.

**"Kroll"** means Kroll Bond Rating Agency, its successors and assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, Kroll shall be deemed to refer to any other nationally recognized rating agency designated by the County by notice to the Trustee.

**"Letter of Representations"** means the letter of the County delivered to and accepted by the Depository setting forth the basis on which the Depository serves as depository for such Certificates registered in the Book-Entry System, as such letter is originally executed or as it may be supplemented or revised or replaced by a letter to a substitute depository.

**"Moody's"** means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, Moody's shall be deemed to refer to any other nationally recognized rating agency designated by the County by notice to the Trustee.

**"Municipal Advisor"** means PFM Financial Advisors LLC.

**"NDCC"** means the North Dakota Century Code.

**"Opinion of Counsel"** means an opinion in writing of Counsel, who may but need not be Counsel to the County or the Trustee.

**"Outstanding" or "Certificates Outstanding"** mean all Certificates which have been authenticated and delivered by the Trustee under this Indenture, except:

- (a) Certificates canceled by the County or by the Paying Agent or otherwise on the County's behalf after purchase in the open market or because of payment at or redemption prior to maturity pursuant to the provisions of this Indenture;
- (b) Certificates paid or deemed to be paid pursuant to the provisions of this Indenture; and
- (c) Certificates in lieu of which others have been authenticated under Section 2.09 hereof.



**"Owner"** means the Person or Persons in whose name or names a Certificate shall be registered on the books of the Trustee kept for that purpose in accordance with provisions of this Indenture.

**"Parity Obligations"** means any other State Aid Certificates of Indebtedness or other obligations of the County which comply with the provisions of Section 2.07 of this Indenture for the issuance of Parity Obligations.

**"Permitted Investments"** means any of the following investments:

- (a) Governmental Obligations;
- (b) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (and, in the case of stripped securities, only those stripped securities stripped by the federal agency itself): U.S. Export-Import Bank (Eximbank), as to direct obligations or fully guaranteed certificates of beneficial ownership; Federal Financing Bank; Federal Housing Administration Debentures (FHA); General Services Administration, as to participation certificates; U.S. Maritime Administration, as to Guaranteed Title XI financing; and U.S. Department of Housing and Urban Development (HUD), as to project notes, local authority bonds, new communities debentures-U.S. government guaranteed debentures, and U.S. public housing notes and bonds (as to U.S. government guaranteed public housing notes and bonds);
- (c) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following government agencies of the United States of America (non-full faith and credit agencies, and, in the case of stripped securities, only those stripped securities stripped by the federal agency itself): Federal Home Loan Bank System, as to senior debt obligations; Student Loan Marketing Association (SLMA or "Sallie Mae"), as to senior debt obligations; Resolution Funding Corp. (REFCORP) obligations; and Farm Credit System, as to consolidated system-wide bonds and notes;
- (d) direct and general obligations or of bonds or notes issued by, any state of the United States of America or any municipality or political subdivision of any such state, which obligations are rated in one of the two the highest rating categories of either S&P or Moody's, or, upon the discontinuance of either or both of such services, any other nationally recognized rating service approved by the Trustee;
- (e) commercial paper which matures not more than two hundred seventy (270) days after the date of purchase rated, at the time of purchase in the single highest classification, "A-1+" by S&P or "P-1" by Moody's, or, upon the discontinuance of either or both of such services, any other nationally recognized rating service approved by the Trustee;
- (f) certificates of deposit secured at all times by collateral described in (a) and/or (b) above; provided that such certificates must be issued by commercial banks, savings and loan or mutual savings banks. Such collateral must be held by a third party and the owner must have a perfected security interest in the collateral;
- (g) certificates of deposit, savings accounts or deposit accounts which are fully insured by FDIC;
- (h) Investment Agreements, including guaranteed investment contracts entered into with a provider which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P, or upon discontinuance of either or both of such services, any other nationally recognized rating service approved by the Trustee;
- (i) obligations of any state of the United States, any political subdivision thereof or any agency or instrumentality thereof, if such obligations are secured by Governmental Obligations the principal of and interest on which will be sufficient to pay when due the principal and interest on such obligations;

(j) shares or certificates in any short-term investment fund which is maintained by the Trustee and which fund invests solely in Governmental Obligations;

(k) federal funds or banker's acceptances with a maximum term of one (1) year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P, or upon discontinuance of either or both of such services, any other nationally recognized rating service approved by the Trustee; and

(l) deposits of the Bank of North Dakota which, as provided by Section 6-09-10 of the NDCC, are guaranteed by the State.

**"Person"** means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, or government or any agency or political subdivision thereof.

**"Pledged Revenues"** means:

(a) the State Appropriations;

(b) earnings on any Funds or Accounts created under this Indenture;

(c) any source or additional sources of revenues, fees and income which may be added from time to time to the Pledged Revenues under the provisions of this Indenture or any indenture amendatory thereof or supplemental thereto, including any revenues, fees, income or any other sources of monies which may be authorized from time to time by action of the County.

**"Principal Office of the Trustee"** means the trust office of the Trustee in Bismarck, North Dakota, as specified herein, or such other address as shall be specified by the Trustee in a written notice filed with the County.

**"Rating Agency"** means Moody's (if the Certificates are then rated by Moody's), S&P (if the Certificates are then rated by S&P), and/or such other Rating Agency such as Fitch or Kroll (if such Rating Agency is then nationally recognized and has a rating outstanding on the Certificates), but in the case of such other Rating Agency, only such other Rating Agency as shall have been designated by the County for the purpose of rating Certificates, notice of the designation of such other Rating Agency to be given by the County to the Trustee at the time of such designation.

**"Rating Category"** means one of the generic Rating Categories of a Rating Agency without regard to any refinement or gradation of such Rating Category by a numerical modifier or otherwise; provided, however, that with respect to commercial paper or other short-term debt ratings, such numerical (but not other) modifier shall be taken into account if then used.

**"Rebate Amount"** means, with respect to the Tax-exempt Certificates, the amount of rebatable arbitrage computed as of the last day of any Bond Year pursuant to Regulations Section 1.148-3, and any regulation amendatory thereof or which supersedes said regulation.

**"Rebate Fund"** means the Fund by that name established pursuant to Section 3.05 of this Indenture.

**"Record Date"** means the close of business on the fifteenth (15<sup>th</sup>) day of the month which immediately precedes such Interest Payment Date, whether or not such day is a Business Day.

**"Redemption Date"** means December 13, 2018.

**"Redemption Price"** means, with respect to any Certificate (or portion thereof), the principal amount of such Certificate (or portion thereof) plus the applicable premium and interest, if any, payable upon redemption pursuant to the provisions of such Certificate and this Indenture.

**"Refunding Fund"** means the Refunding Fund established by Section 3.03 of this Indenture.

**"Regulations"** means the Income Tax Regulations promulgated or proposed by the Department of the Treasury pursuant to the Code from time to time.

**"Reserve Fund"** means the Fund created in Section 3.04 of this Indenture.

**"Reserve Requirement"** means an amount equal to the least of (i) 10% of the principal amount of the Series 2018

Certificates, (ii) the maximum annual principal and interest requirement on the Series 2018 Certificates or (iii) 125% of the average annual principal and interest requirement on the Series 2018 Certificates.

**"Resolution"** means the resolution of the County's Board of County Commissioners dated December 4, 2018 authorizing the issuance of the Certificates.

**"Responsible Officer"** means when used with respect to the Trustee means any officer within the Trust Department or any successor group or department of the Trustee including any vice president, assistant vice president, assistant secretary or any other officer; or assistant officer of the Trustee customarily performing functions similar to those performed by the Persons who at the time shall be such officer respectively and also means, with respect to a particular corporate trust matter, any other officer of the Trustee to whom such matter is referred by the Trustee because of such Person's knowledge of and familiarity with the particular subject.

**"S&P"** means Standard & Poor's Ratings Services, a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, S&P shall be deemed to refer to any other nationally recognized Rating Agency selected and designated by the County by notice to and as approved and accepted by the Trustee.

**"Series"** means all Certificates of like designation authenticated and delivered on original issuance at the same time pursuant to this Indenture or a Supplemental Indenture and any Certificate or Certificates thereafter delivered in lieu of or as substitution for any of such Certificates pursuant to this Indenture.

**"Series 2018 Certificates"** means the \$35,140,000 McKenzie County, North Dakota, State Aid Refunding Certificates of Indebtedness, Series 2018.

**"Special Redemption Date"** shall have the meaning assigned in Section 5.09 of this Indenture.

**"Surplus Fund"** means the Fund created in Section 3.01 of this Indenture.

**"State"** means the State of North Dakota, in the United States.

**"State Appropriations"** means State of North Dakota appropriations to the County from allocations of the Oil and Gas Gross Production Tax, Section 57-51-15, N.D.C.C.

**"Supplemental Indenture"** means any agreement hereafter authorized and entered into between the County and the Trustee which amends, modifies or supplements and forms a part of this Indenture.

**"Tax Certificate"** means that certain Tax Certificate, executed and delivered by the County on the Closing Date, or any functionally similar replacement certificate subsequently executed and delivered by the County with respect to the requirements of the Code.

**"Tax-exempt"** means, with respect to interest on any obligations of a state or local government that such interest is excluded from gross income for federal income tax purposes; provided, however, that such interest may be includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax under the Code.

**"Trust Estate"** means the property conveyed to the Trustee pursuant to the Granting Clauses of this Indenture.

**"Trustee," "Registrar" and "Paying Agent"** mean the Bank of North Dakota, Bismarck, North Dakota, its successors and any corporation resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor at the time serving as successor trustee hereunder.

**"Underwriter"** means, for purposes of the Series 2018 Certificates, Bank of America Merrill Lynch, the Underwriter purchasing the Series 2018 Certificates.

**"Yield"** means that discount rate which when computing the present worth of all payments of principal and interest to be paid on an obligation produces an amount equal to the purchase price of the obligation. With respect to each Series of Certificates, the Yield shall be the discount rate at which the present value of payments on such Series of Certificates is equal to the issue price (within the meaning of the Code).

**SECTION 1.02. INDENTURE TO CONSTITUTE CONTRACT.** In consideration of the purchase and acceptance of any and all of the Certificates authorized to be issued hereunder by the Owners thereof from time to time, this Indenture shall be deemed to be and shall constitute a contract between the County and the Owners from time to time of the Certificates; and the pledge made in this Indenture and the covenants and agreements set forth in this Indenture to be performed by or on behalf of the County shall be for the equal benefit, protection and security of the Owners of any and all of the Certificates all of which, regardless of the time or times of their authentication and delivery or maturity, shall be of equal rank without preference, priority or distinction of any of the Certificates over any other thereof, except as expressly provided in or permitted by this Indenture.

After the issuance and delivery of the Certificates, this Indenture shall be irrevocable but shall be subject to modification and amendment to the extent and in the manner provided in this Indenture but to no greater extent and in no other manner.

**SECTION 1.03. CONSTRUCTION.** This Indenture, except where the context by clear implication otherwise requires, shall be construed as follows:

- (a) Words in the singular number include the plural, and words in the plural include the singular.
- (b) Words in the masculine gender include the feminine and the neuter, and when the sense so indicates, words of the neuter gender refer to any gender.
- (c) Articles, sections, subsections, paragraphs and subparagraphs mentioned by number, letter, or otherwise, correspond to the respective articles, sections, subsections, paragraphs and subparagraphs of this Indenture so numbered or otherwise so designated.
- (d) The titles or headlines applied to articles, sections and subsections in this Indenture are inserted only as a matter of convenience and ease in reference and in no way define, limit or describe the scope or intent of any provisions of this Indenture.
- (e) Any Certificates held by or in the name of the County and payable from any Pledged Revenues under this Indenture shall not be deemed to be Outstanding for the purpose of consents hereunder or for any other purpose provided herein.
- (f) The words "herein," "hereof" and "hereunder" and words of similar import, without reference to any particular article, section, subdivision, paragraph or subparagraph, refer to this Indenture as a whole rather than to any particular article, section, subdivision, paragraph or subparagraph hereof; where such words are used with reference to a particular article, section, subdivision, paragraph or subparagraph of this Indenture, such reference, by definition, shall be construed to refer to the identical article, section, subdivision, paragraph or subparagraph contained in this Indenture and in any Indenture supplemental thereto or amendatory thereof, unless the context clearly requires otherwise.

**SECTION 1.04. PRIORITY OF LIEN.** The Series 2018 Certificates, as to their Debt Service Requirements are secured by a first priority lien on the Pledged Revenues and the County shall not issue any other obligations having a lien on the Pledged Revenues which is superior or on a parity with the Series 2018 Certificates other than the Parity Obligations.

**SECTION 1.05. COMPUTATIONS.** Unless the facts shall then be otherwise, all computations required for the purposes of this Indenture shall be made on the assumption that: (i) the principal of (and premiums, if any) and interest on all Certificates shall be paid as and when the same become due; and (ii) all credits required by this Indenture to be made to any Fund or Account shall be made in the amounts and at the times required.

**SECTION 1.06. COMPLIANCE CERTIFICATES AND OPINIONS.** Upon any application or request by the County to the Trustee to take any action under any provision of this Indenture, the County shall furnish the Trustee with a certificate of a County Representative stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and, upon the reasonable request of the Trustee, an Opinion of Counsel stating that in the opinion of such Counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or request under any provision of this Indenture pursuant to which the furnishing of such documents is specifically required by such provision, no additional certificate or opinion need be furnished.

Except as otherwise provided in this Section 1.06, every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

- (a) a statement specifically identifying the provisions or Sections of this Indenture requiring such certificate;

(b) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(c) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(d) a statement that in the opinion of each such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with;

(e) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with; and

(f) a statement that such Person is authorized to deliver such certificate hereunder.

Any Opinion of Counsel may be qualified by reference to the constitutional powers of the United States of America, the police and sovereign powers of the State, judicial discretion and bankruptcy, insolvency, reorganization, moratorium, and other laws affecting creditors' rights or municipal corporations generally and to similar matters.

**SECTION 1.07. FORM OF DOCUMENTS DELIVERED TO TRUSTEE.** In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of a County Representative may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, Counsel, unless such County Representative, in the exercise of reasonable care, should know that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any Opinion of Counsel may be based, insofar as it relates, to factual matters, upon a certificate or opinion of, or representations by, a County Representative stating that the information with respect to such factual matters is in the possession of the County unless such Counsel, in the exercise of reasonable care, should know that the certificate or opinion or representation with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Wherever in this Indenture, in connection with any certificate or report to the Trustee, it is provided that the County shall deliver any document as a condition or as evidence of the County's compliance with any term hereof, it is intended that the truth and accuracy, at the time of the effective date of such certificate or report (as the case may be), of the facts and opinions stated in such document shall in each case be conditions precedent to the right of the County to the sufficiency of such certificate or report.

**SECTION 1.08. AUTHORIZATION.** The parties executing this Indenture hereby represent and warrant that they have full legal authority and are duly empowered to execute this Indenture, and have taken all action necessary to authorize the execution and delivery of this Indenture.

**SECTION 1.09. APPENDICES.** The following appendices are attached hereto and incorporated and made a part hereof:

Appendix A - Form of Certificates.  
Appendix B - Form of Voucher.

## ARTICLE II THE SERIES 2018 CERTIFICATES

**SECTION 2.01. AUTHORIZED AMOUNT OF CERTIFICATES; PURPOSE.** No Certificates may be issued under the provisions of this Indenture except in accordance with this Article. The total principal amount of the Certificates that may be issued hereunder is hereby expressly limited to \$\_\_\_\_\_. Certificates issued under this Indenture may consist of one or more Series of varying denominations, dates, maturities and interest rates and other provisions as may be established pursuant hereto and to one or more Supplemental Indentures.

The issuance of the Series 2018 Certificates is authorized to (i) refund the outstanding Series 2015 Certificate on the Redemption Date, and (ii) pay Costs of Issuance. The proceeds of the Series 2018 Certificates will provide moneys to make deposits in the Subaccounts required hereby.

**SECTION 2.02. ISSUANCE OF CERTIFICATES.**

(a) There is hereby created and authorized under this Indenture, the Certificates which shall be designated "McKenzie County, North Dakota, State Aid Refunding Certificates of Indebtedness, Series 2018." The Certificates shall bear interest from their respective dates and shall be issuable only as fully registered Certificates without coupons in the denomination of \$5,000 or any integral multiple thereof. Unless the County shall otherwise direct, the Certificates shall be numbered from 1 upward preceded by the letter "R".

(b) Series 2018 Certificates authenticated prior to February 1, 2019, shall be dated and authenticated as of the Closing Date. Series 2018 Certificates authenticated on the Closing Date, shall be dated and authenticated that date, and Series 2018 Certificates authenticated subsequent to the Closing Date, shall be dated and authenticated the February 1 or August 1 next preceding their date of authentication, or if authenticated on a February 1 or an August 1, as of that date; provided, however, that if interest on the Series 2018 Certificates shall be in default, Series 2018 Certificates issued in exchange for Series 2018 Certificates surrendered for transfer or exchange shall be dated and authenticated the date to which interest has been paid in full on the Series 2018 Certificates surrendered. The Series 2018 Certificates shall bear interest from their date until their respective maturities or prior redemption, at the respective rates hereinafter designated, all such interest being payable semiannually on February 1 and August 1 in each year, commencing on February 1, 2019. The Series 2018 Certificates shall mature on August 1 in the years and in the amounts set forth below:

<u>Maturity Date</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest Rate</u> <u>(Per Annum)</u>		<u>Maturity Date</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest Rate</u> <u>(Per Annum)</u>
2019	\$			2024	\$	
2020				2025		
2021				2026		
2022				2027		
2023						

\* Term Certificate Maturity.

(c) The principal of, premium, if any, and interest on the Series 2018 Certificates shall be payable in any coin or currency of the United States of America which, at the respective dates of payment thereof, is legal tender for the payment of public and private debts. The principal of and premium, if any, on each Series 2018 Certificates shall be payable, upon surrender thereof at the Principal Office of the Trustee, or any alternate paying agent named in such Series 2018 Certificates or subsequently appointed. Payment of the interest on the Series 2018 Certificates on any Interest Payment Date shall be made to the Person appearing on the Certificate registration books of the Trustee as the Owner thereof at the close of business on the Record Date, and shall be paid by check or draft mailed to the Owner at his or her address as it appears on such registration books or at such other address as is furnished the Trustee in writing by such Owner; provided, however, that with respect to any Owner on any Record Date of not less than \$1,000,000 of Series 2018 Certificates who has provided to the Paying Agent adequate instructions (in the judgment of the Paying Agent) for wire transfer, the payment of principal, interest and redemption premium, if any, shall be made in immediately available funds by wire transfer to that Owner, at the expense of that Owner and in accordance with those instructions, on each applicable payment date for the Certificates. Each payment of principal, interest and redemption premium, if any, whether by wire transfer or by check or draft, shall be accompanied by written confirmation of each CUSIP number identification with appropriate dollar amount of the payment which pertains to each such CUSIP number.

**SECTION 2.03. EXECUTION; LIMITED OBLIGATIONS.** The Series 2018 Certificates shall be executed on behalf of the County with the official facsimile signature of its Chairman of the Board of County Commissioners and attested with the official facsimile signature of its County Auditor/Treasurer. In case any officer, the facsimile of whose signature shall appear on the Series 2018 Certificates shall cease to be such officer before the delivery of such Series 2018 Certificates, such facsimile signature shall nevertheless be valid and sufficient for all purposes, the same as if he had remained in office until delivery. The Series 2018 Certificates, together with interest thereon, shall be limited obligations of the County payable, as to the Debt Service Requirements thereon, from the Pledged Revenues (except to the extent paid out of moneys attributable to the Series 2018 Certificate proceeds or other funds created hereunder or the income from the temporary investment thereof).

The Series 2018 Certificates, as to payment of the Debt Service Requirements thereof, shall be a valid claim of the respective Owners thereof only against the Trust Estate held by the Trustee, as expressly provided in this Indenture, and as pledged and assigned by this Indenture for the equal and ratable payment of the Series 2018 Certificates, as to the Debt Service Requirements thereof, as expressly provided in this Indenture, and the Pledged Revenues shall be used for no other purpose than to pay the Debt Service Requirements on the Series 2018 Certificates, except as is otherwise expressly authorized in this Indenture. The issuance of the Series 2018 Certificates shall not, directly, indirectly or contingently, obligate the State or any agency, instrumentality or political subdivision thereof to levy any form of taxation therefor or to make any appropriation, legislative or otherwise, for their payment.

**SECTION 2.04. AUTHENTICATION.** No Certificate shall be valid or obligatory for any purpose or entitled to any security or benefit under this Indenture unless and until a certificate of authentication and registration on such Certificate substantially in the form set forth in Appendix A to this Indenture shall have been duly executed by, the Trustee, and such executed certificate of the Trustee upon any such Certificate shall be conclusive evidence that such Certificate has been authenticated and delivered under this Indenture. The certificate of authentication and registration of the Trustee on any Certificate shall be deemed to have been executed by the Trustee if signed by any authorized officer of the Trustee, but it shall not be necessary that the same officer of the Trustee sign the certificate of authentication and registration on all of the Certificates issued under this Indenture.

**SECTION 2.05. FORM OF CERTIFICATES AND TEMPORARY CERTIFICATES.** The Series 2018 Certificates issued under this Indenture shall be substantially in the form set forth in Appendix A to this Indenture with such appropriate variations, omissions and insertions as are permitted or required by this Indenture for each Series.

Certificates of any Series issued under this Indenture may be initially issued in temporary form exchangeable for definitive Certificates of the same Series when ready for delivery. The temporary Certificates shall be of such denomination or denominations, in fully registered form without coupons, as may be determined by the County, and may contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Certificate shall be executed by the County and be authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Certificates. If the County issues temporary Certificates, the County shall execute and furnish definitive Certificates without delay and thereupon the temporary Certificates shall be surrendered for cancellation in exchange therefor at the Principal Office of the Trustee, and the Trustee shall authenticate and deliver in exchange for such temporary Certificates an equal aggregate principal amount of definitive Certificates of the same Series and maturity of authorized denominations. Until so exchanged, the temporary Certificates shall be entitled to the same benefits under this Indenture as definitive Certificates of the same Series authenticated and delivered hereunder.

**SECTION 2.06. DELIVERY OF SERIES 2018 CERTIFICATES.**

(a) Upon the execution and delivery of this Indenture, the County shall execute and deliver to the Trustee, and the Trustee shall authenticate, pursuant to the provisions of Section 2.04 hereof, the Series 2018 Certificates in the aggregate principal amount of \$\_\_\_\_\_ and the Trustee shall deliver the Series 2018 Certificates to the Underwriter thereof in the manner designated and directed by the County and as provided in this Section.

Prior to or concurrent with the delivery by the Trustee of any of the Series 2018 Certificates, there shall be filed or deposited with the Trustee:

(i) an original or a copy, duly certified by the County Auditor/Treasurer of the County, of the Resolution authorizing the issuance of the Series 2018 Certificates and the execution of this Indenture, which Resolution, on the date of delivery of the Series 2018 Certificates, shall be in full force and effect and shall not have been modified, amended or repealed.

(ii) an original executed counterpart of this Indenture creating and authorizing the issuance of the Series 2018 Certificates;

(iii) a written request of the County to the Trustee requesting the Trustee to authenticate and deliver the Series 2018 Certificates in the aggregate principal amount of \$\_\_\_\_\_ to DTC on behalf of the Underwriter;

(iv) an opinion of Arntson Stewart Wegner PC, Bond Counsel, to the effect that the Series 2018 Certificates are valid and enforceable in accordance with the terms thereof and that the interest on the Series 2018 Certificates is not includable in gross income of the recipients thereof for purposes of federal income taxation or for purposes of individual income taxation by the State;

(v) such other certificates, statements, receipts and documents as the Underwriter and Bond Counsel shall reasonably require for the delivery of the Series 2018 Certificates.

(b) The proceeds of the Series 2018 Certificates, including accrued interest thereon to the date of delivery thereof, shall be paid over to the Trustee and deposited to the credit of various Funds and Accounts created under this Indenture, as provided in Section 4.01 of this Indenture.

**SECTION 2.07. PARITY CERTIFICATES.** The County may issue additional parity certificates and bonds (the "Parity Obligations") without the consent of the owners, to provide funds to finance the acquisition, construction and equipping of County facilities, the repair and improvement of facilities, for any other lawful purpose or the refunding of outstanding evidences of



indebtedness, upon the conditions listed below. Provided, that the County may issue Parity Obligations for the purpose of refunding or advance refunding, in whole or in part, any one or more Series of Outstanding Certificates or other evidences of indebtedness subject only to Subsection (a) of this Section.

(a) No Default has occurred and is continuing;

(b) At the time of the issuance of the Parity Obligations there is no deficiency in the Debt Service Fund or the Reserve Fund; and

(c) A certificate of the County stating and confirming that the State Appropriations received by the County for each of the two Fiscal Years preceding the issuance of the Parity Obligations was equal to at three (3) times the maximum annual Debt Service on the Outstanding Certificates or bonds, the proposed Parity Obligations and all other existing indebtedness of the County payable from the State Appropriations. In calculating the maximum annual Debt Service, there shall be deducted from such Debt Service the amount on deposit in any reserve fund (to the extent expected to pay Debt Service on the Outstanding Certificates or Parity Obligations) or in any irrevocable escrow fund being held for the payment of principal of and/or interest on the Certificates or bonds.

All Certificates or bonds issued in accordance with this Section shall have a lien on the State Appropriations which is equal to the lien of the Certificates and all Parity Obligations issued in accordance with this Section. Nothing in this Resolution shall preclude the County from issuing additional bonds which are expressly made subordinate to the pledge of State Appropriations to the Certificates authorized hereunder. Notwithstanding the foregoing, the County may issue Parity Obligations with the written consent of the owners of all of the outstanding principal of the Certificates.

**SECTION 2.08. NO OTHER CERTIFICATES.** Other than the Parity Obligations, nothing in this Indenture shall be construed so as to permit the issuance of bonds or other obligations, payable from the Pledged Revenues and having a lien on the Pledged Revenues superior to or on a parity with the first lien of the Series 2018 Certificates on the Pledged Revenues, and which secures the payment of the Debt Service Requirements thereof.

**SECTION 2.09. MUTILATED, LOST, STOLEN OR DESTROYED CERTIFICATES.**

(a) In the event any Certificate is mutilated, lost, stolen or destroyed, the County may execute and the Trustee may authenticate a new Certificate of like date, maturity and denomination as that mutilated, lost, stolen or destroyed; provided that, in the case of any mutilated Certificate, such mutilated Certificate shall first be surrendered to the County or the Trustee, and in the case of any lost, stolen or destroyed Certificate, there shall be first furnished to the Trustee evidence of such loss, theft or destruction satisfactory to the Trustee, together with indemnity satisfactory to the Trustee. In the event any such Certificate shall have matured, instead of issuing a duplicate Certificate, the County may pay the same without surrender thereof. The County and the Trustee may charge the Owner of such Certificate with their reasonable fees and expenses in this connection. Any Certificate issued pursuant to this Section 2.09 shall be deemed part of the original Series of the Certificates in respect of which it was issued and an original additional contractual obligation of the County (whether or not, in the case of the subsection (a), lost, stolen or destroyed Certificates shall be at any time found by anyone) and shall be entitled to the equal and proportionate rights and benefits hereunder as all other Outstanding Certificates.

(b) If after delivery of a substitute Certificate a bona fide purchaser of the original Certificate in lieu of which such substitute Certificate was issued presents for payment such original Certificate, the County and the Trustee shall be entitled to recover such substitute Certificate from the Person to whom it was delivered or any Person therefrom, except a bona fide purchaser, and the Certificates and the Trustee shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Certificates or the Trustee in connection therewith.

**SECTION 2.10. REGISTRATION OF CERTIFICATES; PERSONS TREATED AS OWNERS.** The County shall cause the books for the registration and for the transfer of the Certificates as provided in this Indenture to be kept by the Trustee which is hereby constituted and appointed the Registrar of the County with respect to the Certificates. All Certificates presented for registration for transfer, redemption or payment (if so required by the County or the Trustee) shall be accompanied by a written instrument or instruments of transfer or authorization for exchange substantially in the form and with guaranty of signature set forth substantially in the form of Appendix A hereto or as may be satisfactory to the County and the Trustee, duly executed by the Owner or by his or her duly authorized attorney. The cost of preparing each new Certificate upon each exchange or transfer and other expenses of the County or the Trustee incurred in connection therewith (except any applicable tax or other governmental charge, as hereinafter provided) shall be paid by the County.

Upon surrender for transfer of any Certificate at the Principal Office of the Trustee, duly endorsed by, or accompanied by a written instrument or instruments of transfer in form satisfactory to the Trustee and duly executed by the Owner or his attorney duly authorized in writing, the County shall execute and the Trustee shall authenticate and deliver in the name of the transferee or transferees, a new Certificate or Certificates of the same Series and the same maturity for a like aggregate principal amount as the Certificate surrendered for transfer. Certificates, upon surrender thereof at the Principal Office of the Trustee, together with an assignment duly executed by the Owner or his or her attorney or legal representative in such form and with guarantee of signature as shall be satisfactory to the Trustee, may, at the option of the Owner thereof, be exchanged at the Principal Office of the Trustee for an equal aggregate principal amount of Certificates of any authorized denomination of the same Series and the same maturity as the Certificates surrendered for exchange bearing numbers not then contemporaneously outstanding. The execution by the County of any Certificate of any authorized denomination shall constitute full and due authorization of such denomination, and the Trustee shall thereby be authorized to authenticate and deliver such Certificate. The Trustee shall not be required to transfer or exchange any Certificate during the period from the Record Date (regardless of whether such day is a Business Day) next preceding any payment date for the Certificates or during the 15-day period prior to the date of selection of Certificates for redemption or prepayment, nor to transfer or exchange any Certificate after the mailing of notice calling such Certificate for redemption has been made; provided, however, that such transfer or exchange shall be made by the Trustee with respect to the unredeemed principal of any Outstanding Certificate or with respect to any Certificate or portion thereof remaining unpaid after any payment date or after any date established for redemption of Certificates.

Certificates delivered upon any registration of transfer as provided herein, or as provided in Section 2.09 hereof, shall be valid obligations of the County, evidencing the same debt as the Certificates surrendered, shall be secured by this Indenture and shall be entitled to all of the security and benefits hereof to the same extent as the Certificates surrendered.

The County and the Trustee may treat and deem the Person in whose name any Certificate shall be registered on the books of the Trustee, as Registrar, as the absolute Owner thereof for all purposes whether or not such Certificate shall be overdue, and shall not be bound by any notice to the contrary. Payment of or on account of principal of or interest on any Certificate shall be made only to or upon the order of the Owner thereof or his legal representative, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Certificate to the extent of the sum or sums so paid.

The Trustee shall require the payment by the Owner requesting exchange or transfer of Certificates of any tax or other governmental charge and such charges shall be paid before such new Certificate shall be delivered.

#### **SECTION 2.11. NON-PRESENTATION OF CERTIFICATES.**

(a) In the event any Certificate shall not be presented for payment when the principal thereof becomes due, either at maturity or otherwise, or at the date fixed for redemption thereof, if funds sufficient to pay such Certificate shall have been made available to the Trustee, all liability of the County to the Owner thereof for the payment of such Certificate shall forthwith cease, determine and be completely discharged, and thereupon it shall be the duty of the Trustee to hold such fund or funds, without liability to the Owner of such Certificate for additional interest thereon, for the benefit of the Owner of such Certificate who shall thereafter be restricted exclusively to such fund or funds for any claim of whatever nature on his part under this Indenture or on, or with respect to, said Certificate. Such Certificate shall be deemed to be paid for all purposes of this Indenture and any amounts held by the Trustee for the purpose of paying such Certificate pursuant to this subsection (a) shall not bear interest or otherwise be invested from and after such maturity date.

(b) Any moneys which the Trustee shall segregate and hold in trust for the payment of the principal of or interest on and premium, if any, on any Certificate and remaining unclaimed for three (3) years after such principal or interest or premium, if any has become due and payable shall, after the expiration of such three-year period, (i) be paid to the administrator of the State's abandoned property office pursuant to Chapter 47-30.1 of the NDCC to the extent such provisions are applicable to such moneys, or (ii) to the extent such provisions are not applicable to such moneys, be paid to the County whereupon the Owner of such Certificate shall look only to the County for payment, and then only to the extent of the amount so paid to the County and the County shall not be liable for any interest thereon and shall not be regarded as a trustee of such money, and all liability of the Trustee with respect to such moneys shall thereupon cease.

**SECTION 2.12. BOOK-ENTRY SYSTEM.** Prior to the issuance of any Series of Certificates hereunder, the County may direct that the Book-Entry System is to initially be in effect for any such Series of Certificates, or the County may thereafter determine that the Book-Entry System shall be in effect for such Series or for any other Series of Certificates issued hereunder. If the County shall so direct that the Book-Entry System shall be in effect for any Series of Certificates, then the following provisions of this Section 2.12 shall be applicable thereto:

(a) The Certificates will be delivered in the form of a separate single fully registered Certificate (which may be typewritten) for each stated maturity of the Certificates, in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC") or such other nominee as DTC shall request pursuant to the Letter of Representations. DTC will act as securities depository for the Certificates. The Trustee, the County and any paying agent may treat DTC (or its nominee) as the sole and exclusive Owner of the Certificates registered in its name for the purpose of payment of the principal or Redemption Price of and interest on such Certificates, selecting the Certificates or portions thereof to be redeemed, giving any notice permitted or required to be given to Owners hereunder, registering the transfer of Certificates, obtaining any consent or other action to be taken by Owners of the Certificates and for all other purposes whatsoever; and neither the Trustee nor the County or any paying agent shall be affected by any notice to the contrary. Neither the Trustee nor the County or any paying agent shall have any responsibility or obligation to any Participant (which shall mean, for purposes of this Section, securities brokers and dealers, banks, trust companies, clearing corporations and other entities, some of whom directly or indirectly own DTC), any Person claiming a beneficial ownership interest in the Certificates under or through DTC or any Participant, or any other Person who is not shown on the registration records as being an Owner, with respect to (i) the accuracy of any records maintained by DTC or any Participant, (ii) the payment by DTC or any Participant of any amount in respect of the principal or Redemption Price of or interest on the Certificates, (iii) any notice which is permitted or required to be given to Participants or Owners of Certificates hereunder, (iv) the selection by DTC or any Participant of any Person to receive payment in the event of a partial redemption of the Certificates, or (v) any consent given or other action taken by DTC. The Trustee shall pay the principal of and premium, if any, and interest on the Certificates only at the times, to the accounts, at the address and otherwise in accordance with the Letter of Representations, and all such payments shall be valid and effective to satisfy fully and discharge the County's obligations with respect to the principal of, premium, if any, and interest on the Certificates to the extent of the sum or sums so paid. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of its then existing nominee, the Certificates will be transferable to such new nominee in accordance with subsection (e) of this Section.

(b) In the event that the County determines that it is in the best interests of the beneficial owners of the Certificates that they be able to obtain bond certificates, the Trustee shall, upon the written instruction of the County, so notify DTC, whereupon DTC shall notify the Participants of the availability through DTC of bond certificates. In such event, the Certificates will be transferable in accordance with subsection (e) of this Section. DTC may determine to discontinue providing its services with respect to the Certificates at any time by giving written notice of such discontinuance to the County and the Trustee and discharging its responsibilities with respect thereto under applicable law. In such event, Certificates will be transferable in accordance with subsection (e) of this Section. Whenever DTC requests the County and the Trustee to do so, the County and the Trustee will cooperate with DTC in taking appropriate action after reasonable notice to arrange for another securities depository to maintain custody of all certificates evidencing the Certificates then Outstanding. In such event, the Certificates will be transferable to such securities depository in accordance with subsection (e) of this Section, and thereafter, all references in this Indenture to DTC or its nominee shall be deemed to refer to such successor securities depository and its nominee, as appropriate.

(c) Notwithstanding any other provision of this Indenture to the contrary, so long as all Certificates Outstanding are registered in the name of any nominee of DTC, all payments with respect to the principal of and premium, if any, and interest on each such Certificate and all notices with respect to each such Certificate shall be made and given, respectively, to DTC as provided in the Letter of Representations.

(d) The County is hereby authorized and requested to execute and deliver the Letter of Representations and, in connection with any successor nominee for DTC or any successor depository, enter into comparable arrangements, and shall have the same rights with respect to its actions thereunder as it has with respect to its actions under this Indenture.

(e) In the event that any transfer or exchange of Certificates is authorized under subsection (a) or (b) of this Section, such transfer or exchange shall be accomplished upon receipt by the Trustee from the Owner thereof of the Certificates to be transferred or exchanged and appropriate instruments of transfer to the permitted transferee, all in accordance with the applicable provision of Section 2.10 hereof. In the event certificates are issued to Owners other than Cede & Co., its successor as nominee for DTC as Owner of all the Certificates, another securities depository as Owner of all the Certificates, or the nominee of such successor securities depository, the provisions of Section 2.02 and Section 2.10 hereof shall also apply to, among other things, the registration, exchange and transfer of the Certificates and the method of payment of the principal of, premium, if any, and interest on the Certificates.

**SECTION 2.13. CANCELLATION.** Certificates surrendered for payment, redemption or exchange, and Certificates purchased from any moneys held by the Trustee under this Indenture or surrendered to the Trustee by the County, shall be promptly canceled and shall not be reissued.

Unless the County shall otherwise direct in writing that canceled Certificates are not to be destroyed by the Trustee, the County shall be obligated to pay the reasonable charges and expenses of the Trustee to become due in connection therewith, and a counterpart of the certificate of destruction evidencing such destruction shall be furnished by the Trustee upon request to the County; provided, however, anything in this Indenture to the contrary notwithstanding, one or more new Certificates shall be issued for the unredeemed portion of any Certificate without charge to the Owner thereof.

**SECTION 2.14. CUSIP NUMBERS.** Neither the County or the Trustee shall be liable for any defect or inaccuracy in the CUSIP number that appears on any Certificate or in any redemption notice. As provided in Section 7.02 of this Indenture, the Trustee may include in any redemption notice a statement to the effect that the CUSIP numbers on the Certificates have been assigned by an independent service and are included in such notice for the convenience of the Owners of the Certificates, but that neither the County or the Trustee shall be liable for any inaccuracies in such numbers.

### **ARTICLE III CREATION OF FUNDS AND ACCOUNTS**

**SECTION 3.01. SURPLUS FUND.** There is hereby created and ordered established in the custody of the Trustee, a special trust Fund in the name of the County designated as the "Surplus Fund".

**SECTION 3.02. DEBT SERVICE FUND.** There is hereby created and ordered established in the custody of the Trustee, a special trust Fund in the name of the County designated as the "Debt Service Fund". The Trustee shall create and establish such Accounts and/or subaccounts within the Debt Service Fund as the County shall hereafter designate and direct from time to time.

**SECTION 3.03. REFUNDING FUND.** There is hereby created and ordered established in the custody of the Trustee, a special trust Fund in the name of the County designated as the "Refunding Fund". The Trustee shall create and establish such Accounts and/or subaccounts within the Refunding Fund as the County shall hereafter designate and direct from time to time.

**SECTION 3.04. RESERVE FUND.** There is hereby created and ordered established in the custody of the Trustee, a special trust Fund in the name of the County designated "Reserve Fund." The Trustee shall create and establish such Accounts and/or subaccounts within the Reserve Fund as the County shall hereafter designate and direct from time to time.

**SECTION 3.05. REBATE FUND.** There is hereby created and ordered established in trust with the Trustee, a special trust Fund in the name of the County to be designated "Rebate Fund." The Trustee shall create and establish such Accounts and/or subaccounts within the Rebate Fund as the County shall hereafter direct from time to time.

**SECTION 3.06. COST OF ISSUANCE FUND.** There is hereby created and ordered established in trust with the Trustee, a special trust Fund in the name of the County designated "Cost of Issuance Fund." The Trustee shall create and establish such Accounts and/or subaccounts within the Cost of Issuance Fund as the County shall hereafter designate and direct from time to time.

### **ARTICLE IV APPLICATION OF SERIES 2018 CERTIFICATE PROCEEDS**

**SECTION 4.01. APPLICATION OF SERIES 2018 CERTIFICATE PROCEEDS.** Upon the execution and delivery of this Indenture and the issuance of the Series 2018 Certificates, the County shall deposit with the Trustee the Series 2018 Certificate proceeds in the amount of \$\_\_\_\_\_, consisting of the principal amount of the Series 2018 Certificates in the amount of \$\_\_\_\_\_, plus original issue premium of \$\_\_\_\_\_ and minus Underwriter's discount of \$\_\_\_\_\_. Upon receipt thereof, the Trustee shall deposit and/or credit such amounts as follows:

(A) To the Refunding Fund, \$_____, to be used to redeem the principal and accrued interest of the Series 2015 Certificate on the Redemption Date.	\$
(B) To the Cost of Issuance Fund	\$

**ARTICLE V**  
**USE OF FUNDS AND ACCOUNTS**

**SECTION 5.01.      DEPOSIT OF PLEDGED REVENUES.** The County shall deposit or cause to be deposited all Pledged Revenues distributed by the North Dakota State Treasurer with the Trustee on a monthly basis. The Trustee shall credit all Pledged Revenues to the Debt Service Fund or the Surplus Fund and shall apply the Pledged Revenues as provided in Article VI hereof.

**SECTION 5.02.      USE OF DEBT SERVICE FUND.**

(a) The Trustee shall make deposits to the Debt Service Fund as follows: (i) all moneys required to be transferred as specified in Section 6.01(a) of this Indenture shall be deposited in the Debt Service Fund; (ii) any amount in the Surplus Fund (and in any applicable Account, if any, therein) which shall be transferred to the Debt Service Fund to the extent required by Section 5.03 of this Indenture; (iii) any amount in the Reserve Fund which shall be transferred to the Debt Service Fund to the extent required by Section 5.05 of this Indenture; and (iv) all other moneys received by the Trustee under this Indenture when accompanied by directions from the Person depositing such moneys that such moneys are to be paid into the Debt Service Fund, shall be deposited into the Debt Service Fund.

(b) Except as provided in Section 9.04 of this Indenture and as provided in this Section, moneys in the Debt Service Fund shall be expended solely as follows: (i) to pay the principal of Certificates as the same mature and become due or are mandatorily redeemed pursuant to the terms of this Indenture and to pay the interest on Certificates as the same become due; or (ii) to pay the principal of, redemption premium, if any, and accrued interest on the Certificates as the same become due upon optional redemption in advance of maturity and such payment and redemption of Certificates in advance of their maturity shall be accounted for separately by the Trustee from the payments made by the Trustee (and, as to principal, whether at maturity or on early redemption) pursuant to clause (i) of this subsection (b).

The County hereby authorizes and directs the Trustee to withdraw sufficient funds from the Debt Service Fund to pay principal of, redemption premium, if any, and interest on the Certificates as the same become due and payable and to make said funds so withdrawn available to the Trustee and any paying agent for the purpose of paying said principal, redemption premium, if any, and interest.

(c) After payment in full of the principal of, redemption premium, if any, and interest on the Certificates (or after provision has been made for the payment thereof as provided in this Indenture so that such Certificates are no longer Outstanding), and the fees, charges and expenses of the Trustee, any paying agent and any other amounts required to be paid under this Indenture, all amounts remaining in the Debt Service Fund shall be paid to the County upon the expiration or sooner termination of this Indenture.

**SECTION 5.03.      USE OF SURPLUS FUND.**

(a) The Trustee shall deposit to the Surplus Fund all Pledged Revenues in excess of the Debt Service Requirements for a Bond Year. Provided, that Pledged Revenues in excess of the Debt Service Requirements for a Bond Year may be returned to, or retained by the County.

(b) The Trustee shall apply the Surplus Fund as follows:

- (i) first, to fund any shortfalls in the Debt Service Fund;
- (ii) second, to establish or restore the Reserve Fund, if necessary;
- (iii) third, for release to the County as directed by the County;
- (iv) fourth, remain on deposit in the Surplus Fund and used as directed by the County to optionally redeem outstanding Certificates after the first optional redemption date for such Series of Certificates;
- (v) fifth, to the payment of any required payments from the Rebate Fund; and
- (vi) sixth, to specially redeem the Series 2018 Certificates in accordance with the provisions of Sections 5.09 and 7.01(c) of this Indenture.

**SECTION 5.04. USE OF REFUNDING FUND.** As set forth in Section 4.01, proceeds of the Series 2018 Certificates and other available funds of the County are required to be deposited in the Refunding Fund. The Trustee is authorized and directed to disburse moneys in the Refunding Fund to pay the principal of, premium, and interest on the Series 2015 Certificate on the Redemption Date. Any moneys remaining in the Refunding Fund after payment in full of the Series 2015 Certificate shall be transferred to the Debt Service Fund. The County shall provide a notice of redemption to the holder of the Series 2015 Certificate.

**SECTION 5.05. RESERVE FUND.** The Trustee shall establish and maintain the Reserve Fund, so long as any Series 2018 Certificates are Outstanding under this Indenture, into which the County shall deposit or cause to be deposited such amounts from bond proceeds, County equity, Pledged Revenues (subject to Section 5.03 herein), or a surety bond, letter of credit, or other credit or liquidity facility for such amounts as are necessary from time to time to maintain the Reserve Requirement. At any time the moneys available in the Debt Service Fund are insufficient to pay Debt Service Requirements, the Trustee, without further authority, may draw moneys to the extent necessary from the Reserve Fund. The Trustee shall notify the County at least two (2) Business Days prior to any such withdrawals from the Reserve Fund.

After a withdrawal from the Reserve Fund, the County shall make, or cause to be made by the Trustee, deposits in the Reserve Fund of any amount necessary to replenish such amount until the amount on deposit is at the Reserve Requirement not later than the first Interest Payment Date following a draw on the Reserve Fund. Any required deposits under this Section shall be made from the Pledged Revenues. Amounts on deposit in the Reserve Fund in excess of the Reserve Requirement shall be transferred to the Debt Service Fund unless the County directs in writing that such amounts remain on deposit in the Reserve Fund.

**SECTION 5.06. USE OF REBATE FUND.**

(a) The Trustee shall establish and maintain with respect to each Series of tax-exempt Certificates issued hereunder a Fund separate from any other Fund established and maintained hereunder designated and defined herein as the Rebate Fund (with such Series designation as may be appropriate). The provisions of this Section shall apply separately to the Rebate Fund established for each Series of Certificates. Subject to the transfer provisions provided in subsection (e) below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required, to satisfy the Rebate Amount payable to the United States of America. All amounts on deposit in the Rebate Fund shall be governed by this Section and by the Tax Compliance Certificate of the County. The Trustee shall be deemed conclusively to have complied with such provisions if it follows the written directions of the County with respect thereto, and shall have no liability or responsibility to enforce compliance by the County with the terms of the Tax Certificate.

(b) Upon the County's written direction and subject to the express provisions of Section 6.01 hereof, an amount equal to the Rebate Amount specified or confirmed to the Trustee (from time to time) shall be deposited into the Rebate Fund by the Trustee from balances in the following Funds and Accounts and in the following order of priority: (i) from the Surplus Fund and (ii) from the Debt Service Fund, so that the balance in the Rebate Fund after such deposit shall equal the Rebate Amount for the applicable Bond Year. As to the calculations and computations with respect to the Rebate Amounts provided for in this Section 5.06 (not less than every fifth (5<sup>th</sup>) Bond Year), the Trustee shall have no responsibility to make any such computations or calculations or to independently verify or review any such calculation or computation referred to in this subsection (b).

(c) The Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to this Section, other than from moneys held in the Funds and Accounts created under this Indenture or from other moneys provided to it by the County.

(d) The Trustee shall invest all amounts held in the Rebate Fund at the written direction of the County in Permitted Investments. The Trustee shall retain in the Rebate Fund all earnings (calculated by taking into account net gains or losses on sales or exchanges and taking into account amortized discount or premium as a gain or loss, respectively) on investments held in the Rebate Fund. Money shall not be transferred from the Rebate Fund except as provided in subsection (e) below.

(e) Upon receipt of the County's written directions, the Trustee shall remit part or all of the balances in the Rebate Fund to the United States, as so directed. Such directions shall be given by the County to the Trustee at least two (2) Business Days prior to each date such amounts are to be remitted to the United States. In addition, if on the first day of any Bond Year the amount credited to the Rebate Fund exceeds the Rebate Amount as determined by the County, and if the County so directs in writing, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such Accounts or Funds as provided in the County's written directions. Any funds remaining in the Rebate Fund after redemption and payment of all of the Certificates and payment and satisfaction of any Rebate Amount as determined and directed by the County shall be withdrawn and remitted to the County.

(f) Notwithstanding any other provision of this Indenture, the obligation of the County to remit the Rebate Amounts to the United States and to comply with all other requirements of this Section and the Tax Certificate shall survive the defeasance or payment in full of the Certificates.

(g) Pending payment of each Rebate Amount to the United States, moneys held in the Rebate Fund are hereby pledged by the County to secure such payments to the United States as provided herein and in the Tax Certificate, and neither the County, the Trustee, the Owners nor any other Person shall have any rights in or claim to such moneys.

**SECTION 5.07. INVESTMENT OF FUNDS.** Each of the special Accounts and Funds hereinabove designated in Article III of this Indenture (other than each Account or Fund terminated pursuant to this Indenture, if any, after the withdrawal of all moneys accounted for in the Account or Fund and its termination) shall be maintained as a book Account and kept separate from all other Accounts as a trust Account solely for the purposes, herein designated therefor. The monies accounted for in such special book Accounts may be in one bank account or more in the Bank of North Dakota, or in a commercial bank or commercial banks as determined and designated by the County (except as otherwise expressly stated herein). Nothing herein prevents the commingling of monies accounted for in any two or more book Accounts or Funds pertaining to the Facilities, the Pledged Revenues or the proceeds of securities or other monies (other than any escrow fund and the Rebate Fund) in any bank account or investment in federal securities. Each periodic payment shall be credited to the proper book Account or Fund not later than the date therefor herein designated, except that when any such date shall not be a Business Day, then such payment shall be made on or before the next preceding Business Day. Notwithstanding any other provision herein to the contrary, monies shall be deposited in the Debt Service Fund with the Trustee at least two (2) Business Days, prior to each Interest Payment Date and each principal payment date herein designated sufficient in amount to pay the principal of, premium, if any, and interest then becoming due on the Certificates Outstanding in the manner and from the sources expressly provided in this Indenture. Moneys held in the Cost of Issuance Fund, Refunding Fund, Reserve Fund, Surplus Fund, Debt Service Fund and the Rebate Fund shall, pursuant to direction of a County Representative, be invested and reinvested by the Trustee in Permitted Investments which mature or are subject to redemption by the owner thereof prior to the date such funds are expected to be needed. Such Permitted Investments shall be acquired by the Trustee in such manner as directed by the County Representative and such Permitted Investments shall be held by or under the control of the Trustee and shall be accounted for and deemed at all times a part of the Fund or Account in which such moneys are originally held, and the interest accruing thereon and any profit realized from such Permitted Investments shall be deemed hereunder to constitute part of the Pledged Revenues, shall be delivered when received to the Debt Service Fund (unless provided to the contrary with respect to any Fund or Account pursuant to the provisions of this Indenture) and shall be applied in accordance with Section 6.01 of this Indenture.

The Trustee may, at the direction of a County Representative, make any and all investments permitted by the provisions of this Section through its own trust department or short-term investment department.

The County and the Trustee severally certify and covenant with the Owners of the Certificates from time to time Outstanding, that so long as any of the Certificates remain Outstanding, moneys on deposit in any Fund or Account in connection with the Certificates, whether or not such moneys were derived from the proceeds of the sale of the Certificates or from any other source, will not be knowingly used in any manner which will cause the interest on the Certificates to become subject to being included in the adjusted gross income of the Owners of Certificates for purposes of federal income taxation. The County and the Trustee reserve the right, however, to make any investment of such moneys permitted by the laws of the State if, when and to the extent that the Code or Regulations promulgated thereunder shall be repealed or interpreted to permit such investment or shall be held void by final judgment of a court of competent jurisdiction, but only if such investment made by virtue of such repeal, interpretation or decision would not, as set forth in an opinion of Bond Counsel, result in making the interest on any of the Certificates subject to being included in the adjusted gross income of the Owners of Certificates for purposes of federal income taxation.

As used in this Article, all words and terms shall have the same meanings as such words are given for the purposes of Section 148 of the Code and the applicable Regulations promulgated thereunder by the United States Department of the Treasury.

In the event the County shall be advised by Bond Counsel that it is necessary to restrict or limit the Yield on the investment of any moneys paid to or held by the Trustee in order to avoid the Certificates, or any Series thereof, being considered "arbitrage bonds" within the meaning of the Code or the Regulations proposed or promulgated thereunder, or to otherwise preserve the exemption from federal income taxation of, interest payable or paid on any Certificates, the County may require the Trustee to take such steps as it may be advised by such Bond Counsel are necessary so to restrict or limit the Yield on such investment, irrespective of whether the Trustee shares such opinion, and the Trustee agrees that it will take all such steps as the County may require.

**SECTION 5.08. TRUST FUNDS.** All moneys and securities received by the Trustee under the provisions of this Indenture (other than the Rebate Fund) shall be trust funds under the terms of this Indenture and shall not be subject to lien or attachment of any creditor of the State or any political subdivision, body, agency or instrumentality thereof or of the County and shall not be subject to appropriation by any legislative body or otherwise. Such moneys and securities shall be held in trust and applied in accordance with the provisions of this Indenture. Unless and until disbursed pursuant to the terms of this Indenture, all such moneys and securities (and the income therefrom) shall be held by the Trustee as security for payment of the principal, premium, if any, and interest on the Certificates and the fees and expenses of the Trustee payable under this Indenture and the Rebate Amount becoming due and payable to the United States from time to time.

**SECTION 5.09. SPECIAL EXTRAORDINARY REDEMPTION.** The Series 2018 Certificates are subject to special extraordinary redemption from excess Pledged Revenues deposited in the Surplus Fund as provided in Section 5.03 hereof. From the Surplus Fund the Trustee shall redeem the Series 2018 Certificates, in whole or in part, as directed by the County, commencing August 1, 2021 and on any Interest Payment Date thereafter (each, a "Special Redemption Date"). The Series 2018 Certificates shall be redeemed at a redemption price equal to the principal amount of the Series 2018 Certificates, plus accrued interest thereon to the Special Redemption Date. The Trustee shall redeem the Series 2018 Certificates pursuant to the procedures set forth in Article VII hereof.

**SECTION 5.10. USE OF COST OF ISSUANCE FUND.** Moneys in the Cost of Issuance Fund shall be expended and disbursed to pay all Costs of Issuance. The Trustee is hereby authorized and directed to make disbursements from the Cost of Issuance Fund upon receipt by the Trustee of evidence that such costs are due and owing. Any moneys remaining in the Cost of Issuance Fund after payment of all Costs of Issuance shall be transferred to the Debt Service Fund.

## **ARTICLE VI APPLICATION OF PLEDGED REVENUES**

**SECTION 6.01. APPLICATION OF PLEDGED REVENUES.** Pursuant to this Section, all Pledged Revenues shall be accounted for and maintained by the Trustee in the Debt Service Fund, and shall be expended and used only in the manner and order of priority specified below:

(a) As a first charge and lien on the Pledged Revenues, the Trustee shall deposit all Pledged Revenues into the Debt Service Fund until the amounts held in the Debt Service Fund for that particular Bond Year equal 100% of the Debt Service Requirements on the Series 2018 Certificates and any Parity Obligations.



(b) As a second charge and lien on the Pledged Revenues, the Trustee shall deposit Pledged Revenues to establish or restore the Reserve Fund to the level of the Reserve Balance, if necessary.

(c) As a third charge and lien on the Pledged Revenues, the Trustee shall deposit to the Rebate Fund, not less than every fifth (5<sup>th</sup>) Bond Year, the amounts required to be deposited thereto (i.e. the Rebate Amount) by the provisions of Section 5.06 and Section 8.07(b)(ix) of this Indenture and the amounts required to be deposited to the Rebate Fund shall be rebated to the United States of America in the manner required by Sections 5.06 and 8.07(b)(ix) of this Indenture.

(d) Subject to making the foregoing required payments and deposits, all Pledged Revenues received by the Trustee in excess of the Debt Service Requirements for a Bond Year shall be transferred to the Surplus Fund for application as set forth in Article V.

## **ARTICLE VII REDEMPTION AND PAYMENT OF CERTIFICATES**

### **SECTION 7.01. CERTIFICATE PAYMENT DATES, REDEMPTION DATES AND PRICES.**

(a) *Payment of Series 2018 Certificates.* So long as any of the Series 2018 Certificates are Outstanding, the Trustee shall, on August 1 of each of the years 2019 to 2027, inclusive, apply moneys deposited in the Debt Service Fund to the payments of the Series 2018 Certificates maturing or subject to mandatory redemption on such dates, respectively.

(b) *Optional Redemption of Series 2018 Certificates.* The Series 2018 Certificates maturing on August 1, 2024 and thereafter shall be subject to redemption and prepayment, at the option of the County, on August 1, 2023, and any date thereafter, in any order of maturities and by lot within any maturity, at par plus accrued interest.

(c) *Special Extraordinary Redemption of Series 2018 Certificates.* The Series 2018 Certificates shall be subject to special extraordinary redemption on any Interest Payment Date from and after August 1, 2021 from amounts on deposit in the Surplus Fund as provided in Section 5.09 hereof. The Series 2018 Certificates shall be redeemed, in whole or in part, in the amount at that time on deposit in the Surplus Fund and as directed by the County, rounded down to the nearest \$5,000 increment. The Series 2018 Certificates will be redeemed in inverse order of maturity, and by lot within any maturity, with each \$5,000 of principal amount to be treated as a separate bond, at a Redemption Price equal to the principal amount of the Series 2018 Certificates to be redeemed, plus accrued interest thereon to the Special Redemption Date.

### **SECTION 7.02. NOTICES OF REDEMPTION; PROVISIONS RELATING TO REDEMPTION.**

(a) In the event any of the Certificates are called for redemption, the Trustee shall give notice, in the name of the County, of redemption (i) to the respective Owners of the Certificates designated for redemption at their addresses as shown on the registration books of the Trustee, and (ii) to any Rating Agency then providing a rating for a Series of Certificates. Each notice of redemption shall state (A) the date of such notice and date of mailing thereof to Owners of Certificates to be redeemed, (B) the Certificates to be redeemed, including the CUSIP numbers and certificate numbers of Certificates to be redeemed, the original issue date for the Certificate, and the interest rates and maturity dates for the Certificates to be redeemed, (C) the redemption date, (D) the Redemption Price and the place or places where amounts due upon such redemption will be payable (which shall be the address of the Principal Office of the Trustee); (E) where less than all of the Certificates are to be redeemed, the CUSIP numbers and definitive certificate numbers of the Certificates of such maturity, and if part of the principal portions of the Certificates are to be redeemed only, the principal portions of the Certificates so to be redeemed. Each such notice given pursuant to this Section 7.02 shall also state that on the redemption date designated in the notice, and upon the satisfaction of any condition stated therein, there will become due and payable on each of the Certificates, the Redemption Price thereof (which shall equal the principal amount thereof to the redemption date and premium, if any, payable in connection therewith), and in case any Certificate is to be redeemed in part only, the specified portion of the principal amount to be redeemed and that from and after such redemption date interest thereon shall cease to accrue and shall require that each Certificate being redeemed, in whole or in part, be surrendered at the address of the Trustee specified in the notice. Each notice of redemption shall be given by mail by the Trustee, at the expense of the County, not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption to the Owners of the Certificates to be redeemed. If a notice of redemption shall not be conditional, or if the conditions of a conditional notice of redemption shall have been satisfied, then upon presentation and surrender of the Certificates so called for redemption at the place or places of payment, such Certificates shall be redeemed.

(b) Any Certificates which have been duly selected for redemption and which are deemed to be paid in accordance with Section 2.11(a) and Article XII hereof shall cease to bear interest on the specified redemption date.

(c) Neither the failure of any Owner to receive any notice of redemption nor any defect in any such notice shall affect the validity of the proceedings for such redemption or the cessation of accrual of interest from and after the applicable redemption date as provided herein.

(d) Certificates to be redeemed as provided in Section 7.01 hereof which are not delivered by the Owners thereof to the Trustee on the date on which such Certificates are to be redeemed shall nonetheless be deemed to have been delivered by the Owners thereof for redemption and to have been redeemed from Funds prescribed therefor. The principal amount of Certificates redeemed as provided in Section 7.01 hereof shall be paid to the Owner as of the Record Date next preceding the date of redemption of such Certificates if such date of redemption is an Interest Payment Date in the same manner as if such Certificates were not being redeemed pursuant to Section 7.01 hereof. If the date of redemption is not an Interest Payment Date, such principal amount shall be paid to the Owner in whose name such Certificate is registered on the Business Day next preceding such date of redemption.

(e) Any of such moneys which shall not be used to pay the Redemption Price of Certificates shall be held and disposed of by the Trustee in the same manner as prescribed in Section 2.11 of this Indenture.

(f) Notice of redemption of the Series 2018 Certificates shall be mailed by the Trustee by first-class mail, postage prepaid, at least thirty (30) days before the redemption date to the respective Owners of the respective Series 2018 Certificates designated for redemption.

**SECTION 7.03. PAYMENT OF REDEMPTION PRICE.** For the redemption of any of the Certificates, the County shall cause to be deposited in the Debt Service Fund, solely out of the Pledged Revenues and any other moneys constituting the Trust Estate an amount sufficient to pay the principal of and interest (and premium, if any) becoming due on the Certificates called for redemption on the date fixed for such redemption. The obligation of the County to cause any such deposit to be made hereunder shall be reduced by the amount of moneys in the Debt Service Fund or any Account created pursuant to the provisions of Article XII and available for and used on such redemption date for payment of the principal of and interest (and premium, if any) on the Certificates to be redeemed. The Trustee shall apply amounts as and when required and available therefor in the Debt Service Fund in the manner provided in Section 5.02 hereof.

**SECTION 7.04. PARTIAL REDEMPTION OF CERTIFICATES.** Upon surrender of any Certificate to be redeemed in part only, the Trustee shall authenticate and deliver to the Owner, at the expense of the County, a new Certificate or Certificates of authorized denominations equal in aggregate principal amount to the unredeemed portion of principal of the Certificate surrendered, with the same interest rate and the same maturity. Such partial redemption shall be valid upon payment of the amount required to be paid to such Owner, and the County and the Trustee shall be released and discharged thereupon from all liability to the extent of such payment.

**SECTION 7.05. SELECTION OF CERTIFICATES.** If less than all of the Outstanding Certificates of a Series are to be redeemed, the Trustee shall redeem such Certificates as shall be directed in writing by the County; provided, that if less than all Certificates of a single maturity are to be redeemed, Certificates of that maturity shall be redeemed by lot as determined and drawn by the Trustee. In all cases of partial redemption, including Certificates redeemed by mandatory sinking fund redemption, the Trustee shall assign to each Outstanding Certificate of greater than \$5,000 denomination a distinctive number for each \$5,000 of the principal amount at maturity thereof so as to distinguish each such \$5,000 portion from each other portion of the principal amount at maturity of such Certificates subject to such redemption. For purposes of determining Certificates or portions thereof to be redeemed, the Trustee shall select by lot, using such method if selections as it shall deem proper in its sole discretion, from the numbers of, and the numbers assigned to, such Certificates, as many numbers, at \$5,000 for, each number, as in this Section provided, as shall equal the aggregate principal amount at maturity of such Certificates to be redeemed. The Certificates to be redeemed shall be the Certificates and portions of Certificates bearing numbers, and to which were assigned numbers, so selected; but only so much of the principal amount at maturity of each such Certificate of a denomination of more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. In the event of a partial redemption of any term Certificates, the mandatory sinking fund payments with respect to such term Certificates shall be reduced by the aggregate principal amount of term Certificates to be partially redeemed in inverse order of their mandatory sinking fund redemption dates.

## **ARTICLE VIII GENERAL COVENANTS**

**SECTION 8.01. GENERAL COVENANTS.** The County hereby covenants and agrees with the owners of all outstanding Certificates as follows:

(a) That, subject to the limitations imposed by the Legislative Assembly of the State, it will collect and pay, or cause to be paid, to the Trustee the Pledged Revenues in an amount sufficient to pay the principal of and interest on the Certificates as the same becomes due and to fund any deficiency in the Reserve Fund.

(b) That it will take all action reasonably possible to receive and continue to receive the State Appropriations.

(c) That it will, to the extent the Pledged Revenues are sufficient, promptly cause the principal and interest on the Certificates to be paid as they become due.

(d) That it will maintain complete books and records relating to the Pledged Revenues and the operation of the Facilities, and will cause such books and records to be audited annually at the end of each fiscal year in accordance with Generally Accepted Accounting Standards. The audit report shall be made available to the Trustee upon request.

**SECTION 8.02. PRIORITY OF LIEN.** The County covenants that the Outstanding Certificates as to their Debt Service Requirements shall be secured by a first priority lien on the Pledged Revenues.

**SECTION 8.03. PAYMENT OF PRINCIPAL AND INTEREST.** The County covenants that it will promptly pay the principal of, premium, if any, and interest on the Certificates issued under this Indenture at the place, on the dates, in the manner and from the sources provided herein and in said Certificates according to the true intent and meaning hereof and thereof. The principal, interest, and premium, if any, on the Certificates are payable solely from the Pledged Revenues, as the first charge thereon which payments are hereby specifically pledged and assigned to the payment thereof in the manner and to the extent specified in this Indenture, and nothing in the Certificates or in this Indenture shall be considered as pledging any other funds or assets of the County for the payment of the Certificates except for the Pledged Revenues pledged for such purpose under this Indenture. The Certificates are not obligations, general, special or otherwise, of the State, do not constitute a debt, legal, moral or otherwise, of the State or the County, nor shall payment therefor be enforceable out of any funds of the State or the County other than the Pledged Revenues pledged thereto by this Indenture. This Indenture does not pledge or mortgage any property constituting part of the County or the Facilities other than the Pledged Revenues.

**SECTION 8.04. PERFORMANCE OF COVENANTS; COUNTY.** The County covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Indenture, and in any and every Certificate executed, authenticated and delivered hereunder. The County represents that it is duly authorized under the Constitution, laws of the State and County Ordinances to issue the Certificates authorized by this Indenture and to execute this Indenture, that all actions on its part for the issuance of the Certificates and the execution and delivery of this Indenture have been duly and effectively taken, and that the Certificates in the hands of the Owners thereof are, and will be, valid and enforceable obligations of the County according to the import thereof and hereof.

**SECTION 8.05. LIST OF OWNERS.** The Trustee will keep on file at its principal office a list of the names and addresses of the Owners of all Certificates which are from time to time registered on the registration books in the hands of the

Trustee as Registrar for the Certificates. Pursuant to Section 21-03.1-09 of the NDCC, such registration books are not subject to inspection or copying under any law of the State relating to public records.

**SECTION 8.06. DESIGNATION OF ADDITIONAL PAYING AGENTS.** The County hereby covenants and, agrees to cause the necessary arrangements to be made through the Trustee and to be thereafter continued for the designation of alternate paying agents, if any, and for the making available of funds hereunder, but only to the extent such funds are made available to the County from Certificate proceeds or other Funds created hereunder or the income from the temporary investment thereof, for the payment of such of the Certificates as shall be presented, when due, at the Principal Office of the Trustee, or its successor in trust hereunder, or at the principal corporate trust office of said alternate paying agents.

**SECTION 8.07. TAX COVENANTS.**

(a) *Generally.* The County covenants and agrees that it will not use, and will not consent to the use of, any of the property acquired out of any proceeds of Certificates in such manner as would result in loss of tax exemption of interest on the Certificates otherwise afforded under Section 103(a) of the Code.

The County recognizes that Section 149 of the Code requires the Certificates to be issued and to remain in fully registered form in order that interest thereon be excluded from the adjusted gross income of the Owners thereof for purposes of federal income taxation under laws in force at the time the Certificates are delivered. Pursuant to the provisions thereof, the County agrees that it will not take any action to permit the Certificates to be issued in, or converted into, bearer or coupon form, unless the County first receives an opinion from Bond Counsel to the effect that such action will not result in the interest on the Certificates becoming includable in gross income of the recipient thereof for purposes of federal income taxation or otherwise becoming subject to federal income taxation under the laws or Regulations then in effect.

(b) *Arbitrage Provisions.* The County hereby further covenants for the benefit of each Owner of the Tax-exempt Certificates that:

(i) Certificates and Filings. The County shall (1) provide such certificates of a County Representative, such Opinions of Counsel, and such other evidence as may be necessary or requested by Bond Counsel to establish the absence of arbitrage expectation under Section 148 of the Code, and (2) file such information and statements with the Internal Revenue Service, as may be required of the County to establish or preserve such exclusion or as may be required by Section 103 and Section 149(e) of the Code or the Regulations thereunder and any related provisions of law, or regulation;

(ii) Character of Investments. Certificate proceeds and other amounts credited to the various Funds and Accounts pertaining to the Facilities shall not be invested in such a manner as to result in the loss of exemption from federal income taxation of interest on the Certificates;

(iii) Use of Certificate Proceeds. The County shall make no use of the proceeds of the Certificates which would cause them or the securities of any subsequent issue to be "arbitrage bonds" under Section 103 and Section 148 of the Code and the applicable rules and Regulations promulgated thereunder from time to time by the Internal Revenue Service; and the County and its officers, employees and other agents shall take appropriate action so that the proceeds of the Certificates shall be used in a manner that shall not cause the Certificates or any Parity Obligations to be taxable "arbitrage bonds" under Section 103 and Section 148 of Code and the applicable income tax rules and Regulations thereunder;

(iv) Prohibited Investments. Such sums constituting all of the net proceeds of the Certificates shall not be invested directly or indirectly in taxable obligations so as to produce an adjusted Yield (including permissible adjustments for any premium or discount) which is materially higher than the Yield of the Certificates and which results in the Certificates constituting "arbitrage bonds" within the meaning of Section 103 and Section 148 of the Code and under the applicable income tax rules and Regulations promulgated thereunder, or pursuant thereto, except for any such investments permitted by the special rules pertaining to "temporary periods" and to "reasonably required reserve or replacement funds" and except as may be otherwise permitted by law;

(v) Effect of Covenant. The covenant in this Section imposes an obligation on the County to fully comply with the requirements of Sections 103 and 148 of the Code and such income tax rules and Regulations;

(vi) Permissible Investments. Such sums may be otherwise invested if and when the Code and Regulations permit such investment to be made in the manner made without causing the Certificates or the securities of any subsequent issue to become taxable "arbitrage bonds";

(vii) Federal Guarantee. The County will not take any actions which would otherwise cause the Certificates to be deemed "federally guaranteed" within the meaning of Section 149 of the Code;

(viii) Management Contracts. The County will not enter into any agreement with respect to the management of the Facilities or any Additional Facilities with any private Person which would cause any use of the Facilities or any Additional Facilities to be considered a trade or business use by a private Person for purposes of Section 141(b) of the Code unless such agreement conforms to the provisions of Revenue Procedure 97-13, 1997-1 C.B. 632, issued January 10, 1997, Revenue Procedure 2001-39, 2001-2 C.B. 38, issued June 20, 2001, and Notice 2014-67, issued November 14, 2014, or any subsequent revenue procedure, regulation, or other written statements of the Internal Revenue Service or the United States Department of Treasury that establishes superseding rules or regulations with respect to permissible management or service agreements or establishes "safe harbors" with respect to such agreements;

(ix) Arbitrage Rebate Requirement. The County hereby acknowledges and confirms its obligations under Section 103 and Section 148 of the Code and the applicable Regulation thereunder with respect to the imposition of arbitrage requirements and restrictions on Tax-exempt bonds generally. Specifically, the County agrees, to the extent required by law to comply with the applicable rebate requirements imposed under Section 148(f) of the Code including, to the extent required by law, the requirement to make or to cause an Independent Accountant or rebate analyst to make calculations of the amount (i.e. the Rebate Amount) subject to rebate thereunder (at least once in every fifth (5<sup>th</sup>) Bond Year during which Certificates are Outstanding under this Indenture and upon retirement of the Certificates), and to maintain records of such determinations until six (6) years after the retirement of all Outstanding Certificates under this Indenture, and the requirement to make all required rebates to the United States not later than sixty (60) days after the end of the fifth (5<sup>th</sup>) Bond Year and not later than sixty (60) days after the end of each fifth (5<sup>th</sup>) anniversary thereof, to and until the date which is sixty (60) days after the final retirement of the Certificates Outstanding under this Indenture. Copies of each rebate calculation shall be furnished to the Trustee by the County. In construing the obligations of the County hereunder, all terms used in this subsection (ix) shall have the meanings provided in Section 103, Section 148 and Section 150 of the Code all applicable Regulations thereunder, and all provisions set forth in this Indenture for the purpose of complying with said sections of the Code and Regulations or any successor provision shall be incorporated herein by reference. Notwithstanding any other provision of this subsection (ix), no requirement shall be imposed hereunder if an Opinion of Counsel is rendered, by Bond Counsel, to the County to the effect that the failure to impose such requirement will not adversely affect the tax-exempt status of the Certificates. The County agrees to make all required rebate payments of Rebate Amounts to the United States, as and when required, and such payments shall constitute and be accounted for by the County.

(c) Certificates Are Not Private Activity Bonds. The County hereby also covenants for the benefit of each Owner of any Tax-exempt Certificates that they are not obligations:

(i) Private Business Use. Which are issued as part of an issue of which ten percent (10%) or more of the proceeds of which are to be used directly or indirectly for any private business use; or

(ii) Security Interest Test. The payment of the principal of, or the interest on, more than ten percent (10%) of the proceeds of which (under the terms of such obligations or any underlying arrangement pertaining thereto) are, in any way, directly or indirectly, (A) secured by any interest in (I) property used or to be used in a trade or business or (II) payments in respect of such property, or (B) to be derived from payments (whether or not to the County) in respect of property, or borrowed money, used or to be used for a private business use;

(iii) Related Facility Exception. More than five percent (5%) of the proceeds of which are used in a private trade or business which is either (A) unrelated to the governmental use financed by the Certificates, or (B) a disproportionate related private use, and payments, property and borrowed money with respect to any use of proceeds described in the immediately foregoing subsections (i) and (ii);

(iv) Private Loan Bonds. Which are issued as part of an issue, five percent (5%) or more of the proceeds of which, or \$5,000,000 (whichever is lesser) are used to make or finance loans to non-governmental Persons;

as the provisions in these foregoing subsections (i) through (iv) of this subsection (c), are used in Section 141 of the Code and in the applicable income tax rules and Regulations thereunder. Thus, the Tax-exempt Certificates are not "private activity bonds" within the meaning of Sections 103 and 141 of the Code and the applicable income tax rules and Regulations thereunder.

**SECTION 8.08. COMPLETION OF FACILITIES.** The County covenants that the Facilities financed from the proceeds of the Certificates have or will be completed and placed in service and operated by the County in accordance with all applicable zoning, building, and environmental laws, regulations and ordinances.

**SECTION 8.09. RULES CONCERNING FACILITIES.** The County covenants that it will operate the Facilities in accordance with the NDCC.

**SECTION 8.10. PAYMENT OF DEBT SERVICE REQUIREMENTS.** Notwithstanding any other provisions of this Indenture, nothing herein shall be construed to prevent the County from paying all or any part of the operation and maintenance expenses of the Facilities from any funds available to the County for such purpose, or from depositing any funds available to the County for such purpose in the Debt Service Fund for the payment of the Debt Service Requirements of any Certificates issued under the provisions of this Indenture or for the redemption of any such Certificates, as such Certificates are made payable by the terms thereof and of this Indenture from the Debt Service Fund.

**SECTION 8.11. PAYMENT OF TAXES.** The County covenants that all taxes and assessments or other municipal or governmental charges lawfully levied or assessed upon the Facilities or upon any part thereof or upon any income therefrom will be paid when the same shall become due, that no lien or charge upon the Facilities or any part thereof or upon any of the Pledged Revenues thereof, except for the lien and charge thereon created under this Indenture and securing Certificates, will be created or permitted to be created ranking equally with or prior to the Certificates and that all lawful claims and demands for labor, materials, supplies or other objects which, if unpaid, might by law become a lien upon the Facilities or any part thereof or upon the Pledged Revenues will be paid or discharged, or adequate provision will be made for the payment or discharge of such claims and demands within sixty (60) days after the same shall accrue; provided, however, that nothing in this Section contained shall require any such lien or charge to be paid or discharged or provision made therefor so long as the validity of such lien or charge shall be contested in good faith and by appropriate legal proceedings.

**SECTION 8.12. INSURANCE.** The County covenants that the Facilities, and any Additional Facilities, will, to the extent lawfully and reasonably obtainable, be insured by the County and at all times kept insured to the full insurable value thereof. The County further covenants that it will carry insurance required to be carried by the County for construction contracts, and that any proceeds of such insurance shall be applied to the construction of the Facilities financed under the provisions of this Indenture, including any such Additional Facilities, as the case may be. The County shall provide proof of insurance to the Trustee on an annual basis.

**SECTION 8.13. SALE OF FACILITIES.** So long as any Certificates remain Outstanding, no part of the Facilities shall be sold or otherwise disposed of by the County unless the proceeds of such sale or disposition shall be deposited to the Debt Service Fund and accounted for and applied by the Trustee as required herein.

**SECTION 8.14. COVENANT RELATING TO FACILITIES.** The County covenants that no additions to the Facilities will be constructed and that no other action will be taken by the County while any Certificates are Outstanding hereunder which would result in loss of tax-exemption under the Code and Regulations, and that no contract or contracts will be entered into or any action taken by which the rights of the Trustee or the Owners might be impaired or diminished while any Certificates are Outstanding under this Indenture.

**SECTION 8.15. [RESERVED].**

**SECTION 8.16. RECORDS AND ANNUAL AUDIT.** The County covenants that it will keep accurate records and accounts of the Pledged Revenues paid or collected by it and the application of the Pledged Revenues. The County further covenants that it will prepare an annual Fiscal Year Audit Report which will be certified by an Independent Certified Public Accountant or the State Auditor.

**SECTION 8.17. [RESERVED].**

**SECTION 8.18. CONTINUING DISCLOSURE.** The County hereby covenants and agrees that they will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Indenture, failure of the County to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Trustee may (and, at the request of the Owners of at least twenty-five percent (25%) aggregate principal amount of Outstanding Certificates, shall ) or any Owner may seek mandate or specific performance by court order, to cause the County or the Trustee, as the case may be, to comply with its obligations under this Section.

## **ARTICLE IX EVENTS OF DEFAULT; REMEDIES**

**SECTION 9.01. EVENTS OF DEFAULT.** Pursuant to this Section, each of the following events is hereby declared an "Event of Default":

- (a) if payment of any installment of interest on any of the Certificates shall not be made when the same shall become due and payable; or
- (b) if payment of the principal of or the redemption premium, if any, on any of the Certificates shall not be made when the same shall become due and payable, either at maturity or by proceedings for redemption in advance of maturity or through failure to fulfill any payment to any Fund under this Indenture or otherwise; or
- (c) if the County shall for any reason be rendered incapable of fulfilling its obligations hereunder; or
- (d) if an order or decree shall be entered, with the consent or acquiescence of the County, appointing a receiver or custodian for any of the Pledged Revenues or approving a petition filed against the County seeking reorganization of the County under the Federal bankruptcy laws or any other similar law or statute of the United States of America or any state thereof, or if any such order or decree, having been entered without the consent or acquiescence of the County, shall not be vacated or discharged or stayed on appeal within thirty (30) days after the entry thereof; or
- (e) if any proceeding shall be instituted, with the consent or acquiescence of the County, for the purpose of effecting a composition between the County and its creditors or for the purpose of adjusting the claims of such creditors pursuant to any Federal or state statute now or hereafter enacted, if the claims of such creditors are or may be under any circumstances payable from Pledged Revenues; or
- (f) if (i) the County is adjudged insolvent by a court of competent jurisdiction, or (ii) an order, judgment or decree be entered by any court of competent jurisdiction appointing, without the consent of the County, a receiver, trustee or custodian of the County or of the whole or any part of its property and any of the aforesaid adjudications, orders, judgments or decrees shall not be vacated or set aside or stayed within sixty (60) days from the date of entry thereof; or
- (g) if the County shall file a petition or answer seeking reorganization, relief or any arrangement under the Federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof; or

(h) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the County or of the whole or any substantial part of the property of the County, and such custody or control shall not be terminated within thirty (30) days from the date of assumption of such custody or control; or

(i) if the County shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Certificates or in this Indenture or any agreement supplemental thereof on the part of the County to be performed, other than as set forth above in this Section 9.01, and such Default shall continue for sixty (60) days after written notice specifying such Default and requiring the same to be remedied shall have been given to the County by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Owners of not less than twenty-five percent (25%) in, aggregate principal amount of the Certificates then Outstanding hereunder; provided that if the default can be remedied but not within a period of sixty (60) days after notice and if the County has taken all action reasonably possible to remedy such default within the 60-day period, the default shall not become an Event of Default for so long as the County shall diligently proceed to remedy the default and in accordance with any directions or limitations or time made by the Trustee.

**SECTION 9.02. REMEDIES; RIGHTS OF OWNERS.** Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy by suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Certificates then Outstanding or to enforce any obligations of the County under this Indenture.

If an Event of Default shall have occurred, and if requested so to do by the Owners of twenty-five percent (25%) in aggregate principal amount of Certificates then Outstanding and indemnified as provided in Section 10.01(m) of this Indenture, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by this Section as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Owners.

No remedy by the terms of this Indenture conferred upon or reserved to the Trustee (or to the Owners) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Owners hereunder or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any Event of Default or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any Event of Default under this Indenture, whether by the Trustee or by the Owners, shall extend to or shall affect any subsequent Event of Default or shall impair any rights or remedies consequent thereon.

**SECTION 9.03. RIGHT OF OWNERS TO DIRECT PROCEEDINGS.** Anything in this Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of Certificates then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Indenture, or for the appointment of a receiver or any other proceedings hereunder; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of this Indenture.

**SECTION 9.04. APPLICATION OF MONEYS.** All moneys received by the Trustee pursuant to any right given or action taken under the provisions of this Article shall after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee and the County, be deposited in the Debt Service Fund and all moneys so deposited in the Debt Service Fund shall be applied as follows:

(a) Unless the principal of all the Certificates shall have become due and payable, all such moneys shall be applied:

*First:* To the payment to the Persons entitled thereto of all installments of interest then due on the Certificates, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or privilege; and

*Second:* To the payment to the Persons entitled thereto of the unpaid principal of and premium, if any, on the Certificates which shall have become due (other than Certificates called for redemption for the payment of which moneys are held pursuant to the provisions of this Indenture), in the order of their due dates, with interest on such Certificates from the respective dates upon which they become due, and, if the amount available shall not be sufficient to pay in full Certificates due on any particular date, together with such interest,



then to the payment ratably, according to the amount of principal due on such date, to the Persons entitled thereto without any discrimination or privilege.

(b) If the principal of all the Certificates shall have become due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Certificates, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Certificate over any other Certificate, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or privilege.

Whenever moneys are to be applied pursuant to the provisions of this Section, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amounts of such moneys available for such application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal paid on such dates shall cease to accrue.

**SECTION 9.05. REMEDIES VESTED IN TRUSTEE.** All rights of action (including the right to file proof of claims) under this Indenture or under any of the Certificates may be enforced by the Trustee without the possession of any of the Certificates or the production thereof in any trial or other proceedings related thereto and any such suit or proceeding instituted by the Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Owners of the Certificates, and any recovery of judgment shall be for the equal benefit of the Owners of the Outstanding Certificates.

**SECTION 9.06. RIGHTS AND REMEDIES OF OWNERS.** Except as provided in the last sentence of this Section, no Owner of any Certificate shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of this Indenture or for the execution of any trust thereof or for the appointment of a receiver or any other remedy hereunder, unless a Default has occurred of which the Trustee has been notified as provided in subsection (h) of Section 10.01, or of which by said subsection it is deemed to have notice, nor unless also such Default shall have become an Event of Default and the Owners of twenty-five percent (25%) in aggregate principal amount of Certificates then Outstanding shall have made written request to the Trustee and shall have offered reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, nor unless also they have offered to the Trustee indemnity as provided in Section 10.01(m) nor unless the Trustee shall thereafter fail or refuse to exercise the powers hereinbefore granted, or to institute such action, suit or proceeding in its, his or their own name or names. Such notification, request and offer of indemnity are hereby declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trust of this Indenture, and to any action or cause of action for the enforcement of this Indenture, or for the appointment of a receiver or for any other remedy hereunder; it being understood and intended that no one or more Owners of the Certificates shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of this Indenture by its, his or their action or to enforce any right hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal benefit of the Owners of all Certificates then Outstanding. Nothing in this Indenture contained shall, however, affect or impair the right of any Owner to enforce the covenants of the County to pay the principal of, premium, if any, and interest on each of the Certificates issued hereunder held by such Owner at the time, place, from the source and in the manner in said Certificates expressed.

**SECTION 9.07. TERMINATION OF PROCEEDINGS.** In case the Trustee shall have proceeded to enforce any right under this Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then and in every such case the County and the Trustee shall be restored to their former positions and rights under this Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

**SECTION 9.08. WAIVERS OF EVENTS OF DEFAULT.** The Trustee may in its discretion waive any Event of Default under this Indenture and its consequences and shall do so upon the written request of the Owners of (a) a majority in aggregate principal amount of all the Certificates then Outstanding in respect of which Default in the payment of principal and/or premium, if any, and/or interest exist, or (b) a majority in aggregate principal amount of all Certificates then Outstanding in the case of any other Default, provided, however, that there shall not be waived (i) any Event of Default in the payment of the principal of any Certificates at the date of maturity specified therein, or (ii) any Default in the payment when due of the interest on any such Certificates, unless prior to such waiver or rescission, all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Certificates in respect of which such Default shall have occurred on overdue installments of interest and all arrears of payments of principal and premium, if any, when due and all expenses of the Trustee, in connection with such Default shall have been paid or provided for, and in case of any such waiver or rescission, or in case any proceedings taken by the Trustee on account of any such Default shall have been discontinued or abandoned or determined adversely, then and in every such case the County, the Trustee and the Owners shall be restored to their former positions and rights hereunder, respectively, but no such waiver or rescission shall extend to any subsequent or other Default, or impair any right consequent thereon.

**SECTION 9.09. COOPERATION OF COUNTY.** In the Event of Default hereunder, the County shall cooperate with the Trustee and use its best efforts to protect the Owners.

## **ARTICLE X TRUSTEE**

**SECTION 10.01. ACCEPTANCE OF THE TRUSTS.** The County hereby appoints Bank of North Dakota, Bismarck, North Dakota, as Trustee. The Trustee hereby accepts the trusts imposed upon it by this Indenture, and agrees to perform said trusts and duties hereby created as a corporate trustee ordinarily would perform said trusts, but only upon and subject to the following express terms and conditions, to all of which the County agrees and the respective Owners of Certificates agree by their acceptance of the delivery of the Certificates:

(a) The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants, fiduciary or otherwise, or obligations shall be read into this Indenture against the Trustee. In case an Event of Default has occurred of which the Trustee is deemed to have knowledge as provided in Section 10.01(h) hereof (which has not been cured or waived), the Trustee may exercise such of the rights and powers vested in it by this Indenture (provided that the Trustee shall be required, in case of such Event of Default, to exercise such rights or powers as are mandatorily required to be exercised by the Trustee pursuant to any provisions of this Indenture), and use the same degree of care and skill in their exercise, as a prudent and reasonable Person would exercise or use under the circumstances in the conduct of such Person's own affairs.

(i) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(A) this subsection shall not be construed to limit the effect of subsection (a) of this Section;

(B) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(C) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of the required percentage (as expressly set forth herein) in principal amount of the Outstanding Certificates relating to the time, method and place of conducting any proceeding, or exercising any trust or power conferred upon the Trustee, under this Indenture; and

(D) no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it has reasonable grounds for believing that the repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(b) The Trustee may execute any of the trusts or powers thereof and perform any of its duties by or through attorneys, agents, accountants or receivers and shall not be answerable for the conduct of the same if such appointment is made in accordance with the standard specified herein, and shall be entitled to advice of Counsel concerning all matters of trusts hereof and the duties hereunder, and may in all cases pay and be reimbursed for such reasonable compensation to all such attorneys, agents, accountants and receivers as may reasonably be retained in connection with the trusts hereof. The Trustee may act upon the opinion or advice of Counsel. The Trustee shall not be responsible for the conduct of Counsel appointed by the Trustee if such appointment is made in good faith and without negligence, and the advice of any such Counsel shall be full and complete authorization in respect of any action taken, suffered or omitted hereunder in good faith in reliance upon such opinion or advice.

(c) The Trustee shall not be responsible or liable for the correctness of any recital herein, or in the Certificates (except in respect to the certificate of authentication of the Trustee endorsed on the Certificates), or for insuring the property comprising the Facilities or collecting any insurance moneys, or for the validity of the execution by the County of this Indenture or of any additional supplements thereto or instruments of further assurance, or for the sufficiency of the security for the Certificates issued under this Indenture, or for the value or title of property comprising

the Facilities, or otherwise as to the maintenance of the security of this Indenture except with respect to the Trustee's obligations expressly set forth in this Indenture; and the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any covenants, conditions or agreements on the part of the County; but the Trustee may (but shall have no duty to) require of the County full information and advice as to the performance of the covenants, conditions and agreements aforesaid and as to the condition of any property comprising the Facilities. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with the provisions of this Indenture.

(d) The Trustee shall not be accountable for the use of the proceeds of any Certificates, except as specifically set forth in Articles IV and V of this Indenture. The Trustee may become the Owner of Certificates secured by this Indenture with the same rights which it would have if not Trustee. The Trustee may buy, sell, own, hold and deal in any of the Certificates authorized to be issued pursuant to this Indenture, and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to this Indenture. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the County or any successor Trustee, and may act as depository, trustee, or agent for any committee or body of Owners of Certificates or of other obligations of the County as freely as if it were not the Trustee hereunder.

(e) The Trustee shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram, facsimile transmission or other paper or document believed by it to be genuine and correct and to have been signed or sent by the proper Person or Persons. Any action taken by the Trustee, pursuant to this Indenture upon the request or authority or consent of any Person who at the time of making such request or giving such authority or consent is the Owner of any Certificate, shall be conclusive and binding upon all future Owners of the same Certificate and of any Certificate or Certificates issued in exchange therefor or in place thereof.

(f) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely upon a certificate signed on behalf of the County by a County Representative as sufficient evidence of the facts therein contained and prior to the occurrence of an Event of Default of which the Trustee has been notified as provided in subsection (h) of this Section, or of which by said subsection it is deemed to have notice, shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a certificate of a County Representative to the effect that a resolution in the form therein set forth has been adopted by the County as conclusive evidence that such resolution has been duly adopted and is in full force and effect.

(g) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty, and the Trustee shall not be answerable for the exercise of any discretion or power under this Indenture or for anything whatsoever in connection with the trust created hereby, except only for its own negligence or willful misconduct. The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts. The immunities and exceptions from liability and rights to indemnity of the Trustee shall extend to its officers, directors, employees and agents.

(h) The Trustee shall not be required to take notice or be deemed to have notice of any Event of Default under this Indenture other than an Event of Default under clause (a) or (b) of Section 9.01 hereof, unless the Trustee shall be specifically notified in writing addressed to the Principal Office of the Trustee, of such Event of Default by the County or by the Owners of at least twenty-five percent (25%) in the aggregate principal amount of all Certificates then Outstanding and all such notices or other instruments required by this Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the Principal Office of the Trustee, and in the absence of such notice so delivered, the Trustee may conclusively assume there is no Event of Default except as aforesaid. The Trustee may (but shall have no duty to), however, at any time, in its discretion, require of the County full information and advice as to the performance of any of the covenants, conditions and agreements contained herein. Such inquiry shall not, however, for the purposes of this Section constitute notice of any Event of Default.

(i) At any and all reasonable times and upon reasonable prior written notice, the Trustee, and its duly authorized agents, attorneys, experts, engineers, accountants and representatives, shall have the right (but shall have no duty) to fully inspect all books, papers and records of the County pertaining to the Certificates and the Pledged Revenues and to take such memoranda from and in regard thereto as may be desired.

(j) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(k) Notwithstanding anything elsewhere in this Indenture contained, the Trustee shall have the right, but shall not be required, to demand, in respect of the authentication of any Certificates, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of this Indenture, any showing, certificates, opinions, appraisals, or other information, or corporate action or evidence thereof, in addition to that by the terms hereof required as a condition of such action by the Trustee, deemed desirable for the authentication of any Certificates, the withdrawal of any cash, or the taking of any other action by the Trustee.

(l) All moneys received by the Trustee or any paying agent shall, until used or applied or invested as in this Indenture provided, be held in trust for the purposes for which they were received, shall be deposited to the Fund or Account designated for deposit thereof and need not be segregated from moneys in any other Fund or Account unless otherwise expressly required by law or by the provisions of this Indenture, including, without limitation, the provisions hereof with respect to segregation of amounts deposited to and held in the Rebate Fund. Neither the Trustee nor any paying agent shall be under any liability for interest on any moneys received hereunder except such as may be agreed upon.

(m) Before taking any discretionary action referred to in Article IX of this Indenture or in this Section 10.01 or at the request of the Owners, the Trustee may require that a satisfactory indemnity bond (or equivalent security) be furnished for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is determined (based on an admission thereof by the Trustee) or adjudicated to have resulted from its negligence or willful misconduct in connection with any such action. No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(n) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of at least twenty-five percent (25%) in principal amount of the Outstanding Certificates relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

(o) The Trustee shall not be bound to recognize any Person as Owner of any Certificate or to take any action at its request unless such Person is shown as Owner on the registration books for the Certificates. Any request or direction of the County mentioned herein shall be sufficiently evidenced by a request or order executed by a County Representative.

(p) The Trustee shall have no responsibility, opinion or liability with respect to any information, statement or recital in any official statement, offering memorandum or other disclosure material prepared or distributed in connection with any offer or sale of the Certificates.

(q) The Trustee makes no representations as to the validity or sufficiency of the Certificates and shall incur no responsibility in respect thereof, other than in connection with the duties or obligations therein or in the Certificates assigned to or imposed upon it. The Trustee shall not be responsible for the validity or sufficiency of this Indenture. The Trustee shall not be liable for the sufficiency of collection of any revenues or other moneys required to be paid to it under this Indenture (except as otherwise expressly provided in this Indenture) or its right to receive moneys pursuant to this Indenture.

(r) In accepting the trust hereby created, the Trustee acts solely as Trustee for the Owners and not in its individual capacity and all Persons, including, without limitation, the Owners and the County having claim against the Trustee arising from this Indenture shall look only to the Funds and Accounts held by the Trustee hereunder for such payment except as otherwise provided herein (including within such exception the provisions hereof relating to the Rebate Fund). Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates. The Trustee shall not be accountable for the use or application by the County or any other party of any funds which the Trustee has released in accordance with the terms of this Indenture.

**SECTION 10.02. FEES, CHARGES AND EXPENSES OF TRUSTEE.** The Trustee shall be entitled to payment and reimbursement for reasonable fees for its services rendered as Trustee under this Indenture and all advances, Counsel fees and other expenses reasonably and necessarily made or incurred by the Trustee in connection with such services. The Trustee shall be entitled to payment and reimbursement for the reasonable fees and charges of the Trustee as Paying Agent and Registrar for the Certificates as in this Indenture provided. The Trustee shall have a lien upon the Pledged Revenues to secure payment by the County of the Trustee's fees and expenses payable with respect to this Indenture, which lien shall be junior to the lien of the Certificates, provided that upon an Event of Default, but only upon an Event of Default, the Trustee shall have a lien on the Pledged

Revenues and the right to payment of such fees and expenses prior to payment on account of interest or principal of, or premium, if any, on any Certificate for the foregoing advances, fees, costs and expenses incurred.

**SECTION 10.03. ACTION BY TRUSTEE.** Except as otherwise expressly provided herein, the Trustee shall be under no obligation to take any action in respect of any Event of Default hereunder or toward the execution or enforcement of any of the trusts hereby created, or to institute, appear in or defend any suit or other proceeding in connection therewith, unless requested in writing so to do by the Owners of at least twenty-five percent (25%) in principal amount of the Certificates then Outstanding and, if in its opinion such action may tend to involve it in expense or liability, unless furnished, from time to time as often as it may require, with security and indemnity satisfactory to it as provided in Section 10.01(m) hereof, provided, however, that the Trustee may not require indemnification prior to taking any obligatory action required to be taken or performed by the Trustee under this Indenture, including, without limitation, (i) paying principal of, premium, if any, and interest on the Certificates, when due, or (ii) accelerating payment on the Certificates when the same is required under the terms of this Indenture; but the foregoing provisions are intended only for the protection of the Trustee, and shall not affect any discretion or power given by any provisions of this Indenture to the Trustee to take action in respect of any Event of Default without such notice or request from the Owners, or without such security or indemnity. The County further agrees, to the extent permitted by law and contingent upon available appropriations or limits of liability insurance, to indemnify and save the Trustee harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder and under any related documents, including the enforcement of any remedies and the defense of any suit, and which are not due to its negligence or its willful misconduct, including, without limitation, to indemnify and save the Trustee, its officers, employees, directors and agents harmless from and against all claims, losses, costs, expenses, liability and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition or management of, or from any work or thing done on, the Facilities by the County, (ii) any breach or default on the part of the County in the performance of any of its obligations under this Indenture and any other agreement made and entered into for purposes of the Facilities, (iii) any act of the County or of any of their respective agents, contractors, servants, employees or licensees with respect to the Facilities, (iv) any act of any assignee of, or purchaser from the County or of any of its respective agents, contractors, servants, employees or licensees with respect to the Facilities, (v) the acquisition, construction, installation and equipping of the Facilities or the authorization of payment of delivery costs or acquisition and construction costs, (vi) the actions of any other party, including but not limited to, the ownership, operation or use of the Facilities by the County, (vii) the Trustee's exercise and performance of its powers and duties hereunder, (viii) the offering and sale of any Series of Certificates or (ix) any untrue statement or alleged untrue statement of any material fact, or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, in any official statement or other offering circular utilized in connection with the sale of any Series of Certificates. Such indemnification shall include the costs and expenses of defending against any claim of liability arising under this Indenture. The duty of the County to indemnify the Trustee and related parties hereunder and the right of the Trustee and such related parties to compensation and reimbursement therefor shall survive the termination and discharge of this Indenture or the defeasance of all Outstanding Certificates pursuant to Article XII of this Indenture. None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

**SECTION 10.04. GOOD-FAITH RELIANCE.** The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any resolution, notice, telegram or facsimile transmission, request, consent, waiver, certificate, statement, affidavit, voucher, bond requisition or other paper or document which it shall in good faith believe to be genuine and to have been passed or signed by the proper County, body or Person or to have been prepared and furnished pursuant to any of the provisions of this Indenture or upon the written opinion of any attorney, engineer, accountant or other expert believed by the Trustee to be qualified in relation to the subject matter, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee shall not be bound to recognize any Person as an Owner or to take any action at such Person's request unless such Person is shown as Owner on the registration books.

**SECTION 10.05. DEALINGS IN CERTIFICATES.** The Trustee, in its individual capacity, may in good faith buy, sell, own, hold and deal in any of the Certificates issued hereunder, and may join in any action which any Owner may be entitled to take with like effect as if it did not act in any capacity hereunder. The Trustee, in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the County, and may act as depositary, trustee or agent for any committee or body of Owners secured hereby or other obligations of the County as freely as if it did not act in any capacity hereunder.

**SECTION 10.06. SEVERAL CAPACITIES.** Anything in this Indenture to the contrary notwithstanding, the same entity may serve hereunder as the Trustee and in the capacities of Registrar and Paying Agent for the Certificates, and in any other combination of such capacities, to the extent permitted by law.

**SECTION 10.07. STANDARD OF CARE.** Notwithstanding any other provisions of this Article X, the Trustee shall, during the existence of an Event of Default, of which the Trustee has notice as provided in Section 10.01(h) hereof, exercise such

of rights and powers vested in it by this Indenture and use the same degree of skill and care in their exercise as a prudent and reasonable Person would use and exercise under the circumstances in the conduct of its own affairs.

**SECTION 10.08. NOTICE TO OWNERS IF DEFAULT OCCURS.** If a Default occurs of which the Trustee is by subsection (h) of Section 10.01 hereof required to take notice or if notice of Default be given as in said subsection (h) provided, then the Trustee shall give written notice thereof by registered or certified mail to the Owners of all Certificates then Outstanding shown by the list of Owners kept by the Trustee as Registrar.

**SECTION 10.09. INTERVENTION BY TRUSTEE.** In any judicial proceeding to which the County is a party and which in the opinion of the Trustee and its counsel has a substantial bearing on the interests of Owners of the Certificates, the Trustee may, upon receipt of indemnity satisfactory to it, intervene on behalf of Owners and shall do so upon receipt of such indemnity if requested in writing by the Owners of at least twenty-five percent (25%) in aggregate principal amount of all Certificates then Outstanding. The rights and obligations of the Trustee under this Section are subject to the approval of a court of competent jurisdiction.

**SECTION 10.10. SUCCESSOR TRUSTEE BY MERGER OR CONSOLIDATION.** Any corporation or association into which a Trustee hereunder may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which such Trustee is a party, ipso facto, shall be and become successor Trustee under this Indenture, and shall be vested with all of the title to the whole property or Trust Estate and all the trusts, powers, discretion, immunities privileges and all other matters as was its predecessor, without the execution or filing of any paper or instrument or any further act, deed or conveyance or agreement on the part of any of the parties hereto, anything in this Indenture to the contrary notwithstanding.

**SECTION 10.11. RESIGNATION BY THE TRUSTEE.** The Trustee and any successor Trustee hereunder from time to time may at any time resign and be discharged from the trusts created by this Indenture by executing any instrument in writing resigning such trust and specifying the proposed date when such resignation shall take effect, and filing the same with the County not less than thirty (30) days before the date specified in such instrument when such resignation shall take effect, and by giving notice of such resignation by mail, not less than three (3) weeks prior to such resignation date, to all Owners of Certificates. Any resignation by the Trustee or any successor Trustee hereunder shall only take effect upon the appointment of, and acceptance of the trusts hereby created by a successor Trustee.

**SECTION 10.12. REMOVAL OF THE TRUSTEE.** The Trustee may be removed at any time, at the request of the Owners of a majority of the Outstanding principal amount of the Certificates, for any breach of the trust set forth herein. In addition, provided that no Event of Default shall have occurred and be continuing, the Trustee may be removed upon thirty (30) days written notice by the filing of an instrument or instruments in writing, with the Trustee so removed, executed by the County, which instrument or instruments shall appoint a successor, or an instrument or instruments in writing executed by the County, consenting to the appointment by the County of a successor and accompanied by an instrument of appointment by the County of such successor. The removal of the Trustee or a successor Trustee pursuant to the provisions of this Section 10.12 shall only take effect upon the appointment of, and acceptance of the trusts hereby created by, a successor Trustee.

**SECTION 10.13. JUDICIAL APPOINTMENT OF SUCCESSOR TRUSTEE.** In case the Trustee, hereunder shall resign or be removed, or be dissolved, or shall be in course of dissolution or liquidation, or otherwise become incapable of acting hereunder, or in case its property or affairs shall be taken under the control of any state or federal court or administrative body, or of a receiver appointed by a court, and a successor thereto shall not have been appointed by the County in the manner provided by Section 10.12 hereof within thirty (30) days after the creation of such vacancy, the resigning Trustee or any Owner (on behalf of himself and all other Owners) may forthwith apply to a court of competent jurisdiction for the appointment of a successor Trustee. Such court may thereupon, after such notice, if any, as it may deem necessary and proper, appoint a successor Trustee.

**SECTION 10.14. QUALIFICATIONS OF SUCCESSOR TRUSTEE.** Every successor Trustee (a) shall be a national or state bank or trust company that is authorized by law to perform all the duties imposed upon it by this Indenture and subject to examination by federal or state authority, (b) shall have reported capital and surplus of at least \$100,000,000, and (c) shall be permitted under State or federal law to perform the duties of Trustee, if there can be located, with reasonable effort, such an institution willing and able to accept the trust on reasonable and customary terms. If at any time a successor Trustee shall cease to be eligible in accordance with this Section 10.14, such successor Trustee shall resign immediately in the manner and with the effect specified in this Section.

**SECTION 10.15. PROVISIONS CONCERNING ANY SUCCESSOR TRUSTEE.** Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to the County an instrument in writing accepting such appointment hereunder and agreeing to indemnify its predecessor Trustee for all costs and claims during the time such successor serves as Trustee under this Indenture, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessor in trust hereunder. Such predecessor shall, on the written request of the successor Trustee, execute and deliver an instrument transferring to such successor Trustee all the estates, properties, rights, powers and trusts of such predecessor under this Indenture; and, subject to the provisions of Section 10.02 hereof, every predecessor Trustee shall deliver all securities and moneys held by it as Trustee under this Indenture to its successor. Should any instrument in writing from the County be required by any successor Trustee for more fully and certainly vesting, in such successor the estates, properties, rights, powers and duties hereby vested or intended to be vested in such successor Trustee, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the County. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor under this Indenture, together with all other instruments provided for in this Article, shall be filed and/or recorded by the successor Trustee in each recording office, if any, where this Indenture shall have been filed and/or recorded.

**SECTION 10.16. TRUST ESTATE MAY BE VESTED IN SEPARATE OR CO-TRUSTEE.** It is the purpose of this Indenture that there shall be no violation of any law of any jurisdiction (including particularly the laws of the State) denying or restricting the right of the banking corporations, associations or trust companies to transact business as Trustee in such jurisdiction. It is recognized that in case of litigation under this Indenture, and in particular in case of the enforcement of remedies on Default, or in case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights, or remedies herein granted to the Trustee or hold title to the Trust Estate, as herein granted, or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an additional individual or institution as a separate or co-trustee. The following provisions of this Section 10.16 are adapted to these ends.

In the event that the Trustee appoints an additional individual or institution as a separate or co-trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and vest in such separate or co-trustee, but only to the extent necessary to enable the separate or co-trustee to exercise such powers, rights, and remedies, and every covenant and obligation necessary to the exercise thereof by such separate or co-trustee shall run to and be enforceable by either of them.

Should any deed, conveyance or instrument in writing from the County be required by the separate trustee or co-trustee, so appointed by the Trustee for more fully and certainly vesting in and confirming to it such properties, rights, powers, trust, duties and obligations any and all such deeds, conveyances and instruments in writing shall, on request of such trustee or co-trustee, be executed, acknowledge and delivered by the County. In case any separate trustee or co-trustee or a successor to either, shall die, become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such

separate trustee or co-trustee so far as permitted by law shall vest in and be exercised by the Trustee until the appointment of a new trustee or a successor to such separate trustee or co-trustee.

**SECTION 10.17. TRUSTEE PROTECTED IN RELYING UPON RESOLUTION, ETC.** The resolutions, opinions, certificates and other instruments provided for in this Indenture may be accepted by the Trustee as conclusive evidence of the facts and conclusions stated therein and shall be full warrant, protection and authority to the Trustee for the release of property and the withdrawal of cash hereunder.

**SECTION 10.18. SUCCESSOR TRUSTEE AS TRUSTEE OF FUNDS, PAYING AGENT AND BOND REGISTRAR.** In the event of a change in the office of Trustee, the predecessor Trustee which has resigned or been removed shall cease to be Trustee of the Surplus Fund, the Debt Service Fund, the Reserve Fund and any other Funds and Accounts provided hereunder and shall cease to be Registrar for the Certificates and Paying Agent for payment of principal of, premium, if any, and interest on the Certificates, and the successor Trustee shall become such Trustee, Registrar for the Certificates and Paying Agent for the Certificates unless a separate Registrar or Paying Agent shall have been appointed for the Certificates.

**SECTION 10.19. ACCOUNTING.**

(a) The Trustee shall render an annual accounting each Fiscal Year accounting period ending on December 31, which accounting shall be submitted by the following March 31 to the County, showing in reasonable detail all financial transactions relating to the Trust Estate during the accounting period and made by the Trustee, and the balance in any Funds or Accounts created by this Indenture as of the beginning and close of such accounting period. On or before March 31 of each calendar year, the Trustee shall provide, upon request, to the County, and its Independent Accountant, representations as to the accuracy of the facts contained in the financial reports that were delivered by the Trustee for the Fiscal Year just ended.

(b) The Trustee also agrees, as part of its normal and customary trust services under this Indenture, for each investment of amounts held with respect to the Certificates in the Funds and Accounts provided hereunder, that the Trustee shall record the purchase date of such investment, its purchase price, the accrued interest due on its purchase date, its face amount, its coupon rate, the frequency of its interest payment, its disposition price, accrued interest due on its disposition date and its disposition date, and that such information will be provided in the normal monthly statements furnished by the Trustee to the County or such other reports as may be agreed to between the Trustee and the County.

**ARTICLE XI  
SUPPLEMENTAL INDENTURES**

**SECTION 11.01. SUPPLEMENTAL INDENTURES NOT REQUIRING CONSENT OF OWNERS.** The County and the Trustee may, without the consent of, or notice to, any of the Owners, enter into an indenture or indentures supplemental to this Indenture, as shall not be inconsistent with the terms and provisions hereof, for any one or more of the following purposes:

- (a) To provide for the issuance of Parity Obligations;
- (b) To cure any ambiguity or formal defect, omission, defective provision or inconsistency in this Indenture or to clarify any questions arising under this Indenture which the County or the Trustee may deem necessary or desirable and not inconsistent with the provisions of this Indenture, so long as such amendments are not prejudicial or materially adverse to the interests of the Owners or the Trustee;
- (c) To grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners or any of them;
- (d) To confirm, as further assurance, any pledge of or lien on the Pledged Revenues or any other moneys, securities or funds subject to the lien of this Indenture or to subject to this Indenture additional revenues, properties, collateral or security; and
- (e) To make any other change to or to modify, alter, amend or supplement this Indenture in any other respect which is not prejudicial or materially adverse to the interests of the Owners.

**SECTION 11.02. SUPPLEMENTAL INDENTURES REQUIRING CONSENT OF OWNERS; WAIVERS AND CONSENTS BY OWNERS.** Exclusive of Supplemental Indentures covered by Section 11.01 hereof and subject to the terms and provisions contained in this Section, and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Certificates then Outstanding shall have the right, from time to time, anything contained in this Indenture to the contrary notwithstanding, to



(i) consent to and approve the execution by the County and the Trustee of such other indenture or indentures supplemental to this Indenture as shall be deemed necessary and desirable by the County for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Indenture or in any Supplemental Indenture, or (ii) waive or consent to the taking by the County of any action prohibited, or the omission by the County of the taking of any action required, by any of the provisions of this Indenture or of any indenture supplemental hereto; provided, however, that nothing in this Section 11.02 contained shall permit or be construed as permitting (a) an extension of the stated maturity or reduction in the principal amount of, or reduction in the rate of or extension of the time of paying of interest of, or reduction of any premium payable on the redemption of, any Certificate, without the consent of the Owner of such Certificate, or (b) a reduction in the amount or extension of the time of any payment required by any Fund established under this Indenture applicable to any Certificates without the consent of the Owners of all the Certificates which would be affected by the action to be taken, or (c) a reduction in the aforesaid aggregate principal amount of Certificates, the Owners of which are required to consent to any such waiver or Supplemental Indenture, without the consent of the Owners of all the Certificates at the time Outstanding which would be affected by the action to be taken. In addition, no supplement to this Indenture shall modify the rights, duties or immunities of the Trustee, without the written consent of the Trustee.

(a) If at any time the County shall request the Trustee to enter into any Supplemental Indenture for any of the purposes of this Section 11.02, the Trustee shall cause notice of the proposed Supplemental Indenture to be given by mail to all Owners of Outstanding Certificates. Such notice shall briefly set forth the nature of and shall contain a summary of the provisions of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the office of the Trustee for inspection by all Owners.

(b) Within six (6) months after the date of the mailing of such notice, the County and the Trustee may enter into such Supplemental Indenture in substantially the same form described in such notice, but only if there shall have first been delivered to the Trustee (i) the required consents, in writing, of the Owners and (ii) an opinion of Bond Counsel stating that such Supplemental Indenture is authorized or permitted by this Indenture and the law of the State, complies with their respective terms and, upon the execution and delivery thereof, will be valid and binding upon the County in accordance with its terms and will not adversely affect the exemption of the Certificates from registration under the Securities Act of 1933, as amended, or this Indenture from qualification under the Trust Indenture Act of 1939.

(c) If Owners of not less than the percentage of Certificates required by this Section 11.02 shall have consented to and approved the execution and delivery of a Supplemental Indenture as herein provided, no Owner shall have any right to object to the execution and delivery of such Supplemental Indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to the question the propriety of the execution and delivery thereof or to enjoin or restrain the County or the Trustee from executing and delivering the same or from taking any action pursuant to the provisions thereof.

**SECTION 11.03. OPINION OF BOND COUNSEL REGARDING SUPPLEMENTAL INDENTURES.** The Trustee may obtain an Opinion of Bond Counsel that any such Supplemental Indenture entered into by the County and the Trustee complies with the provisions of this Article XI and the Trustee shall be conclusively entitled to rely upon any such opinion.

**SECTION 11.04. EFFECT OF SUPPLEMENTAL INDENTURE.** Upon the execution and delivery of any Supplemental Indenture pursuant to the provisions of this Article XI, this Indenture shall be, and be deemed to be, modified and amended in accordance therewith, and the respective rights duties and obligations under this Indenture of the County, the Trustee and all Owners of Outstanding Certificates shall thereafter be determined, exercised and enforced under this Indenture subject in all respects to such modifications and amendments.

## **ARTICLE XII DISCHARGE OF INDENTURE**

**SECTION 12.01. DISCHARGE OF INDENTURE.** If the County shall pay or cause to be paid, or there shall be otherwise paid or provision for payment made, to or for the Owners of the Certificates, the principal of and interest due or to become due thereon at the times and in the manner stipulated therein, and shall pay or cause to be paid to the Trustee all sums of moneys due or to become due according to the provisions hereof, then these presents and the estate and rights hereby granted shall cease, determine and be void, whereupon the Trustee shall cancel and discharge the lien of this Indenture, and release, assign and deliver unto the County any and all the estate, right, title and interest in and to any and all rights assigned or pledged to the Trustee, held by the Trustee, or otherwise subject to the lien of this Indenture, except moneys or securities held by the Trustee for the payment of the principal of and interest on the Certificates.

Any Certificate shall be deemed to be paid within the meaning of this Article when payment of the principal of such Certificate, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or upon redemption as

provided in this Indenture, or otherwise), either (a) shall have been made or caused to have been made in accordance with the terms thereof, or (b) shall have been provided by irrevocably depositing with or for the benefit of the Trustee, in trust and irrevocably setting aside exclusively for such payment, (i) moneys sufficient to make such payment, or (ii) Governmental Obligations, maturing as to principal and interest in such amount and at such times (and not subject to early redemption prior to the respective maturities of such Governmental Obligations) as will insure the availability of sufficient moneys to make such payment, and all necessary and proper fees, compensation and expenses of the Trustee and any paying agent pertaining to the Certificates with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee. At such times as a Certificate shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefits of this Indenture, except for the purposes of any such payment from such moneys or Governmental Obligations.

Notwithstanding the foregoing, in the case of Certificates, which by their terms may be redeemed prior to their stated maturity, no deposit under the immediately preceding paragraph shall be deemed a payment of such Certificates as aforesaid until the County shall have given the Trustee, in form satisfactory to the Trustee, irrevocable instructions:

(a) stating the date when the principal of each such Certificate is to be paid, whether at maturity or on a redemption date (which shall be any redemption date permitted by this Indenture);

(b) to call for redemption pursuant to this Indenture any Certificates to be redeemed prior to maturity pursuant to (a) hereof; and

(c) to mail, as soon as practicable, in the manner prescribed by Article VII hereof, a notice to the Owners of such Certificates that the deposit required by this Section has been made with the Trustee and that such Certificates are deemed to have been paid in accordance with this Article and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, on said Certificates as specified in (a) hereof.

Any moneys so deposited with the Trustee as provided in this Article may at the direction of County also be invested and reinvested in Governmental Obligations or deposits of the Bank of North Dakota, maturing in the amounts and times as hereinbefore set forth, and all income from all Governmental Obligations or deposits of the Bank of North Dakota in the hands of the Trustee pursuant to this Article which is not required for the payment of the Certificates and interest thereon with respect to which such moneys shall have been so deposited, shall be deposited in the Debt Service Fund as and when realized and collected for use and application as are other moneys deposited in that Fund.

No such deposit under this Article shall be made or accepted hereunder and no use made of any such deposit unless Trustee shall have received an opinion of Bond Counsel to the effect that such deposit and use would not cause the Certificates to be treated as arbitrage bonds within the meaning of Section 148 of the Code or in any manner cause the interest on the Certificates to become includable in the gross income of the recipients thereof for purposes of federal income taxation.

Notwithstanding any provision of any other Article of this Indenture which may be contrary to the provisions of this Article, all moneys or Governmental Obligations set aside and held in trust pursuant to the provisions of this Article for the payment of Certificates (including interest thereon) shall be applied to and used solely for the payment of the particular Certificates, (including interest thereon) with respect to which such moneys or Governmental Obligations have been so set aside in trust.

Anything in Article XII hereof to the contrary notwithstanding, if moneys or Governmental Obligations have been deposited or set aside with the Trustee pursuant to this Article for the payment of Certificates and such Certificates shall not have in fact been actually paid in full, no amendment to the provisions of this Article shall be made without the consent of the Owner of each Certificate affected thereby.

### **ARTICLE XIII MISCELLANEOUS**

**SECTION 13.01. CONSENTS, ETC., OF OWNERS.** Any consent, request, direction, approval, objection or other instrument required by this Indenture to be executed by the Owners may be in any number of concurrent writings of similar tenor and may be executed by such Owners in person or by agent appointed in writing. Proof of the execution of any such consent, request, direction, approval, objection or other instrument or of the writing appointing any such agent and of the ownership of Certificates, if made in the following manner, shall be sufficient for any of the purposes of this Indenture, and shall be conclusive in favor of the Trustee with regard to any action taken under such request or other instrument, namely, the fact and date of the execution by any Person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the Person signing such writing acknowledged before him the execution thereof, or by affidavit of any witness to such execution.

**SECTION 13.02. LIMITATION OF RIGHTS.** With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Indenture or the Certificates is intended or shall be construed to give to any Person other than the parties hereto and the Owners of the Certificates, any legal or equitable right, remedy or claim under or in respect to this Indenture or any covenants, conditions and provisions herein contained, this Indenture and all of the covenants, conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of the parties hereto and the Owners of the Certificates as herein provided.

**SECTION 13.03. SEVERABILITY.** If any provision of this Indenture shall be held or deemed to be or shall, in fact, be inoperative or unenforceable as applied in any particular case in any jurisdiction or in all jurisdictions, or in all cases because it conflicts with any other provision or provisions hereof or any constitution or statute or rule of public policy, or for any other reason, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative, or unenforceable to any extent whatever. The invalidity of any one or more phrases, sentences, clauses or sections in this Indenture contained, shall not affect the remaining portions of this Indenture, or any part thereof.

**SECTION 13.04. NOTICES.** It shall be sufficient service of any notice, request, complaint, demand or other paper on the County if the same shall be duly mailed by registered or certified mail addressed to it at 201 5<sup>th</sup> Street NW, Suite 543, Watford City, North Dakota 58854-7103, Attention: County Auditor/Treasurer, or to such address as the County may from time to time file with the Trustee. It shall be sufficient service of any notice or other paper on the Trustee if the same shall be duly mailed by registered or certified mail addressed to it at 1200 Memorial Highway, PO Box 5509, Bismarck, North Dakota 58506-5509, Attention: Trust Department, or to such other address as the Trustee may from time to time file with the County. Notice given in accordance with this Section does not suffice as that notice required under Section 32-12.2-04 of the NDCC.

**SECTION 13.05. TRUSTEE AS PAYING AGENT AND REGISTRAR.** Trustee is hereby designated and agrees to act as principal Paying Agent and Registrar for and in respect to the Certificates.

**SECTION 13.06. COUNTERPARTS.** This Indenture may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

**SECTION 13.07. APPLICABLE LAW.** This Indenture shall be governed exclusively by the constitution and applicable laws of the State.

**SECTION 13.08. IMMUNITY OF OFFICERS.** No recourse shall be had for the payment of the principal of or premium or interest on any of the Certificates or for, any claim based thereon or upon any obligation, covenant or agreement in this Indenture contained against any past, present or future County officer, or other public official, employee, or agent of the County, or any officer, or other public official, employee or agent of any successor body, agency or instrumentality of the State, as such, either directly or through the County or any such successor body, agency or instrumentality of the State, under any rule of law or equity, statute or constitution, or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such officer, or other public official, employee or agent as such is hereby expressly waived and released as a condition of and in consideration for the execution of this Indenture and issuance of such Certificates.

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

**IN WITNESS WHEREOF**, the Board of County Commissioners of McKenzie County, North Dakota has caused these presents to be signed in its name and behalf by its Chairman and attested by its County Auditor/Treasurer, and to evidence its acceptance of the trusts hereby created, Bank of North Dakota, Bismarck, North Dakota, as Trustee, has caused these presents to be signed in its name and behalf by one of its duly authorized officers, all as of the day and year first above written.

**MCKENZIE COUNTY, NORTH DAKOTA**

By: \_\_\_\_\_  
Chairman, Board of County Commissioners

ATTEST:

\_\_\_\_\_  
County Auditor/Treasurer

**BANK OF NORTH DAKOTA,  
as Trustee**

By: \_\_\_\_\_  
Title: \_\_\_\_\_

*(Indenture of Trust signature page)*

**APPENDIX B**

**The County's Audited Financial Statements  
For the Years Ended December 31, 2016 and December 31, 2015**

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Financial Statements  
December 31, 2016 and 2015

# McKenzie County

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2016

Richard Cayko  
Douglas Nordby  
Kathy Skarda  
Vawnita Best  
Ronald Anderson

Commissioner-Chairman  
Commissioner-Vice-Chairman  
Commissioner  
Commissioner  
Commissioner

Linda Svihovec  
Gary Schwartzenberger  
Ann Johnsrud  
Jacob Rodenbiker

Auditor/Treasurer  
Sheriff  
Recorder  
State's Attorney

2015

Richard Cayko  
Doug Nordby  
Kathy Skarda  
Vawnita Best  
Ronald Anderson

Commissioner-Chairman  
Commissioner-Vice-Chairman  
Commissioner  
Commissioner  
Commissioner

Linda Svihovec  
Gary Schwartzenberger  
Ann Johnsrud  
Jacob Rodenbiker

Auditor/Treasurer  
Sheriff  
Recorder  
State's Attorney



## Independent Auditor's Report

Board of County Commissioners  
McKenzie County  
Watford City, North Dakota

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of McKenzie County, North Dakota as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the County'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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 entity'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 entity'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.

**Basis for Adverse Opinion on Aggregate Discretely Presented Component Units**

McKenzie County has not included the financial statements of the McKenzie County Water Resource District, a component unit of McKenzie County, in the County's financial statements. The modified cash basis of accounting requires the McKenzie County Water Resource District to be presented as a discretely presented component unit. The amount by which this departure would affect the assets, liabilities, net position, revenues, and expenses of McKenzie County has not been determined.

**Adverse Opinion on Aggregate Discretely Presented Component Units**

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of McKenzie County, as of December 31, 2016 and 2015, or the changes in financial position thereof for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

**Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of McKenzie County, North Dakota, as of December 31, 2016 and 2015, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

**Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to that matter.

**Other Matters****Other Information**

Our audits were conducted for the purpose of forming opinions on the modified cash basis financial statements that collectively comprise McKenzie County, North Dakota's, basic financial statements. The county officials listing and budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the 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 budgetary comparison schedules and schedule of expenditures of federal awards are the responsibility of management and were 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 budgetary comparison schedules and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The county officials listing has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2018 on our consideration of McKenzie County, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McKenzie County's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota  
May 2, 2018

McKenzie County  
Statement of Net Position – Modified Cash Basis  
December 31, 2016

	Primary Governmental Activities	Component Units
Assets		
Cash and investments	\$ 83,644,282	\$ 223,897
Note receivable	3,955,906	-
Capital assets not being depreciated		
Land	4,811,512	-
Construction in progress	72,482,888	-
Capital assets net of accumulated depreciation		
Buildings	26,142,745	-
Furniture and equipment	2,150,450	-
Infrastructure	130,430,901	-
Vehicles and equipment	12,378,360	-
Total capital assets	<u>248,396,856</u>	<u>-</u>
Total assets	<u>\$ 335,997,044</u>	<u>\$ 223,897</u>
Liabilities		
Long-term liabilities		
Due after one year		
Loan payable	<u>\$ 40,688,588</u>	<u>\$ -</u>
Total liabilities	<u>\$ 40,688,588</u>	<u>\$ -</u>
Net Position		
Net investment in capital assets	\$ 207,708,268	\$ -
Restricted for		
Public safety	262,632	-
Highways	372,403	-
Culture and recreation	-	162,508
Conservation of natural resources	-	59,018
Economic development	-	2,371
Unrestricted	<u>86,965,153</u>	<u>-</u>
Total Net Position	<u>\$ 295,308,456</u>	<u>\$ 223,897</u>

McKenzie County  
Statement of Net Position – Modified Cash Basis  
December 31, 2015

	Primary Government <u>Governmental</u> <u>Activities</u>	Component Units
Assets		
Cash and investments	\$ 111,703,212	\$ 283,179
Note receivable	4,200,848	-
Capital assets not being depreciated		
Land	4,811,512	-
Construction in progress	46,701,601	-
Capital assets net of accumulated depreciation		
Buildings	28,341,941	-
Furniture and equipment	1,581,824	-
Infrastructure	78,484,313	-
Vehicles and equipment	8,242,966	-
Total capital assets	<u>168,164,157</u>	<u>-</u>
Total assets	<u>\$ 284,068,217</u>	<u>\$ 283,179</u>
Liabilities		
Long-term liabilities		
Due after one year		
Loan payable	<u>\$ 11,392,719</u>	<u>\$ -</u>
Total liabilities	<u>\$ 11,392,719</u>	<u>\$ -</u>
Net Position		
Net investment in capital assets	\$ 156,771,438	\$ -
Restricted for		
Public safety	224,295	-
Highways	1,157,637	-
Culture and recreation	-	223,870
Conservation of natural resources	-	59,309
Economic development	-	-
Unrestricted	<u>114,522,128</u>	<u>-</u>
Total Net Position	<u>\$ 272,675,498</u>	<u>\$ 283,179</u>

McKenzie County  
Statement of Activities – Modified Cash Basis  
Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Component Units
Primary government						
Governmental activities						
General government	\$ 10,381,672	\$ 6,581,487	\$ 1,541,554	\$ -	\$ (2,258,631)	\$ -
Public safety	9,562,622	-	198	-	(9,562,424)	-
Highways	24,878,277	1,027,497	-	9,932,739	(13,918,041)	-
Health and welfare	1,773,795	14,654	370,260	-	(1,388,881)	-
Culture and recreation	417,683	-	36	-	(417,647)	-
Conservation of natural resources	603,580	104,894	106,155	-	(392,531)	-
Economic development	159,080	-	-	-	(159,080)	-
Other	657,454	-	-	-	(657,454)	-
Total primary government	<u>\$ 48,434,163</u>	<u>\$ 7,728,532</u>	<u>\$ 2,018,203</u>	<u>\$ 9,932,739</u>	<u>(28,754,689)</u>	<u>-</u>
Component units	<u>\$ 430,704</u>	<u>\$ 9,964</u>	<u>\$ 83,489</u>	<u>\$ -</u>	<u>-</u>	<u>(337,251)</u>
General revenues						
Taxes						
Property taxes, levied for special purposes					4,362,457	277,242
Other taxes					423,457	-
Oil and gas production					39,935,252	-
State aid not restricted to specific program					726,773	-
Royalties					4,974,907	-
Earnings on investments					181,211	-
Miscellaneous revenue					1,109,305	727
Total general revenues					<u>51,713,362</u>	<u>277,969</u>
Loss on disposal of assets					<u>(325,715)</u>	<u>-</u>
Change in net position					<u>22,632,958</u>	<u>(59,282)</u>
Net position - January 1					<u>272,675,498</u>	<u>283,179</u>
Net position - December 31					<u>\$ 295,308,456</u>	<u>\$ 223,897</u>

McKenzie County  
Statement of Activities – Modified Cash Basis  
Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Component Units
Primary government						
Governmental activities						
General government	\$15,255,389	\$ 7,648,961	\$ 1,918,615	\$ -	\$ (5,687,813)	\$ -
Public safety	8,221,325	-	172	-	(8,221,153)	-
Highways	39,282,761	1,191,053	-	12,365,454	(25,726,254)	-
Health and welfare	1,681,495	9,559	487,549	-	(1,184,387)	-
Culture and recreation	284,089	-	9	-	(284,080)	-
Conservation of natural resources	1,045,664	97,172	56,105	-	(892,387)	-
Economic development	173,933	-	-	-	(173,933)	-
Other	525,232	-	-	-	(525,232)	-
Total primary government	<u>\$ 66,469,888</u>	<u>\$ 8,946,745</u>	<u>\$ 2,462,450</u>	<u>\$ 12,365,454</u>	<u>(42,695,239)</u>	<u>-</u>
Component units	<u>\$ 552,331</u>	<u>\$ 10,540</u>	<u>\$ 151,069</u>	<u>\$ -</u>	<u>-</u>	<u>(390,722)</u>
General revenues						
Taxes						
Property taxes, levied for special purposes					2,592,308	505,488
Other taxes					690,890	-
Oil and gas production					94,124,662	-
State aid not restricted to specific program					760,423	-
Royalties					7,536,585	-
Earnings on investments					159,093	-
Miscellaneous revenue					2,173,598	2,699
Total general revenues					<u>108,037,559</u>	<u>508,187</u>
Loss on disposal of assets					<u>(90,949)</u>	<u>-</u>
Change in net position					<u>65,251,371</u>	<u>117,465</u>
Net position - January 1					<u>207,424,127</u>	<u>165,714</u>
Net position - December 31					<u>\$ 272,675,498</u>	<u>\$ 283,179</u>



McKenzie County  
Balance Sheet – Governmental Funds – Modified Cash Basis  
December 31, 2016

	Major Funds		Other	Total
	General	County Road and Bridge	Governmental Funds	Governmental Funds
Assets				
Cash and investments	\$ 33,810,973	\$ 46,509,464	\$ 2,273,351	\$ 82,593,788
Note receivable	3,955,906	-	-	3,955,906
Total assets	<u>\$ 37,766,879</u>	<u>\$ 46,509,464</u>	<u>\$ 2,273,351</u>	<u>\$ 86,549,694</u>
Fund Balances				
Nonspendable	\$ 3,955,906	\$ -	\$ -	\$ 3,955,906
Restricted				
Public safety	-	-	262,632	262,632
Highways	-	-	372,403	372,403
Committed				
Subsequent year's budget:		-	-	-
Appropriation of fund balance	455,000	-	-	455,000
Assigned				
General government	801,032	-	-	801,032
Public safety	189,532	-	-	189,532
Highways	-	46,509,464	907,064	47,416,528
Health and welfare	-	-	700,614	700,614
Culture and recreation	17,997	-	74	18,071
Conservation of				
Natural resources	-	-	30,564	30,564
Economic development	20,209	-	-	20,209
Unassigned	<u>32,327,203</u>		<u>-</u>	<u>32,327,203</u>
Total fund balances	<u>\$ 37,766,879</u>	<u>\$ 46,509,464</u>	<u>\$ 2,273,351</u>	<u>\$ 86,549,694</u>

McKenzie County  
Balance Sheet – Governmental Funds – Modified Cash Basis  
December 31, 2015

	Major Funds		Other	Total
	General	County Road and Bridge	Governmental Funds	Governmental Funds
Assets				
Cash and investments	\$ 36,502,260	\$ 71,148,495	\$ 3,104,873	\$ 110,755,628
Note receivable	4,200,848	-	-	4,200,848
Total assets	<u>\$ 40,703,108</u>	<u>\$ 71,148,495</u>	<u>\$ 3,104,873</u>	<u>\$ 114,956,476</u>
Fund Balances				
Nonspendable	\$ 4,200,848	\$ -	\$ -	\$ 4,200,848
Restricted				
Public safety	-	-	224,295	224,295
Highways	-	-	1,157,637	1,157,637
Committed				
Subsequent year's budget:		-	-	-
Appropriation of fund balance	125,000	-	-	125,000
Assigned				
General government	755,711	-	-	755,711
Public safety	165,881	-	-	165,881
Highways	424,096	71,148,495	854,347	72,426,938
Health and welfare	-	-	671,449	671,449
Culture and recreation	40,661	-	1,000	41,661
Conservation of				
Natural resources	-	-	196,145	196,145
Economic development	17,765	-	-	17,765
Unassigned	34,973,146	-	-	34,973,146
Total fund balances	<u>\$ 40,703,108</u>	<u>\$ 71,148,495</u>	<u>\$ 3,104,873</u>	<u>\$ 114,956,476</u>

McKenzie County

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – Modified Cash Basis

December 31, 2016

---

\$ 86,549,694

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

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

Cost of capital assets	\$ 296,021,100	
Less accumulated depreciation	<u>(47,624,244)</u>	<u>248,396,856</u>
Net capital assets		

Internal service fund is used by the County to charge the cost of medical insurance claims to individual functions. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position. Internal service fund net position are

1,050,494

Long-term liabilities applicable to county governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities-both current and long-term are reported in the statement of net position.

	<u>(40,688,588)</u>	<u>(40,688,588)</u>
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Total net position of governmental activities

\$ 295,308,456

McKenzie County

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – Modified Cash Basis

December 31, 2015

---

\$ 114,956,476

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

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

Cost of capital assets	\$ 205,915,770	
Less accumulated depreciation	<u>(37,751,613)</u>	<u>168,164,157</u>
Net capital assets		

Internal service fund is used by the County to charge the cost of medical insurance claims to individual functions. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position. Internal service fund net position are

947,584

Long-term liabilities applicable to county governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities-both current and long-term are reported in the statement of net position.

	<u>(11,392,719)</u>	<u>(11,392,719)</u>
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Total net position of governmental activities

\$ 272,675,498

**McKenzie County**  
**Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds –**  
**Modified Cash Basis**  
**Year Ended December 31, 2016**

	Major Funds		Other	Total
	General	County Road and Bridge	Governmental Funds	Governmental Funds
Revenues				
Taxes	\$ 860,378	\$ 1,569,361	\$ 1,924,555	\$ 4,354,294
Special assessments	-	8,163	-	8,163
Licenses, permits and fees	3,543,477	-	-	3,543,477
Intergovernmental	39,522,044	7,635,369	4,548,409	51,705,822
Charges for services	3,038,010	1,027,497	119,548	4,185,055
Royalties	4,974,907	-	-	4,974,907
Interest income	122,879	55,179	3,153	181,211
Miscellaneous	909,146	181,531	18,628	1,109,305
Total revenues	<u>52,970,841</u>	<u>10,477,100</u>	<u>6,614,293</u>	<u>70,062,234</u>
Expenditures				
Current				
General government	9,025,786	-	-	9,025,786
Public safety	9,165,797	-	107,540	9,273,337
Highways	-	15,383,274	-	15,383,274
Health and welfare	121,544	-	1,608,681	1,730,225
Culture and recreation	340,677	-	30,321	370,998
Conservation of				
Natural resources	168,058	-	367,097	535,155
Economic development	159,080	-	-	159,080
Other	427,000	-	230,454	657,454
Capital outlay	32,085,343	58,601,774	98,569	90,785,686
Total expenditures	<u>51,493,285</u>	<u>73,985,048</u>	<u>2,442,662</u>	<u>127,920,995</u>
Excess (deficiency) of Revenues over Expenditures	<u>1,477,556</u>	<u>(63,507,948)</u>	<u>4,171,631</u>	<u>(57,858,761)</u>
Other Financing Sources (Uses)				
Sale of assets	156,110	-	-	156,110
Loan proceeds	29,295,869	-	-	29,295,869
Transfers in	128,517	38,924,096	-	39,052,613
Transfers out	(33,994,281)	(55,179)	(5,003,153)	(39,052,613)
Total other financing sources and uses	<u>(4,413,785)</u>	<u>38,868,917</u>	<u>(5,003,153)</u>	<u>29,451,979</u>
Net Change in Fund Balances	(2,936,229)	(24,639,031)	(831,522)	(28,406,782)
Fund Balance - January 1	<u>40,703,108</u>	<u>71,148,495</u>	<u>3,104,873</u>	<u>114,956,476</u>
Fund Balance - December 31	<u>\$ 37,766,879</u>	<u>\$ 46,509,464</u>	<u>\$ 2,273,351</u>	<u>\$ 86,549,694</u>

**McKenzie County**  
**Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds –**  
**Modified Cash Basis**  
**Year Ended December 31, 2015**

	Major Funds		Other	Total
	General	County Road and Bridge	Governmental Funds	Governmental Funds
<b>Revenues</b>				
Taxes	\$ 306,928	\$ 1,066,440	\$ 1,218,940	\$ 2,592,308
Licenses, permits and fees	3,754,243	-	-	3,754,243
Intergovernmental	46,019,543	58,618,182	5,034,048	109,671,773
Charges for services	3,894,718	1,191,053	106,731	5,192,502
Royalties	7,536,585	-	-	7,536,585
Interest income	107,881	48,444	2,768	159,093
Miscellaneous	1,024,476	1,125,499	23,623	2,173,598
Total revenues	<u>62,644,374</u>	<u>62,049,618</u>	<u>6,386,110</u>	<u>131,080,102</u>
<b>Expenditures</b>				
<b>Current</b>				
General government	13,879,918	-	-	13,879,918
Public safety	7,850,582	-	139,214	7,989,796
Highways	-	30,147,886	-	30,147,886
Health and welfare	86,813	-	1,540,828	1,627,641
Culture and recreation	219,930	-	10,288	230,218
Conservation of				
Natural resources	666,610	-	326,036	992,646
Economic development	173,933	-	-	173,933
Other	500,100	-	25,132	525,232
Capital outlay	19,183,436	49,237,757	138,781	68,559,974
Total expenditures	<u>42,561,322</u>	<u>79,385,643</u>	<u>2,180,279</u>	<u>124,127,244</u>
Excess (deficiency) of Revenues over Expenditures	<u>20,083,052</u>	<u>(17,336,025)</u>	<u>4,205,831</u>	<u>6,952,858</u>
<b>Other Financing Sources (Uses)</b>				
Sale of assets	4,003	-	-	4,003
Loan proceeds	11,392,719	-	-	11,392,719
Transfers in	120,128	51,200,000	750,000	52,070,128
Transfers out	(45,818,916)	(48,444)	(6,202,768)	(52,070,128)
Total other financing sources and uses	<u>(34,302,066)</u>	<u>51,151,556</u>	<u>(5,452,768)</u>	<u>11,396,722</u>
Net Change in Fund Balances	(14,219,014)	33,815,531	(1,246,937)	18,349,580
Fund Balance - January 1	<u>54,922,122</u>	<u>37,332,964</u>	<u>4,351,810</u>	<u>96,606,896</u>
Fund Balance - December 31	<u>\$ 40,703,108</u>	<u>\$ 71,148,495</u>	<u>\$ 3,104,873</u>	<u>\$ 114,956,476</u>

**McKenzie County**  
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to  
the Statement of Activities – Modified Cash Basis  
Year Ended December 31, 2016

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Net change in fund balance - total governmental funds \$ (28,406,782)

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 effect of capital outlay, depreciation expense and other capital asset transactions in the current period:

Current year capital outlay	\$ 90,785,686	
Contributed capital	1,330,602	
Current year depreciation expense	(11,401,764)	
Loss on disposal of assets	<u>(325,715)</u>	80,388,809

An internal service fund is used by the County to charge the cost of medical claims to individual functions. The net income of the internal service fund is reported with governmental activities

102,910

The net effect of various miscellaneous transactions involving capital assets (i.e. sales and trade-ins) is to decrease net position

(156,110)

The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long term liabilities in the statement of net position.

(29,295,869)

Change in net position of governmental activities

\$ 22,632,958

McKenzie County

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to  
the Statement of Activities – Modified Cash Basis  
Year Ended December 31, 2015

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Net change in fund balance - total governmental funds \$ 18,349,580

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 effect of depreciation expense and other capital asset transactions in the current period:

Current year capital outlay	\$ 68,559,974	
Contributed capital	732,106	
Current year depreciation expense	(11,128,791)	
Loss on disposal of assets	<u>(90,949)</u>	58,072,340

An internal service fund is used by the County to charge the cost of medical claims to individual functions. The net income of the internal service fund is reported with governmental activities

226,173

The net effect of various miscellaneous transactions involving capital assets (i.e. sales and trade-ins) is to decrease net position

(4,003)

The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long term liabilities in the statement of net position.

(11,392,719)

Change in net position of governmental activities

\$ 65,251,371



McKenzie County  
Statements of Net Position – Proprietary Fund – Modified Cash Basis  
December 31, 2016 and 2015

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	Internal Service	
	2016	2015
Assets		
Current assets		
Cash	<u>\$ 1,050,494</u>	<u>\$ 947,584</u>
Net Position		
Unrestricted	<u>\$ 1,050,494</u>	<u>\$ 947,584</u>

**McKenzie County**

Statements of Revenues, Expenses and Changes in Net Position – Proprietary Fund – Modified Cash Basis  
Years Ended December 31, 2016 and 2015

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	Internal Service	
	2016	2015
Operating Revenues		
Contributions	\$ 2,689,256	\$ 2,351,156
Operating Expenses		
Premiums	998,584	901,310
Claims	1,465,174	1,126,444
Miscellaneous	132,325	104,281
Total operating expenses	<u>2,596,083</u>	<u>2,132,035</u>
Operating Gain	<u>93,173</u>	<u>219,121</u>
Non-Operating Revenues		
Interest income	8,719	7,052
Miscellaneous	1,018	-
Total nonoperating revenue	<u>9,737</u>	<u>7,052</u>
Net Income	102,910	226,173
Net Position - January 1	<u>947,584</u>	<u>721,411</u>
Net Position - December 31	<u><u>\$ 1,050,494</u></u>	<u><u>\$ 947,584</u></u>

McKenzie County  
Statements of Cash Flows – Proprietary Fund – Modified Cash Basis  
Years Ended December 31, 2016 and 2015

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	Internal Service	
	2016	2015
Cash Flows from Operating Activities		
Cash received from customers and users	\$ 2,690,274	\$ 2,351,156
Cash paid for health claims	(1,465,174)	(1,126,444)
Cash paid for services	(1,130,909)	(1,005,591)
Net Cash from Operating Activities	<u>94,191</u>	<u>219,121</u>
Cash Flows from Investing Activities		
Interest received	<u>8,719</u>	<u>7,052</u>
Net Change in Cash and Cash Equivalents	102,910	226,173
Cash and Cash Equivalents - January 1	<u>947,584</u>	<u>721,411</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 1,050,494</u></u>	<u><u>\$ 947,584</u></u>

McKenzie County

Statements of Fiduciary Assets and Liabilities – Fiduciary Fund – Modified Cash Basis

December 31, 2016 and 2015

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	Agency Funds	
	2016	2015
Assets		
Cash and investments	<u>\$ 1,693,640</u>	<u>\$ 1,671,563</u>
Liabilities		
Due to other governments	<u>\$ 1,693,640</u>	<u>\$ 1,671,563</u>

McKenzie County  
Combining Statement of Net Position – Component Units – Modified Cash Basis  
December 31, 2016

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	Public Library	Atmospheric Resource Board	JDA Development Funds	Total
Assets				
Cash and investments	\$ 162,508	\$ 59,018	\$ 2,371	\$ 223,897
Total assets	<u>\$ 162,508</u>	<u>\$ 59,018</u>	<u>\$ 2,371</u>	<u>\$ 223,897</u>
Net Position				
Restricted for				
Culture and recreation	\$ 162,508	\$ -	\$ -	\$ 162,508
Conservation of natural resources	-	59,018	-	59,018
Economic development	<u>-</u>	<u>-</u>	<u>2,371</u>	<u>2,371</u>
Total net position	<u>\$ 162,508</u>	<u>\$ 59,018</u>	<u>\$ 2,371</u>	<u>\$ 223,897</u>

McKenzie County  
Combining Statement of Net Position – Component Units – Modified Cash Basis  
December 31, 2015

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	Public Library	Atmospheric Resource Board	JDA Development Funds	Total
Assets				
Cash and investments	\$ 223,870	\$ 59,309	\$ -	\$ 283,179
Total assets	<u>\$ 223,870</u>	<u>\$ 59,309</u>	<u>\$ -</u>	<u>\$ 283,179</u>
Net Position				
Restricted for				
Culture and recreation	\$ 223,870	\$ -	\$ -	\$ 223,870
Conservation of natural resources	-	59,309	-	59,309
Economic development	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net position	<u>\$ 223,870</u>	<u>\$ 59,309</u>	<u>\$ -</u>	<u>\$ 283,179</u>

McKenzie County  
Combining Statement of Activities – Component Units – Modified Cash Basis  
Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions		Public Library	Atmospheric Resource Board	JDA Development Funds	Totals
Component units								
Public Library	\$ 271,261	\$ 9,964	\$ 57,693	\$ -	\$ (203,604)	\$ -	\$ -	\$ (203,604)
Atmospheric Resource Board	291	-	-	-	-	(291)	-	(291)
Job Development Authority	159,152	-	25,796	-	-	-	(133,356)	(133,356)
Total component units	<u>\$ 430,704</u>	<u>\$ 9,964</u>	<u>\$ 83,489</u>	<u>\$ -</u>	<u>(203,604)</u>	<u>(291)</u>	<u>(133,356)</u>	<u>(337,251)</u>
General revenues								
Taxes								
Property taxes, levied for general purposes					141,563	-	135,679	277,242
Interest					-	-	-	-
Miscellaneous revenue					679	-	48	727
Total general revenues					<u>142,242</u>	<u>-</u>	<u>135,727</u>	<u>277,969</u>
Change in net position					(61,362)	(291)	2,371	(59,282)
Net position - January 1					<u>223,870</u>	<u>59,309</u>	<u>-</u>	<u>283,179</u>
Net position - December 31					<u>\$ 162,508</u>	<u>\$ 59,018</u>	<u>\$ 2,371</u>	<u>\$ 223,897</u>

McKenzie County  
Combining Statement of Activities – Component Units – Modified Cash Basis  
Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Public Library	Atmospheric Resource Board	JDA Development Funds	Totals
Component units								
Public Library	\$ 282,062	\$ 10,540	\$ 68,608	\$ -	\$ (202,914)	\$ -	\$ -	\$ (202,914)
Atmospheric Resource Board	96,409	-	47,264	-	-	(49,145)	-	(49,145)
Job Development Authority	173,860	-	35,197	-	-	-	(138,663)	(138,663)
Total component units	<u>\$ 552,331</u>	<u>\$ 10,540</u>	<u>\$ 151,069</u>	<u>\$ -</u>	<u>(202,914)</u>	<u>(49,145)</u>	<u>(138,663)</u>	<u>(390,722)</u>
General revenues								
Taxes								
Property taxes, levied for general purposes					321,557	49,254	134,677	505,488
Interest					-	-	-	-
Miscellaneous revenue					2,669	-	30	2,699
Total general revenues					<u>324,226</u>	<u>49,254</u>	<u>134,707</u>	<u>508,187</u>
Change in net position					121,312	109	(3,956)	117,465
Net position - January 1					<u>102,558</u>	<u>59,200</u>	<u>3,956</u>	<u>165,714</u>
Net position - December 31					<u>\$ 223,870</u>	<u>\$ 59,309</u>	<u>\$ -</u>	<u>\$ 283,179</u>



## **Note 1 - Summary of Significant Accounting Policies**

The financial statements of McKenzie County, Watford City, North Dakota, have been prepared in conformity with the modified cash basis of accounting as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

### **Reporting Entity**

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

Based on these criteria, the component units discussed below are included within the County's reporting entity because of the significance of their operational or financial relationship with the County.

### **Component Units**

In conformity with the modified cash basis of accounting, the financial statements of the component units have been included in the financial reporting entity as discretely presented component units.

Discretely Presented Component Units – The component unit columns in the combined financial statements include the financial data of the County's four component units. These units are reported in separate columns to emphasize that they are legally separate from the County.

McKenzie County Atmospheric Resource Board – The members of the governing board are appointed by the Board of County Commissioners. The County Commission can approve, disapprove or amend the authority's budget.

Public Library – The library is governed by a six-member board, three appointed by the City of Watford City and three by McKenzie County. The records are maintained by McKenzie County with the County Commissioners approving all expenditures. Funds for the library are supplied through a county wide tax levy. The purpose of the library is to provide library services to the citizens of McKenzie County.

JDA Development – The members of the governing board are appointed by the Board of County Commissioners. The County Commission can approve, disapprove or amend the JDA Development fund's budget.

Component Unit Financial Statements – The financial statements of the discretely presented component units are presented in the County’s basic financial statements. Complete financial statements of the individual component units can be obtained from the McKenzie County Auditor, 201 5<sup>th</sup> Street NW, PO Box 543, Watford City, North Dakota 58854-0543.

The McKenzie County Water Resource District is also a component unit of the County. For the years ended December 31, 2016 and 2015 the County has excluded the McKenzie County Water Resource District from the County’s basic financial statements.

### **Government-wide and Fund Financial Statements**

Government-wide Statements – The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Fund Financial Statements – The fund financial statements provide information about the County’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, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

### **Fund Balance Classification Policies and Procedures**

The County classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. The same formal action of the highest level of decision making authority is required to rescind a commitment.

- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by management.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The County uses *restricted* amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

### **Equity Classifications**

#### **Government-wide Statements**

Equity is classified as net position and is displayed in three components:

Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

Unrestricted net position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the modified cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred. This basis differs from accounting principles generally accepted in the United States of America because accounts receivable, accounts payable, and accrued expenses are not included in the financial statements.

Governmental funds are reported using the current financial resources measurement focus and the modified cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred.

This basis differs from accounting principles generally accepted in the United States of America because accounts receivable, accounts payable, and accrued expenses are not included in the financial statements. Only capital assets, notes receivable and long-term debt are recorded under the basis of accounting described above on the statement of net position. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The County reports the following major governmental funds:

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

**County Road and Bridge Fund** – This fund accounts for the maintenance and repair of roads within the County.

Additionally, the County reports the following fund types:

**Internal Service Fund** – This fund is used to account for the health insurance coverage provided by one department or agency to other departments or agencies of the governmental unit, on a cost-reimbursement basis.

**Agency Funds** – These funds account for assets by the County in a custodial capacity as an agent on behalf of others. The County’s agency funds are used to account for property taxes collected on behalf of other governments.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include 1) changes to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

### **Restricted and Unrestricted Resources**

It is the County’s policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

### **Cash and Investments**

Cash includes amounts in demand deposits and money market accounts. 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 secured with pledges of securities equal to 110% of the uninsured balance.

The investments consist of certificates of deposit, with a maturity date in excess of 90 days, stated at cost.

## Capital Assets

### Primary Government

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential.

General infrastructure assets consist of the road and bridge projects constructed and are reported at historical cost. 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:

<u>Assets</u>	<u>Years</u>
Buildings	10-40
Furniture and equipment	5-25
Infrastructure	20-50
Vehicles and equipment	5-10

### 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.

### Tax Revenues

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1. The tax levy may be paid in two installments: the first installment includes one-half of the real estate taxes and all the special assessments; 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 5% discount on the property taxes.

### **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.

## **Note 2 - Legal Compliance – Budget**

### **Budget**

The County commission adopts an “appropriated budget” on the modified cash basis of accounting. The County auditor prepares an annual budget for the general fund and each special revenue fund of the County. NDCC 11-23-02. The budget includes proposed expenditures and means of financing them. The current budget, except for property taxes, may be amended throughout the year for revenues or appropriations anticipated when the budget was prepared. NDCC 57-15-31.1. Each budget is controlled by the County auditor at the revenue and expenditure function/object level. All appropriations lapse at year-end. When expenditures are in excess of appropriations the County will fund these items through revenues in excess of budget, cash reserves of the fund, or from a cash transfer from other funds.

The County holds public hearings regarding disbursements. All tax levies and all taxes shall be levied in specific amounts and shall not exceed the amount specified in the published estimates. NDCC 11-23-04. The County commissioners meet on or before October to determine the amount of taxes that shall be levied for County purposes and shall levy all such taxes in specific amounts. NDCC 11-23-05.

### **Expenditures over Appropriations**

Expenditures over Appropriations - exceeded budget in the General fund by \$820,088 in 2016 and by \$29,866,142 in 2015. No remedial action is required.

## **Note 3 - Deposits and Investments**

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

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

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

At the year ended December 31, 2016 and 2015, the pooled bank balances for all County and fiduciary funds was \$88,311,239 and \$116,048,310. The carrying amount of the pooled deposits for the County and fiduciary funds was \$85,337,922, with \$83,664,922 in County funds and \$1,693,640 in fiduciary funds for 2016 and \$113,374,775, with \$111,703,212 in County funds and \$1,671,563 in fiduciary funds for 2015. Of the bank balances, \$750,000 was covered by Federal Depository Insurance. Balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

The other discretely presented component units' balances were covered by Federal Depository Insurance or collateralized with securities held by the pledging financial institution's agent in the government's name.

Interest Rate Risk – The County does not have a formal investment policy that limits investments as a means of managing its exposure to fair value losses arising from changing interest rates, nor do the fiduciary funds or component units. All investments are certificates of deposit that mature within 1 year.

### **Credit Risk**

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

- a) 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.
- b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
- d) Obligations of the state.

As of December 31, 2016 and 2015, the County held certificates of deposit in the amount of \$1,692,710 and \$1,679,590, which are all considered deposits and included in the above amount of total deposits.

As of December 31, 2016 and 2015, the County held certificates of Deposit with the following maturity dates:

<u>2016</u>	<u>Less Than Within 1 Year</u>	<u>1 to 5 Years</u>	<u>Thereafter</u>	<u>Total</u>
Certificates of Deposit	<u>\$ 1,692,710</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,692,710</u>
<u>2015</u>	<u>Less Than Within 1 Year</u>	<u>1 to 5 Years</u>	<u>Thereafter</u>	<u>Total</u>
Certificates of Deposit	<u>\$ 1,079,590</u>	<u>\$ 600,000</u>	<u>\$ -</u>	<u>\$ 1,679,590</u>

#### **Concentration of Credit Risk**

The County does not have a limit on the amount it may invest in any one issuer; all deposits and investments are held with the following three financial institutions, McKenzie County Bank, First International Bank, and Dakota West Credit Union.

#### **Note 4 - Note Receivable**

On March 6, 2013, the County entered into an agreement to loan the McKenzie County Water Resource District \$4,500,000. The loan was provided in two advances with a first advance of \$3,000,000 and a second advance of \$1,500,000. The note is unsecured and bears interest at 2.5% through February 2018 at which time the interest rate becomes variable equal to the prime rate for loans originated by the Bank of North Dakota less 0.75% not to be less than 0%. The note matures in February 2033 and is due in annual principal payments ranging from approximately \$175,000 to \$275,000 plus accrued interest. The note receivable balance as of December 31, 2016 and 2015 was \$3,955,906 and \$4,200,848, respectively. As noted in Note 1, the McKenzie County Water Resource District, a component unit of the County, has been excluded from the County's basic financial statements.



**Note 5 - Capital Assets**

The following is a summary of changes in capital assets for the year ended December 31, 2016:

<u>Governmental Activities</u>	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Capital assets not being depreciated				
Land	\$ 4,811,512	\$ -	\$ -	\$ 4,811,512
Construction in progress	46,701,601	61,663,344	35,882,057	72,482,888
Total capital assets, not being depreciated	<u>51,513,113</u>	<u>61,663,344</u>	<u>35,882,057</u>	<u>77,294,400</u>
Capital assets being depreciated				
Buildings	34,987,498	186,295	601,864	34,571,929
Furniture and equipment	2,661,078	940,562	-	3,601,640
Infrastructure	101,725,235	59,189,071	-	160,914,306
Vehicles and equipment	15,028,846	8,140,111	3,530,132	19,638,825
Total capital assets, being depreciated	<u>154,402,657</u>	<u>68,456,039</u>	<u>4,131,996</u>	<u>218,726,700</u>
Less accumulated depreciation for				
Buildings	6,645,557	2,024,614	240,987	8,429,184
Furniture and equipment	1,079,254	371,936	-	1,451,190
Infrastructure	23,240,922	7,242,483	-	30,483,405
Vehicles and equipment	6,785,880	1,762,731	1,288,146	7,260,465
Total accumulated depreciation	<u>37,751,613</u>	<u>11,401,764</u>	<u>1,529,133</u>	<u>47,624,244</u>
Total capital assets being depreciated, net	<u>116,651,044</u>	<u>57,054,275</u>	<u>2,602,863</u>	<u>171,102,456</u>
Governmental activities - capital assets, net	<u>\$ 168,164,157</u>	<u>\$ 118,717,619</u>	<u>\$ 38,484,920</u>	<u>\$ 248,396,856</u>

The County had commitments of approximately \$29,371,527 outstanding at December 31, 2016 related to construction in progress.

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

Governmental Activities

General government	\$ 1,458,796
Public safety	289,285
Highways	9,495,003
Health and welfare	43,570
Culture and recreation	46,685
Conservation of natural resources	68,425
Total depreciation expense - governmental activities	<u>\$ 11,401,764</u>

The following is a summary of changes in capital assets for the year ended December 31, 2015:

<u>Governmental Activities</u>	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Capital assets not being depreciated				
Land	\$ 1,550,145	\$ 3,261,367	\$ -	\$ 4,811,512
Construction in progress	13,676,972	46,701,601	13,676,972	46,701,601
Total capital assets, not being depreciated	<u>15,227,117</u>	<u>49,962,968</u>	<u>13,676,972</u>	<u>51,513,113</u>
Capital assets being depreciated				
Buildings	18,362,090	16,634,470	9,062	34,987,498
Furniture and equipment	2,480,310	317,263	136,495	2,661,078
Infrastructure	87,509,159	14,216,076	-	101,725,235
Vehicles and equipment	13,700,189	2,051,266	722,609	15,028,846
Total capital assets, being depreciated	<u>122,051,748</u>	<u>33,219,075</u>	<u>868,166</u>	<u>154,402,657</u>
Less accumulated depreciation for				
Buildings	4,682,360	1,966,636	3,439	6,645,557
Furniture and equipment	900,534	297,430	118,710	1,079,254
Infrastructure	15,868,188	7,372,734	-	23,240,922
Vehicles and equipment	5,731,966	1,491,991	438,077	6,785,880
Total accumulated depreciation	<u>27,183,048</u>	<u>11,128,791</u>	<u>560,226</u>	<u>37,751,613</u>
Total capital assets being depreciated, net	<u>94,868,700</u>	<u>22,090,284</u>	<u>307,940</u>	<u>116,651,044</u>
Governmental activities - capital assets, net	<u>\$ 110,095,817</u>	<u>\$ 72,053,252</u>	<u>\$ 13,984,912</u>	<u>\$ 168,164,157</u>

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

Governmental Activities

General government	\$ 1,601,644
Public safety	231,529
Highways	9,134,875
Health and welfare	53,854
Culture and recreation	53,871
Conservation of natural resources	53,018
Total depreciation expense - governmental activities	<u><u>\$ 11,128,791</u></u>

**Note 6 - Long-Term Liabilities**

Changes in long-term liabilities – During the year ended December 31, 2016, the following changes occurred in liabilities reported as long-term debt:

	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
Certificate of indebtedness	\$ 11,392,719	\$ 29,295,869	\$ -	\$ 40,688,588	\$ -
Total	<u><u>\$ 11,392,719</u></u>	<u><u>\$ 29,295,869</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 40,688,588</u></u>	<u><u>\$ -</u></u>

Outstanding debt at December 31, 2016 consists of the following issues:

**Certificate of Indebtedness**

\$40,688,588 Certificate of Indebtedness Series 2015 - due in semi-annual installments of \$2,312,450 through August 18, 2027; interest payments only through February 8, 2018, variable interest rate (1.75% at December 31, 2015), liquidated out of the Debt Service Fund	<u>\$ 40,688,588</u>
	<u><u>\$ 40,688,588</u></u>

Debt service requirements on long-term debt at December 31, 2016 are as follows:

Year Ending December 31	Certificate of Indebtedness	
	Principal	Interest
2017	\$ -	\$ 209,793
2018	4,006,858	618,042
2019	3,647,618	977,283
2020	3,747,939	876,961
2021	3,851,020	773,881
2022-2026	20,903,309	2,221,195
2027-2031	4,531,844	93,056
	<u>\$ 40,688,588</u>	<u>\$ 5,770,211</u>

Changes in long-term liabilities – During the year ended December 31, 2015, the following changes occurred in liabilities reported as long-term debt:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Certificate of indebtedness	\$ -	\$ 11,392,719	\$ -	\$ 11,392,719	\$ -
Total	<u>\$ -</u>	<u>\$ 11,392,719</u>	<u>\$ -</u>	<u>\$ 11,392,719</u>	<u>\$ -</u>

Outstanding debt at December 31, 2015 consists of the following issues:

**Certificate of Indebtedness**

\$11,392,719 Certificate of Indebtedness Series 2015 - due in semi-annual installments of \$647,481 through August 18, 2027; interest payments only through February 8, 2018, variable interest rate (1.75% at December 31, 2015), liquidated out of the Debt Service Fund	<u>\$ 11,392,719</u>
	<u>\$ 11,392,719</u>

Debt service requirements on long-term debt at December 31, 2015 are as follows:

Year Ending December 31	Certificate of Indebtedness	
	Principal	Interest
2016	\$ -	\$ 230,453
2017	-	103,687
2018	1,121,912	173,051
2019	1,021,325	273,637
2020	1,049,415	245,547
2021-2025	5,696,218	778,594
2026-2030	2,503,849	86,076
	<u>\$ 11,392,719</u>	<u>\$ 1,891,045</u>

The County had not drawn the full available amount of \$12,200,000 on the certificates as of December 31, 2016. The certificate of indebtedness is payable through 2025. The total principal and interest remaining to be paid on the certificate is \$11,360,303. Principal payments were not made during the year and interest payments of \$223,076 were made during the year.

#### **Note 7 - Transfers**

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2016:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 128,517	\$ 33,994,281
County Road and Bridge	38,924,096	55,179
Other Governmental Funds	-	5,003,153
	<u>          </u>	<u>          </u>
Total transfers	<u>\$ 39,052,613</u>	<u>\$ 39,052,613</u>

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2015:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 120,128	\$ 45,818,916
County Road and Bridge	51,200,000	48,444
Other Governmental Funds	750,000	6,202,768
	<u>          </u>	<u>          </u>
Total transfers	<u>\$ 52,070,128</u>	<u>\$ 52,070,128</u>

Transfers were made to move revenues from the fund that is required to collect them to funds that are allowed to expend them and also to finance various programs in accordance with budgetary authorization.

#### **Note 8 - Related Organization**

McKenzie County is also responsible for levying a property tax for the Historical Society but the County's accountability for this entity does not extend beyond levying the tax. In 2016 and 2015, the County remitted \$26,257 and \$5,472 to the Historical Society.

## **Note 9 - Risk Management**

McKenzie County 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. McKenzie County pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile coverage and to \$9,587,851 and \$7,716,700 for inland marine coverage as of December 31, 2016 and 2015.

McKenzie County also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. McKenzie County 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 one million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides McKenzie County with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

McKenzie County has workers compensation coverage with the North Dakota Workforce Safety and Insurance and pays for a single policy health insurance.

The County has retained risk for employee health and accident up to a maximum of \$20,000 per individual. The County has purchased a stop loss policy for amounts in excess of \$20,000 per employee.

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

## **Note 10 - Joint Venture**

### **Upper Missouri District Health Unit**

McKenzie County entered into a joint venture with Divide, Williams and Mountrail Counties for the operation of the Upper Missouri District Health Unit. Each participating county's share of the cost of operations and board member appointments is determined by the property valuation of each county.

Audited summary financial information for the year ended December 31, 2015, the last year audited, is as follows:

Cash and investments	\$ 2,203,202
Total assets and deferred outflows of resources	2,873,588
Total liabilities and deferred inflows of resources	2,410,194
Total equity	463,394
Total revenues	2,579,880
Total expenditures	<u>2,643,966</u>
Net decrease in equity	<u><u>\$ (64,086)</u></u>

## **Note 11 - Pension Plan**

### **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 plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of 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 the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2016, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

### **Pension Benefits**

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 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 for disabled is set by the NDPERS in the North Dakota Administrative Code.

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

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

### **Member and Employer Contributions**

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

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

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

### **Net Pension Liability**

At December 31, 2016, the Employer's proportionate share of the net pension liability was \$7,955,415. The net pension liability was measured as of July 1, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At July 1, 2016, the Employer's proportion was 0.816277 percent. The Employer's proportionate share of the net pension liability is not reported in financial statements shown under the modified cash basis of accounting.



### Actuarial Assumptions

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary Increases (Payroll Growth)	4.50% per annum for Main System
Investment Rate of Return	8.00%, net of investment expenses, including inflation

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 Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2016. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

As a result of the 2016 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2016. 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 of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Real Rate of Return</u>
Domestic Equity	31%	6.60%
International Equity	21%	7.30%
Private Equity	5%	10.90%
Domestic Fixed Income	17%	1.49%
International Fixed Income	5%	-0.45%
Global Real Assets	20%	5.24%
Cash Equivalents	1%	0.00%

### Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. 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, 2016, 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, 2016. 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, 2016.

### Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease in Discount Rate (7%)	Discount Rate (8%)	1% Increase in Discount Rate (9%)
County's proportionate share of the NDPERS net pension liability	\$ 11,284,603	\$ 7,955,415	\$ 5,150,402

### Pension Plan Fiduciary Net Position

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

#### **Note 12 - Landfill Post Closure Costs**

State and federal laws and regulations require the County to place a final cover on its County landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The County does not report the closure and post closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date under the modified cash basis of accounting. The operating expenses that would have been reported in 2016 and 2015 if the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America were \$174,273 and \$188,491, respectively. The estimated landfill closure and post closure care liability at December 31, 2016 and 2015 that would have been reported if the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America was \$1,301,912 and \$1,127,639, respectively, which is based on the use of approximately 41 percent of the estimated capacity of the landfill and total estimated closure and post closure costs of \$2,458,345. Under the modified cash basis of accounting used, the County will recognize these costs when payments occur. These amounts are based on what it would cost to perform all closure and post closure care in 2016 and 2015. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to determine the method they would choose to finance the closure and post closure costs. Beginning in 2013, the County began utilizing the financial test to demonstrate financial assurance for closure and/or post-closure costs for the landfill, as specified in section 33-20-14-02 through 33-20-14-07 of the NDCC. The County expects that future inflation costs will be paid from operating revenue. However, if the funds are inadequate or additional post closure requirements are determined (due to changes in technology or applicable laws or regulations) these costs may need to be covered from future tax revenue.

#### **Note 13 - Subsequent Events**

The County entered into construction contracts totaling \$18,422,241 subsequent to year end for road maintenance and improvements. In February of 2018, the County entered into the Crestwood Road Agreement for improvements of three miles of CR37 East with Crestwood providing \$3,000,000 in assistance.



Supplementary Information  
December 31, 2016

# McKenzie County

McKenzie County  
Budgetary Comparison Schedule – General Fund – Modified Cash Basis  
Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 510,000	\$ 510,000	\$ 860,378	\$ 350,378
Licenses, permits and fees	1,755,750	1,755,750	3,543,477	1,787,727
Intergovernmental	40,000,000	40,000,000	39,522,044	(477,956)
Charges for services	6,527,941	6,527,941	3,038,010	(3,489,931)
Royalties	650,000	650,000	4,974,907	4,324,907
Interest income	100,000	100,000	122,879	22,879
Miscellaneous	27,250,000	27,250,000	909,146	(26,340,854)
Total revenues	<u>76,793,691</u>	<u>76,793,691</u>	<u>52,970,841</u>	<u>(23,822,850)</u>
Expenditures				
Current				
General government	41,575,455	41,575,455	9,025,786	32,549,669
Public safety	9,097,742	9,097,742	9,165,797	(68,055)
Health and welfare	-	-	121,544	(121,544)
Culture and recreation	-	-	340,677	(340,677)
Conservation of natural resources	-	-	168,058	(168,058)
Economic development	-	-	159,080	(159,080)
Other	-	-	427,000	(427,000)
Capital outlay	-	-	32,085,343	(32,085,343)
Total expenditures	<u>50,673,197</u>	<u>50,673,197</u>	<u>51,493,285</u>	<u>(820,088)</u>
Excess of Revenues over Expenditures	<u>26,120,494</u>	<u>26,120,494</u>	<u>1,477,556</u>	<u>(24,642,938)</u>
Other Financing Sources (Uses)				
Sale of assets	-	-	156,110	156,110
Loan proceeds	-	-	29,295,869	29,295,869
Transfers in	-	-	128,517	128,517
Transfers out	(33,625,000)	(33,625,000)	(33,994,281)	(369,281)
Total other financing sources and uses	<u>(33,625,000)</u>	<u>(33,625,000)</u>	<u>(4,413,785)</u>	<u>29,211,215</u>
Net Change in Fund Balances	(7,504,506)	(7,504,506)	(2,936,229)	4,568,277
Fund Balance - January 1	<u>40,703,108</u>	<u>40,703,108</u>	<u>40,703,108</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 33,198,602</u>	<u>\$ 33,198,602</u>	<u>\$ 37,766,879</u>	<u>\$ 4,568,277</u>

McKenzie County  
Budgetary Comparison Schedule – General Fund – Modified Cash Basis  
Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 5,000	\$ 5,000	\$ 306,928	\$ 301,928
Licenses, permits and fees	1,505,050	1,505,050	3,754,243	2,249,193
Intergovernmental	40,000,000	40,000,000	46,019,543	6,019,543
Charges for services	7,214,100	7,214,100	3,894,718	(3,319,382)
Royalties	700,000	700,000	7,536,585	6,836,585
Interest income	50,000	50,000	107,881	57,881
Miscellaneous	200,000	200,000	1,024,476	824,476
Total revenues	<u>49,674,150</u>	<u>49,674,150</u>	<u>62,644,374</u>	<u>12,970,224</u>
Expenditures				
Current				
General government	12,345,986	9,402,719	13,879,918	(4,477,199)
Public safety	2,894,586	2,865,080	7,850,582	(4,985,502)
Health and welfare	37,746	39,232	86,813	(47,581)
Culture and recreation	124,731	126,945	219,930	(92,985)
Conservation of natural resources	94,345	94,345	666,610	(572,265)
Economic development	150,859	150,859	173,933	(23,074)
Other	12,500	12,500	500,100	(487,600)
Capital outlay	3,500	3,500	19,183,436	(19,179,936)
Total expenditures	<u>15,664,253</u>	<u>12,695,180</u>	<u>42,561,322</u>	<u>(29,866,142)</u>
Excess of Revenues over Expenditures	<u>34,009,897</u>	<u>36,978,970</u>	<u>20,083,052</u>	<u>(16,895,918)</u>
Other Financing Sources (Uses)				
Sale of assets	-	-	4,003	4,003
Loan proceeds	-	-	11,392,719	11,392,719
Transfers in	-	-	120,128	120,128
Transfers out	<u>(9,295,000)</u>	<u>(9,265,000)</u>	<u>(45,818,916)</u>	<u>(36,553,916)</u>
Total other financing sources and uses	<u>(9,295,000)</u>	<u>(9,265,000)</u>	<u>(34,302,066)</u>	<u>(25,037,066)</u>
Net Change in Fund Balances	24,714,897	27,713,970	(14,219,014)	(41,932,984)
Fund Balance - January 1	<u>54,922,122</u>	<u>54,922,122</u>	<u>54,922,122</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 79,637,019</u>	<u>\$ 82,636,092</u>	<u>\$ 40,703,108</u>	<u>\$ (41,932,984)</u>

McKenzie County

Budgetary Comparison Schedule – County Road and Bridge Fund – Modified Cash Basis  
Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 1,400,000	\$ 1,400,000	\$ 1,569,361	\$ 169,361
Special assessments	8,200	8,200	8,163	(37)
Intergovernmental	5,568,034	5,568,034	7,635,369	2,067,335
Charges for services	1,000,000	1,000,000	1,027,497	27,497
Interest income	-	-	55,179	55,179
Miscellaneous	-	-	181,531	181,531
Total revenues	<u>7,976,234</u>	<u>7,976,234</u>	<u>10,477,100</u>	<u>2,500,866</u>
Expenditures				
Current				
Highways	100,983,119	100,983,119	15,383,274	85,599,845
Capital outlay	-	-	58,601,774	(58,601,774)
Total expenditures	<u>100,983,119</u>	<u>100,983,119</u>	<u>73,985,048</u>	<u>26,998,071</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(93,006,885)</u>	<u>(93,006,885)</u>	<u>(63,507,948)</u>	<u>29,498,937</u>
Other Financing Sources (Uses)				
Transfers in	38,500,000	38,500,000	38,924,096	424,096
Transfers out	-	-	(55,179)	(55,179)
Total other financing sources and uses	<u>38,500,000</u>	<u>38,500,000</u>	<u>38,868,917</u>	<u>368,917</u>
Net Change in Fund Balances	(54,506,885)	(54,506,885)	(24,639,031)	29,867,854
Fund Balance - January 1	<u>71,148,495</u>	<u>71,148,495</u>	<u>71,148,495</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 16,641,610</u>	<u>\$ 16,641,610</u>	<u>\$ 46,509,464</u>	<u>\$ 29,867,854</u>

McKenzie County

Budgetary Comparison Schedule – County Road and Bridge Fund – Modified Cash Basis  
Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 1,051,000	\$ 1,051,000	\$ 1,066,440	\$ 15,440
Special assessments	11,270	11,270	-	(11,270)
Intergovernmental	58,355,034	58,355,034	58,618,182	263,148
Charges for services	1,750,000	1,750,000	1,191,053	(558,947)
Interest income	-	-	48,444	48,444
Miscellaneous	20,000	20,000	1,125,499	1,105,499
Total revenues	<u>61,187,304</u>	<u>61,187,304</u>	<u>62,049,618</u>	<u>862,314</u>
Expenditures				
Current				
Highways	97,160,359	97,160,359	30,147,886	67,012,473
Capital outlay	-	-	49,237,757	(49,237,757)
Total expenditures	<u>97,160,359</u>	<u>97,160,359</u>	<u>79,385,643</u>	<u>17,774,716</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(35,973,055)</u>	<u>(35,973,055)</u>	<u>(17,336,025)</u>	<u>18,637,030</u>
Other Financing Sources (Uses)				
Transfers in	55,700,000	55,700,000	51,200,000	(4,500,000)
Transfers out	-	-	(48,444)	(48,444)
Total other financing sources and uses	<u>55,700,000</u>	<u>55,700,000</u>	<u>51,151,556</u>	<u>(4,548,444)</u>
Net Change in Fund Balances	19,726,945	19,726,945	33,815,531	14,088,586
Fund Balance - January 1	<u>37,332,964</u>	<u>37,332,964</u>	<u>37,332,964</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 57,059,909</u></u>	<u><u>\$ 57,059,909</u></u>	<u><u>\$ 71,148,495</u></u>	<u><u>\$ 14,088,586</u></u>



McKenzie County  
Schedule of Expenditures of Federal Awards – Modified Cash Basis  
Years Ended December 31, 2016 and 2015

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

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Employer's Proportion (Percentage) of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)</u>	<u>Employer's Covered-Employee Payroll (b)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
NDPERS	6/30/2015	0.061231%	\$ 416,360	\$ 545,497	76.33%	77.15%
NDPERS	6/30/2016	<u>0.055219%</u>	<u>\$ 538,163</u>	<u>\$ 556,479</u>	<u>96.71%</u>	<u>70.46%</u>

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

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions in Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Employer's Covered-Employee Payroll (d)</u>	<u>Contributions as a Percentage of Covered-Employee Payroll (a/d)</u>
NDPERS	12/31/2015	\$ 117,276	117,276	\$ -	\$ 1,647,135	7.12%
NDPERS	12/31/2016	<u>\$ 103,369</u>	<u>103,369</u>	<u>\$ -</u>	<u>\$ 1,451,812</u>	<u>7.12%</u>

**Note 1 - Schedule of Employer Pension Liability and Contributions**

GASB Statement No. 68 requires ten years of information to be presented in these tables. However, until a full 10-year trend is compiled, McKenzie County will present information for those years for which information is available.

**Note 2 - Changes of Assumptions**

Amounts reported reflect actuarial assumption changes effective July 1, 2016 based on the results of an actuarial experience study completed in 2016. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

McKenzie County  
Schedule of Expenditures of Federal Awards  
Years Ended December 31, 2016 and 2015

Federal Grantor, Pass-through Grantor and Program Title	Federal CFDA Number	Grant Number	Expenditures	
			2016	2015
U.S. Department of Agriculture				
<u>Direct Program</u>				
Forest Service Schools and Roads Cluster				
School and Roads - Grants to Counties (Bankhead-Jones)	10.666		\$ 8,007,844	\$ 10,945,527
U.S. Department of Interior				
<u>Direct Program</u>				
Late Disbursement Interest	15.436		-	331
Taylor Grazing	15.227		29	23
<u>Passed-Through State Treasurer</u>				
Flood Control Act	15.433		858,950	1,737,339
Mineral Leasing Act (Public Domain Royalties)	15.437		4,691,778	6,902,390
Total U.S. Department of Interior			<u>5,550,757</u>	<u>8,640,083</u>
U.S. Department of Health and Human Services				
<u>Passed-Through State Department of Human Services</u>				
Family Preservation and Support Services	93.556		915	3,319
Temporary Assistance for Needy Families Cluster				
Temporary Assistance for Needy Families	93.558	S114	99,477	111,138
Child Care Development Fund Cluster				
Child Care Mandatory and Matching Funds of the Child				
Care and Development Fund	93.596	S115	3,616	4,017
Child Welfare Services - State Grants	93.645	S073	2,085	1,065
Foster Care Title IV-E	93.658	S067	99,025	81,042
Adoption Assistance	93.659	S070	1,744	916
Medicaid Cluster				
Medical Assistance Program	93.778		1,395	-
Maternal and Child Health Services Block Grant to the States	93.994	S023	1,340	1,130
Total U.S. Department of Health and Human				
Services			<u>209,597</u>	<u>202,627</u>
U.S. Department of Homeland Security				
<u>Passed-Through State Department of Emergency Services</u>				
Hazardous Mitigation Grant Program	97.039		-	41,290
Emergency Management Performance	97.042	P03214	-	41,653
Emergency Management Performance	97.042	P03215	24,583	-
Emergency Management Performance	97.042	P03216	6,576	-
			<u>31,159</u>	<u>41,653</u>
Homeland Security Grant Program	97.067	P28613	-	13,500
Total U.S. Department of Homeland Security			<u>31,159</u>	<u>96,443</u>
<u>Passed-Through State Department of Emergency Services</u>				
FEMA	97.036		74,356	-
Total Reporting Entity Expenditures of Federal Awards			<u>\$ 13,873,713</u>	<u>\$ 19,884,680</u>

**Note A - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of McKenzie County and is presented using the same basis of accounting as disclosed in Note 1 of the basic financial statements. Therefore, some amounts presented in the schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. McKenzie County received federal awards both directly from federal agencies and indirectly through pass-through entities. Federal financial assistance provided to a subrecipient is treated as an expenditure when it is paid to the subrecipient. The County had no subrecipients during the years ended December 31, 2016 and 2015.

**Note B – Significant Accounting Policies**

Federal reimbursements and interest income are recognized when received and federal expenditures are recognized when paid.

The County has not elected to use the 10% de minimis cost rate.



**Independent Auditor's 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***

Board of County Commissioners  
McKenzie County  
Watford City, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of McKenzie County, Watford City, North Dakota, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise McKenzie County's basic financial statements, and have issued our report thereon dated May 2, 2018. Our report included an adverse opinion on the aggregate discretely presented component units.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered McKenzie County'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 McKenzie County's internal control. Accordingly, we do not express an opinion on the effectiveness of McKenzie County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs listed as items 2016-A, 2016-B, and 2016-C, to be material weaknesses.

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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether McKenzie County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.

**McKenzie County's Responses to Findings**

McKenzie County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. McKenzie County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of this Report**

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

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

Bismarck, North Dakota  
May 2, 2018



## **Independent Auditor's Report on Compliance for Each Major Federal Program: and Report on Internal Control over Compliance Required by the Uniform Guidance**

Board of County Commissioners  
McKenzie County  
Watford City, North Dakota

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

We have audited McKenzie County, Watford City, North Dakota's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of McKenzie County's major federal programs for the years ended December 31, 2016 and 2015. McKenzie County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the compliance for each of McKenzie County's major federal programs 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 Award* (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 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 McKenzie County'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 each major federal program. However, our audit does not provide a legal determination of McKenzie County's compliance.

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

In our opinion, McKenzie County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect of each of its major Federal programs for the years ended December 31, 2016 and 2015.

### **Report on Internal Control over Compliance**

Management of McKenzie County is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered McKenzie County's internal control over compliance with the types of requirements that could have a direct and material effect on each 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 McKenzie County'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 compliance requirement 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 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.



Bismarck, North Dakota  
May 2, 2018

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**Section I – Summary of Auditor’s Results**

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	<u>2016</u>	<u>2015</u>
<b><u>Financial Statements</u></b>		
Type of auditors' report issued	Adverse	Adverse
Internal control over financial reporting:		
Material weaknesses identified	Yes	Yes
Significant deficiencies identified not considered to be material weaknesses	None reported	None reported
Noncompliance material to financial statements noted	No	No
<b><u>Federal Awards</u></b>		
Internal control over major programs:		
Material weaknesses identified	No	No
Significant deficiencies identified not considered to be material weaknesses	None reported	None reported
Type of auditors' report issued on compliance for major programs	Unmodified	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No	No
Identification of major programs:		
<b><u>Name of Federal Program</u></b>	<b><u>CFDA number</u></b>	<b><u>CFDA number</u></b>
School and Roads - Grants to Counties (Bankhead Jones)	10.666	
Flood Control Act		15.433
Mineral Leasing Act		15.437
Dollar threshold used to distinguish between Type A and Type B programs	\$ 750,000	\$ 750,000
Auditee qualified as low-risk auditee	No	No



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**Section II – Financial Statement Findings**

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**2016-A Segregation of Duties, Fiscal Year 2016 and 2015**

Criteria - A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition - The County has a lack of segregation of duties in certain areas due to a limited staff.

Cause – The County has limited staff to adequately segregate duties.

Effect - Inadequate segregation of duties could adversely affect the County’s ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned function.

Recommendation – While we recognize that your office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the County.

Response – The Treasurer’s Office was vacated by resignation of the elected Treasurer in December 2014, leaving no employees in that department. Since that time, the Commissioners have combined the Treasurer’s office with the Auditor’s office, effective May 2015. Duties are segregated by rotating the person responsible for the daily work so that the one conducting the daily balancing and producing the month-end reports and/or general ledger work are not always the same people. The Treasurer’s office staff work closely with the Auditor’s office staff to provide daily receipt and disbursement reports and compare general ledger records on a monthly basis.

**2016-B Recording of Transactions, Fiscal Year 2016 and 2015**

Criteria - A good system of internal accounting control contemplates proper reconcilements of all general ledger accounts and adjustments of those accounts to the reconciled balances.

Condition – We identified misstatements in the County’s financial statements causing us to propose material audit adjustments.

Cause – The County has not trained staff in the recording of certain transactions.

Effect - Inadequate internal controls over recording of transactions affects the County’s ability to detect misstatements in amounts that would be material in relation to the financial statements.

Recommendation – We recommend that all general ledger accounts are reconciled in a timely manner and adjustments made for any differences noted. Also any adjustments needed to present the financial statements on a modified cash basis should be recorded.

Response – Since it is not cost-effective for an organization of our size to have staff prepare all adjustments needed for an audit-ready trial balance, we have chosen to hire Eide Bailly, a public accounting firm, to assist us in preparing these transactions.

**2016-C Preparation of Financial Statements related Footnotes and Schedule of Federal Expenditures,  
Fiscal Year 2016 and 2015**

Criteria - Proper controls over financial reporting include the ability to prepare financial statements, accompanying notes to the financial statements, and a schedule of federal expenditures that are materially correct.

Condition - McKenzie County does not have an internal control system designed to provide for the preparation of the financial statements and schedule of federal expenditures being audited. As auditors, we were requested to draft the financial statements, and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Cause - The County has limited staff available to prepare financial statements internally at this time.

Effect - Inadequate control over financial reporting of McKenzie County could result in more than a remote likelihood that the financial statements, accompanying notes to the financial statements, and schedule of federal expenditures are not materially correct without the assistance of the auditors.

Recommendation - While we recognize that this condition is not unusual for an organization of your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of McKenzie County and changes in reporting requirements.

Response - Since it is not cost-effective for an organization of our size to have staff to prepare audit-ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare the audit financial statements as part of their annual audit of McKenzie County.

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

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None reported

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## **APPENDIX C**

### **Form of Legal Opinion**

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December 12, 2018

Board of County Commissioners  
McKenzie County, North Dakota  
201 5<sup>th</sup> St NW  
Watford City, ND 58854-7103

Bank of America Merrill Lynch  
One Bryant Park, 9<sup>th</sup> Floor  
New York, NY 10036

**\$35,140,000**  
**MCKENZIE COUNTY, NORTH DAKOTA**  
**STATE AID REFUNDING CERTIFICATE OF INDEBTEDNESS, SERIES 2018**

We have acted as Bond Counsel to McKenzie County, North Dakota (the “**Issuer**”) in connection with the issuance of \$35,140,000 McKenzie County, North Dakota, State Aid Refunding Certificates of Indebtedness, Series 2018 dated the date hereof (the “**Certificates**”). In such capacity, we have examined such law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

The Certificates are issued under the authority of and in full compliance with the Constitution and statutes of the State of North Dakota, specifically, North Dakota Century Code, Chapter 21-02 and pursuant to a Resolution duly adopted by the Issuer on December 4, 2018 (the “**Resolution**”), and an Indenture of Trust dated as of December 1, 2018 (the “**Indenture**”), between the Issuer and Bank of North Dakota, as Trustee. Under the Indenture, the Issuer has pledged certain revenues (the “**Pledged Revenues**”) for the payment of the principal of and interest on the Certificates when due.

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

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

1. The Issuer is duly created and validly existing as a body corporate and politic and public instrumentality of the State of North Dakota with the power to adopt the Resolution, perform the agreements on its part contained therein and in the Indenture and issue the Certificates.

2. The Resolution has been duly adopted by the Issuer and the Indenture has been duly authorized, executed and delivered by the Issuer and constitutes the valid and binding obligation of the Issuer enforceable upon the Issuer.
3. The Indenture creates a valid lien on the Pledged Revenues and other funds pledged for the security of the Certificates, on a parity with other obligations (if any) issued or to be issued under the Indenture.
4. The Certificates have been duly authorized, executed and delivered by the Issuer and are valid and binding limited obligations of the Issuer, payable solely from the Pledged Revenues and other funds provided therefore in the Indenture.
5. Interest on the Certificates is excludable 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 complies with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Certificates in order that interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Certificates to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Certificates. We express no opinion regarding other federal tax consequences arising with respect to the Certificates.
6. The interest on the Certificates is excludable from gross income for State of North Dakota income tax purposes.

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

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 Certificates (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).

Sincerely,

**ARNTSON STEWART WEGNER PC**



**APPENDIX D**

**Form of Continuing Disclosure Agreement**

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## CONTINUING DISCLOSURE CERTIFICATE

**THIS CONTINUING DISCLOSURE CERTIFICATE** (the “Disclosure Certificate”) is made and entered into as of December 1, 2018, by McKenzie County, North Dakota (the “County” or the “Issuer”), in connection with the issuance of the County’s \$35,140,000 State Aid Refunding Certificates of Indebtedness, Series 2018 (the “Certificates”). The Certificates are being issued pursuant to an Indenture of Trust between the Issuer and Bank of North Dakota dated as of December 1, 2018 (the “Indenture”). Pursuant to the Indenture, the County covenants and agrees as follows:

**SECTION 1. PURPOSE OF THE DISCLOSURE CERTIFICATE.** This Disclosure Certificate is being executed and delivered by the County for the benefit of the Bondholders and in order to assist the Participating Underwriters in complying with the Rule (defined below).

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

**“Annual Report”** means any Annual Report provided by the County pursuant to and as described in, Sections 3 and 4 of this Disclosure Certificate.

**“Disclosure Representative”** means the County Auditor/Treasurer of the County or his or her designee, or such other person as the County 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 County and which has filed with the County a written acceptance of such designation.

**“EMMA”** shall mean the Electronic Municipal Market Access (EMMA®) system maintained by the Municipal Securities Rulemaking Board.

**“Final Official Statement”** means the deemed final official statement dated December 4, 2018, which constitutes the final official statement delivered in connection with the Certificates, which is available from the MSRB.

**“Financial Statements”** means audited or, if unavailable, unaudited general purpose financial statements of the Issuer 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 County.

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

**“National 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.

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

**“Participating Underwriters”** means the original underwriters of the Certificates required to comply with the Rule in connection with the offering of the Certificates.

**“Repository”** means each National Repository.

**“Rule”** means Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1935, 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.

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

**SECTION 3. PROVISION OF REPORT AND FINANCIAL STATEMENTS.** The County shall, or shall cause the Dissemination Agent to, not later than two hundred seventy (270) days after the end of each Fiscal Year, commencing with the Fiscal Year ending December 31, 2018, provide to each Repository or to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (EMMA®) an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) business days prior to said date, the County 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 Agreement; provided, that the Financial Statements of the County may be submitted separately from the balance of the Annual Report.

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

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

- (a) audited Financial Statements; and

(b) updated information contained under the following subheadings (a) and (b) of the Official Statement relating to the Bonds:

**DESCRIPTION OF THE CERTIFICATES**

**Security and Sources of Payment:**

(a) History of State Aid Appropriations for the County

(b) Debt Service Coverage

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 County is an “obligated person” (as defined by the Rule), which have been filed with each of the Repositories or the SEC. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The County shall clearly identify each such other document so incorporated by reference.

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

(a) The Issuer 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 Certificate issue has no debt service reserve);

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

(v) Substitution of credit or liquidity providers, or their failure to perform (the Certificate 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 Certificates;

(vii) Modifications to rights of Owners of the Certificates, if material;

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

(ix) Defeasances;

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

(xi) Rating changes;

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

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

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

(b) Unless otherwise required by law, the Issuer shall provide notices of Specified Events required by this Section to the Repository or the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA®).

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

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

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

**SECTION 9. ADDITIONAL INFORMATION.** Nothing in this Disclosure Certificate shall be deemed to prevent the County 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 County 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 County 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 County 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 Holders of at least 25% aggregate principal amount of Outstanding Certificates, shall), or any Bondholder, including beneficial owners, may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County 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 County 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 County 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 County under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

**SECTION 12. BENEFICIARIES.** This Disclosure Certificate shall inure solely to the benefit of the County, the Dissemination Agent, the Participating Underwriters, and Holders, including beneficial owners, from time to time of the Certificates, 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.

*(Remainder of page intentionally left blank)*

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

**MCKENZIE COUNTY, NORTH DAKOTA**

Attest:

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Chairman, Board of County Commissioners

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County Auditor/Treasurer

**EXHIBIT A**

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

Name of Issuer: McKenzie County, North Dakota

Name of Issue: State Aid Refunding Certificates of Indebtedness, Series 2018

Date of Issuance: December 12, 2018

NOTICE IS HEREBY GIVEN that the County has not provided an Annual Report with respect to the above-named certificates as required by Section \_\_\_\_ of the Indenture adopted as of December 1, 2018. The County anticipates that the Annual Report will be filed by \_\_\_\_\_.

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

\_\_\_\_\_,  
on behalf of the County

cc: County