

In the opinion of Perkins Coie LLP, Bond Counsel, subject to compliance with certain covenants made by the District and the Borrowers to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended, under present law, interest on the Series 2005 Bonds is excludable from gross income of the owners thereof for federal income tax purposes. Interest on the Series 2005 Bonds will not be included as an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Series 2005 Bonds will be taken into account in computing the corporate alternative minimum tax for certain corporations. See the caption "TAX EXEMPTION" herein regarding a description of other tax considerations.

\$50,000,000
SOUTH DAKOTA CONSERVANCY DISTRICT
State Revolving Fund Program Bonds
Series 2005

Dated: Date of delivery**Due: August 1, as shown below**

The State Revolving Fund Program Bonds, Series 2005 (the "Series 2005 Bonds") offered hereby are being issued pursuant to Chapters 46A-1 and 46A-2, South Dakota Codified Laws, as amended (the "Act"), an Amended and Restated Master Trust Indenture dated as of July 1, 2004 (the "Master Indenture") by and between the South Dakota Conservancy District (the "District") and The First National Bank in Sioux Falls, as Trustee (the "Trustee"), and a Series Resolution adopted by the South Dakota Board of Water and Natural Resources (the "Board").

The Series 2005 Bonds will be issued as fully registered bonds without coupons, and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Series 2005 Bonds. Individual purchases may be made in book-entry form only, in the denomination of \$5,000 and integral multiples thereof for each maturity. Purchasers will not receive certificates representing their interest in the Series 2005 Bonds. See "Description of the Series 2005 Bonds -- Book-Entry Only System" herein.

Payments of the principal of and interest on the Series 2005 Bonds will be paid by the Trustee to DTC, which will in turn remit such principal and interest to its participants for subsequent dispersal to beneficial owners of the Series 2005 Bonds as described herein. Interest on the Series 2005 Bonds is payable semi-annually on each February 1 and August 1, commencing February 1, 2006.

The Series 2005 Bonds are subject to redemption as described herein.

MATURITY SCHEDULE

<u>Maturity</u> <u>August 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP</u>	<u>Maturity</u> <u>August 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP</u>
2007	\$1,680,000	3.25%	3.02%	837545ES7	2018	\$ 275,000	4.10%	4.11%	837545FF4
2008	1,735,000	3.25	3.11	837545ET5	2018	2,265,000	5.00	4.11 ⁽¹⁾	837545FG2
2009	1,795,000	3.375	3.25	837545EU2	2019	2,665,000	5.00	4.15 ⁽¹⁾	837545FH0
2010	1,855,000	3.50	3.37	837545EV0	2020	2,800,000	4.75	4.29 ⁽¹⁾	837545FJ6
2011	1,920,000	3.75	3.52	837545EW8	2021	2,930,000	4.75	4.34 ⁽¹⁾	837545FK3
2012	1,990,000	3.75	3.64	837545EX6	2022	3,070,000	4.75	4.39 ⁽¹⁾	837545FL1
2013	2,065,000	4.00	3.75	837545EY4	2023	3,215,000	4.75	4.44 ⁽¹⁾	837545FM9
2014	2,145,000	4.00	3.86	837545EZ1	2024	50,000	4.35	4.34 ⁽¹⁾	837545FN7
2015	2,235,000	4.00	3.94	837545FA5	2024	3,320,000	5.00	4.34 ⁽¹⁾	837545FP2
2016	1,775,000	4.00	4.01	837545FB3	2025	110,000	4.35	4.37	837545FQ0
2016	545,000	5.00	4.01 ⁽¹⁾	837545FC1	2025	3,425,000	5.00	4.37 ⁽¹⁾	837545FR8
2017	200,000	4.05	4.06	837545FD9	2026	20,000	4.375	4.39	837545FS6
2017	2,220,000	5.00	4.06 ⁽¹⁾	837545FE7	2026	3,695,000	5.00	4.39 ⁽¹⁾	837545FT4

Proceeds of the Series 2005 Bonds, together with other available funds, will be used by the District to make loans to certain political subdivisions of the State of South Dakota and other owners of public water supply systems through the purchase of certain obligations issued by such political subdivisions and other borrowers as described herein and pay issuance costs. The Master Indenture permits each of the District's Clean Water State Revolving Fund and Drinking Water State Revolving Fund to draw upon the resources of the other to the limited extent described herein. The Series 2005 Bonds are not in any way a debt or liability of the State of South Dakota, the District or any political subdivision of the State, except as described herein. The Series 2005 Bonds are special obligations of the District payable solely from specific revenues and funds pledged therefor under the Master Indenture and a Series Resolution as described herein.

The Series 2005 Bonds are offered, subject to prior sale, when, as and if accepted by UBS Financial Services Inc., the Underwriter, and subject to an opinion as to validity and tax exemption by Perkins Coie LLP, Chicago, Illinois, as Bond Counsel, the approval of certain legal matters by Faegre & Benson LLP, Minneapolis, Minnesota, as counsel to the Underwriter, and by the office of the South Dakota Attorney General, as counsel to the District, and certain other conditions. It is anticipated that the Series 2005 Bonds will be delivered to The Depository Trust Company in New York, New York on or about October 19, 2005.

UBS Financial Services Inc.

The date of this Official Statement is October 6, 2005.

⁽¹⁾ Yield to first optional call date.

No dealer, broker, salesperson or other person has been authorized by the South Dakota Conservancy District or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such information and representations must not be relied upon as having been authorized by the South Dakota Conservancy District or the Underwriter.

This Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any sale of the Series 2005 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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 South Dakota Conservancy District since the date thereof.

This Official Statement contains statements which should be considered “forward-looking statements,” meaning they refer to possible future events or conditions. Such statements are generally identifiable by the words such as “plan,” “expect,” “estimate,” “budget,” “anticipate” or similar words. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT EXPECT OR INTEND TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED, OCCUR.

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THE SERIES 2005 BONDS ARE BEING OFFERED PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE MERITS OF THESE SECURITIES HAVE NOT BEEN PASSED UPON BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY OTHER FEDERAL OR STATE REGULATORY BODY NOR HAS ANY SUCH BODY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT.

OFFICIAL STATEMENT

\$50,000,000
SOUTH DAKOTA CONSERVANCY DISTRICT
State Revolving Fund Program Bonds
Series 2005

INTRODUCTORY STATEMENT

This Official Statement sets forth information concerning the issuance by the South Dakota Conservancy District (the "District") of its State Revolving Fund Program Bonds, Series 2005 (the "Series 2005 Bonds"). The Series 2005 Bonds mature on the dates and in the amounts as set forth on the cover of this Official Statement and contain other terms as set forth herein. See "DESCRIPTION OF THE SERIES 2005 BONDS" herein. The Series 2005 Bonds are issued pursuant to and secured by an Amended and Restated Master Trust Indenture dated as of July 1, 2004, as amended by a First Amendment to Master Trust Indenture dated as of October 1, 2005 (as now or hereafter supplemented, the "Master Indenture" or the "Master Trust Indenture"), by and between the District and The First National Bank in Sioux Falls, as Trustee (the "Trustee"). The Series 2005 Bonds, certain Existing Bonds described below and all other Bonds hereafter issued pursuant to the Master Indenture are herein referred to as the "Bonds." All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Master Indenture.

The Master Indenture implements two programs (the "Clean Water Program" and the "Drinking Water Program" and together the "State Revolving Fund Programs" or "Programs") which provide for revolving loan funds (the "Clean Water SRF" and the "Drinking Water SRF") to make Loans to political subdivisions and other eligible borrowers for sewer, water and other authorized purposes. The Programs are funded by federal capitalization grants, Loan repayments, investment earnings and the proceeds of Bonds issued to provide funds to make Loans (including the State Match necessary to draw down the federal funds).

The Series 2005 Bonds are issued under the Master Indenture and a Series Resolution adopted by the District. The proceeds of Series 2005 Bonds and certain available funds will be used to (i) provide funds for the State Match and other new Loans under the Clean Water Program, (ii) provide funds for the State Match and other new Loans under the Drinking Water Program and (iii) to fund certain issuance costs. The Master Indenture also secures certain other outstanding Bonds as described herein (the "Existing Bonds"). The Existing Bonds, Series 2005 Bonds and any Additional Bonds (as defined herein) issued from time to time and outstanding under the Master Indenture are collectively referred to herein as "Bonds".

As a result of certain federal restrictions on the use of particular funds in the State Revolving Funds, the Master Indenture in effect divides each payment of principal of and interest on the Bonds of each series into a "Clean Water Portion" and a "Drinking Water Portion". The Master Indenture further subdivides both the Clean Water Portion and the Drinking Water Portion into a State Match Portion and Leveraged Portion. Accordingly, each payment of principal and interest on each series of Bonds may have a "Clean Water State Match Portion", a "Drinking Water State Match Portion," a "Clean Water Leveraged Portion" and a "Drinking Water Leveraged Portion", each of which may be payable from separate sources under the Master Indenture. For convenience only, the debt service obligations represented by the Clean Water State Match Portion and the Clean Water Leveraged Portion are sometimes referred to herein as the "Clean Water Bonds" and the debt service obligations represented by the Drinking Water State Match Portion and the Drinking Water Leveraged Portion are sometimes referred to herein as the "Drinking Water Bonds".

Clean Water Bonds are payable solely out of designated funds and accounts within the Clean Water SRF and Drinking Water Bonds are payable solely out of designated funds and accounts within the Drinking Water SRF, provided, however, in each case, certain excess revenues from the other Program are available pursuant to a subordinated loan provision of the Master Indenture as is explained herein under the caption "SOURCE OF PAYMENT AND SECURITY – Relationship Between Monies Held in Clean Water SRF and Drinking Water SRF; Limited Cross-Collateralization." The Leveraged Portions and the State Match Portions of the debt service on the Bonds are each payable solely from certain moneys deposited in specified accounts held by the Trustee under the Master Indenture within each of the Clean Water SRF and the Drinking Water SRF. Generally, interest payments on the Loan Obligations and interest earnings on funds invested under the Master Indenture are available to pay both the State Match Portions and the Leveraged Portions, although in the event such amounts are insufficient, the State Match Portions are to be paid out of such interest payments and earnings prior to the Leveraged Portions. Moneys derived from principal repayments on the Loan Obligations may be used only to pay the Leveraged Portions of debt service on Bonds, and no principal repayments on Loan Obligations may be applied to pay the State Match Portions of debt service on Bonds.

In the case of the Series 2005 Bonds, the portions of each payment of principal and interest are to be divided approximately as follows: Clean Water State Match Portion, 2.9%; Clean Water Leveraged Portion, 65.5%; Drinking Water State Match Portion, 3.3%; and Drinking Water Leveraged Portion, 28.3%. These percentages correspond to the application of Series 2005 Bond proceeds as described under "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The Bonds are issued under authority of Chapters 46A-1 and 46A-2, South Dakota Codified Laws, as amended (the "State Act"). The Bonds are payable solely from the revenues and funds and accounts hereinafter described and are not a debt or liability of the State, the Board, the District or any agency or political subdivision of the State, nor are the Bonds secured by the full faith and credit or taxing powers of the State. See "SOURCES OF PAYMENT AND SECURITY," "APPENDIX A--SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE" AND "THE DISTRICT" herein.

The District and each Borrower obtaining a Loan under the State Revolving Fund Programs are required to enter into a Loan Agreement (the "Loan Agreement"). The Loan Agreements obligate the District to purchase certain Loan Obligations and obligate the Borrowers to pay certain costs, including an administration fee to the District, and to comply with certain covenants with respect to the Loan Obligations and other matters. See "SOUTH DAKOTA REVOLVING FUNDS—Loan Agreements" herein.

THE DISTRICT

The District was created within the State by the State Act for the purpose of planning, developing and managing the use and conservation of the water resources of the State. The District is governed by the Board, which is also the body which sets certain policies for the State Department of Environment and Natural Resources. The members of the Board are appointed by the Governor of the State, and serve for four-year terms. Employees of the State Department of Environment and Natural Resources serve as the staff of the District and perform the administrative functions of the District as described under "SOUTH DAKOTA STATE REVOLVING FUNDS--General" below. The boundaries of the District coincide in all particulars with the boundaries of the State. The District is a governmental agency and body politic and corporate with authority to exercise the powers specified in the State Act. Among other things, the District develops water resource policy for the State, recommends a State Water Plan and amendments thereto to the Governor and the Legislature and constructs and provides financing to other public and private entities for the construction of water, wastewater and solid waste facilities.

The Department of Environment and Natural Resources provides environmental and natural resources assessment, financial assistance, and regulation in a customer service manner that protects the public health, conserves natural resources, preserves the environment, and promotes economic development. This is accomplished by providing ongoing investigation and assessment of the state’s environment, ground water, and geology, and by administering state and federal laws that pertain to protecting public health and the environment. The Department consists of two divisions – the Division of Environmental Services and the Division of Financial and Technical Assistance. The Division of Environmental Services is responsible for environmental monitoring and regulatory compliance in the areas of drinking water, ground water, minerals and mining, air quality, wastewater, solid waste, and water rights. The Division of Financial and Technical Assistance is responsible for assessing natural resources and administering financial assistance programs, including the Drinking Water and Clean Water SRF Programs.

Actions of the District concerning notes or bonds are authorized by resolution approved by a majority vote of the members of the Board. The current members of the Board are as follows:

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Bradley Johnson	Chairman	July 1, 2007
Donald Bollweg	Vice Chairman	July 1, 2006
Kelly Wheeler	Secretary	July 1, 2007
Dale Kennedy	Member	July 1, 2007
John Loucks	Member	July 1, 2006
Gene Jones, Jr.	Member	July 1, 2009
Don Rounds	Member	July 1, 2008

All members of the Board continue to serve until their successors are appointed, notwithstanding expiration of their terms.

SOUTH DAKOTA STATE REVOLVING FUNDS

General

The State of South Dakota has established two revolving loan funds (the “Drinking Water State Revolving Fund” or “Drinking Water SRF” and the “Clean Water State Revolving Fund” or “Clean Water SRF”) pursuant to Section 46A-1-60.1, South Dakota Codified Laws, to be maintained and operated by the District (the “State Revolving Fund Programs” or “Programs”) to provide for Loans to political subdivisions and certain owners of public water supply systems (“Borrowers”). One Program (the “Drinking Water Program”) establishes a Drinking Water State Revolving Fund and provides for Loans for various water system infrastructure improvements, including projects which facilitate compliance with national primary drinking water regulations and certain other activities authorized pursuant to Chapter 6A of the Public Health Service Act, 42 U.S.C. § § 300f to 300j-26 (commonly known as the Safe Drinking Water Act), as amended, and the regulations thereunder and subsequent amendments and regulations (the “Safe Drinking Water Act”). The other Program (the “Clean Water Program”) establishes a Clean Water State Revolving Fund and provides for Loans for various environmental or infrastructure purposes, including projects or purposes authorized by the Federal Water Pollution Control Act (commonly known as the Clean Water Act), as amended by the Water Quality Act of 1987, and the regulations thereunder and subsequent amendments and regulations (the “Clean Water Act”) such as for the planning, design, construction and rehabilitation of wastewater treatment facilities and certain other activities in accordance with the Clean Water Act. The Safe Drinking Water Act and the Clean Water Act are referred to herein together as the “Federal Acts”.

Under the Programs, federal capitalization grants (the “Capitalization Grants”) received by the District under the Federal Acts are to be deposited in certain designated accounts under the Master Indenture and used, together with Bond proceeds and other available funds as described herein, to make Loans to

Borrowers or to secure Bonds. The Bonds to be issued from time to time under the Master Indenture are to provide for the State Match requirements described herein under the Federal Acts, to provide funds for additional Loans under the Programs above the amount which could be made solely from the Capitalization Grants, the State Match and Loan repayments and to provide for reserves, capitalized interest and costs of issuance. The Loans will be effected through the purchase of Loan Obligations to be issued by the eligible Borrowers described herein. A description of Loan Obligations previously acquired by the District under the Programs and certain other Program information is set forth in Appendix B hereto. A description of Loan Obligations expected to be acquired by the District under the Programs is set forth in Appendix C hereto.

The District has previously issued under a Master Trust Indenture dated as of January 1, 1994 (the "Prior Clean Water Indenture") its South Dakota Conservancy District Revenue Bonds in the following principal amounts and with the following series designations: \$10,220,000 principal amount of Series 1994 Bonds, \$7,970,000 principal amount of Series 1995 Bonds, \$2,725,000 principal amount of Series 1996 Bonds and \$4,405,000 principal amount of Series 2001 Bonds (respectively referred to herein as the "Series 1994 Bonds", "Series 1995 Bonds", "Series 1996 Bonds" and the "Series 2001 Clean Water Bonds" and collectively as the "Prior Clean Water Bonds").

The District has previously issued under a Master Trust Indenture dated as of June 1, 1998 (the "Prior Drinking Water Indenture" and, together with the Prior Clean Water Indenture, the "Prior Indentures") its South Dakota Conservancy District Revenue Bonds in the following principal amounts and with the following series designations: \$6,450,000 principal amount of Series 1998 Bonds and \$2,270,000 principal amount of Series 2001 Bonds (respectively referred to herein as the "Series 1998 Bonds" and the "Series 2001 Drinking Water Bonds" and collectively as the "Prior Drinking Water Bonds").

In 2004 the District entered into the Master Indenture to amend and restate the Prior Indentures, to consolidate the two Programs under a single indenture, to create administrative flexibility and allow certain transfers of amounts between Programs and to provide a limited degree of "cross-collateralization" in the form of reciprocal subordinated lending arrangements between the Programs as described herein. See "SOURCE OF PAYMENT AND SECURITY—Relationship Between Monies Held in Clean Water SRF and Drinking Water SRF; Limited Cross-Collateralization". At that time the District also issued \$38,460,000 principal amount of Series 2004 Bonds (the "Series 2004 Bonds") under the Master Indenture to, among other purposes, refund the District's then outstanding Series 1994 Bonds and Series 1995 Bonds and a portion of the Series 1996 Bonds. The Existing Bonds are comprised of the outstanding Prior Clean Water Bonds, Prior Drinking Water Bonds and Series 2004 Bonds.

The Drinking Water Program was created by the State of South Dakota in 1995 to implement provisions of the Safe Drinking Water Act. The Safe Drinking Water Act authorizes the United States Environmental Protection Agency (the "EPA") to make Capitalization Grants to states for the purpose of establishing a state revolving fund to be used, among other matters, in financing the construction of improvements to public water supply systems and certain other activities. The Drinking Water State Revolving Fund created under the Drinking Water Program satisfies the criteria of the Safe Drinking Water Act and entitles South Dakota to receive Capitalization Grants from the EPA for public water supply systems.

The Clean Water Program was created by the State in 1988 to implement provisions of the Clean Water Act. Title VI of the Clean Water Act authorizes the EPA to make Capitalization Grants to states for the purpose of establishing a state revolving fund to be used, among other matters, in financing the construction of wastewater treatment facilities and certain other activities. The Clean Water State Revolving Fund created under the Clean Water Program satisfies the criteria of the Clean Water Act and entitles South Dakota to receive Capitalization Grants from the EPA for wastewater treatment facility construction, certain

nonpoint source and groundwater protection projects, including landfill construction and closure and certain other activities.

Loans

The Loan Obligations held by the District under the Programs are described in Appendix B hereto. To date, the District has not experienced any payment defaults on any of the Loan Obligations. Additional Loans expected to be made in the future under the Programs are described in Appendix C.

The Federal Acts mandate that Loans from the State Revolving Funds be made at or below market interest rates, be fully amortized within twenty years (30 years in the case of loans to disadvantaged communities under the Safe Drinking Water Act) of the date which is not more than one year following completion of the project financed and be repaid from a dedicated source of revenue. In addition the District charges an administrative fee computed on the outstanding principal amount of the Loan. The interest rate and annual administrative fee on new Loans is established by the Board and may be revised from time to time.

The Borrowers are required to evidence their obligations under the Loan Agreements by issuing Loan Obligations to the District. The Loan Obligations issued by Borrowers which are political subdivisions generally are expected to be utility revenue obligations issued under Chapter 9-40, South Dakota Codified Laws, or sales tax revenue obligations issued under Chapter 10-52, South Dakota Codified Laws. Certain of the Loan Obligations may be general obligations of the Borrowers or some combination of a pledge of sales taxes revenues, utility revenues or general obligation taxing powers. Loan Obligations of other public water system owners which are not political subdivisions are expected to consist of loan agreements secured by mortgages or security interests in all or portions of the assets of the water supply systems. Loan Obligations which are payable solely from the net revenues of a political subdivision's utility system or the specific portion of the utility facilities financed by the Loan Obligations will generally involve a covenant that such political subdivision maintain rates and charges for the system or portion of the system which produce annual net revenues after operating expenses equal to at least 110% of the annual principal and interest on the Loan Obligations (including the administrative fee) and any other utility debt ranking on a parity with the Loan Obligations. Such rate covenant will not apply to a Loan Obligation which is a general obligation of a political subdivision. In the case of Loan Obligations payable from sales taxes, the annual sales tax collections must generally equal at least 110% of annual principal and interest on the Loan Obligations and any parity sales tax obligations of the political subdivision; provided that the estimated initial coverage was 120% for 12 consecutive months within the previous 15 months.

In the case of Loan Obligations of those Borrowers which are not political subdivisions ("Nonprofit Borrowers"), the form of required security will be based on various considerations, including the form of security required by other lenders on loans to such Nonprofit Borrowers, the nature of the Nonprofit Borrower's unencumbered assets and other factors. It is generally expected that the Loan Obligations will be secured by a mortgage or security interest in some portion of the Nonprofit Borrower's system. Existing loans described in Appendix A include 12 loans to eight Nonprofit Borrowers with an aggregate outstanding balance of \$8,654,231. The expected loans described in Appendix C do not include any loans to Nonprofit Borrowers.

The Board annually sets the interest rates for new Loan Obligations to be acquired in each federal fiscal year. The rates and other Loan Obligation terms under the Clean Water Program and Drinking Water Program may differ. The rates are reviewed annually by the Board and are set to be at or below market rates.

Drinking Water Terms

In September 2004 the Board determined to retain for fiscal year 2005 the interest rates set in March 2004 for Drinking Water Loan Obligations, which are 2.50% for loans with a term of 10 years or less and 3.25% for loans with a longer term. Borrowers are allowed to choose the term of each loan, provided that the proposed repayment source produces sufficient coverage. The Board also retained the rate for loans intended for interim financing at 2.0%. The maximum allowable term for interim financing loans is three years. Loan rates for disadvantaged communities are 3.25%, 2.5% or 0.0% depending on the recipient's median household income as described below.

An administrative surcharge is included in the interest rate and varies from 0.5% to 0.75% depending on the term of the loan. This surcharge is used for staff salary, benefits, travel, and overhead and may also be used for bond, underwriting, trustee expenses and other activities allowable by the federal acts. The administrative surcharge is waived for interim financing loans and certain loans made to disadvantaged communities.

The Safe Drinking Water Act permits the District to provide additional subsidies to benefit communities which meet the definition of "disadvantaged". These subsidies are limited in amount to 30% of the Capitalization Grant for any year. Loans at rates as low as 0% are not considered subsidies for purposes of this limitation. Loans to disadvantaged communities may be for up to 30 years. The District has defined disadvantaged communities to include (a) municipalities and sanitary districts whose median household income is below the state-wide median household income and whose residential water rate is at least \$20 for 5000 gallons of usage and (b) rural water systems serving areas where median household income is below the state-wide median and the residential water rate is at least \$50 for 7000 gallons of usage. Although the Safe Drinking Water Act permits principal forgiveness and negative interest rate loans to disadvantaged communities, the Board's rules provide only for subsidies in the form of 30-year loans and up to a two percentage point reduction in interest rate, with zero percent loans being available for disadvantaged communities with a median household income less than 60% of the state-wide median. Of the existing loans described in Appendix B, an aggregate of \$8,975,982 (or approximately 13% of the principal amount of total outstanding Drinking Water Loan Obligations) involve loans to disadvantaged communities. \$9,094,000 of the expected loans described in Appendix C involve loans to disadvantaged communities.

Clean Water Terms

In September 2004 the Board determined to retain for fiscal year 2005 the interest rates set in March 2004 for Clean Water Loan Obligations, which are 2.50% for loans with a term of 10 years or less and 3.25% for loans with a longer term. Borrowers are allowed to choose the term of each loan provided that the proposed repayment source produces sufficient coverage. The interest rate includes an administrative surcharge of 0.5% for loans with a term of 10 years or less and 0.75% for longer term loans. The primary purpose of the surcharge is to provide a pool of funds to be used for administrative purposes after the state ceases to receive capitalization grants. The administrative surcharge is also available for other purposes, as determined eligible by EPA and at the discretion of the Board and Department. The Board also retained the rate for loans intended for interim financing at 2.0%. The maximum allowable term for interim financing loans is three years. The administrative surcharge shall be waived for loans made for interim financing.

The Board has also established an incentive rate to encourage funding of nonpoint source projects. Projects for traditional wastewater or stormwater projects that include a nonpoint component will receive a 1.0% reduction in the otherwise applicable interest rate. Nonpoint source projects not associated with traditional wastewater or stormwater projects are eligible to receive the incentive rate.

Selection of Borrowers; Credit Standard

The District selects Borrowers for funding based on their assigned priority as set forth in a Project Priority List attached to the District's Intended Use Plan for each Program. Projects with the highest ranking are to be funded prior to any lower ranked project if the Borrower has submitted a loan application to the District and has demonstrated adequate financial, managerial and technical capacity. Projects on the Project Priority List may be bypassed if a potential Borrower has not demonstrated readiness to proceed by submitting a loan application. Projects eligible for financing under each Program are reviewed annually and the District prepares an updated Intended Use Plan and Project Priority List for each Program for the following fiscal year.

The District conducts an evaluation of the creditworthiness of applicants based on various considerations, but subject to a minimum requirement that each Borrower demonstrate, in the case of Loan Obligations which are revenue bonds, net revenue coverage equal to at least 110% of debt service or, in the case of Loan Obligations backed by sales tax revenues, sales tax coverage equal to at least 120% of debt service for any 12 consecutive months within the previous 15 months (the "Credit Standard"). The District reserves the right to waive the Credit Standard as applied to particular Borrowers applying for participation in either Program or to change it from time to time. To date, no such waivers have been granted and the original Credit Standard has remained in place.

The Capitalization Grants and Letters of Credit

The EPA Capitalization Grants for each Program are made to the District in the form of a letter of credit or other funding mechanism utilized by the United States (the "Letters of Credit"). The Letters of Credit provide the District with the ability to draw moneys periodically for purposes permitted under the Federal Acts as eligible costs of projects funded under the Programs are incurred. For each dollar of eligible costs incurred under a Program, approximately 83 cents may be drawn under the Letter of Credit, subject to the limits of the Capitalization Grant for the Program. Proceeds of draws on the Letters of Credit are required under the Master Indenture to be deposited either in the Federally Capitalized Loan Account of the Loan Fund or the Restricted Reserve Account of the Reserve Fund of the respective SRF. Under the Programs, the District will use moneys received from the Capitalization Grants to pay a portion of allowable administrative expenses and the balance is expected to be used to make additional Loans to qualified Borrowers.

The Safe Drinking Water Act allows up to 33% of a state's annual Capitalization Grant for drinking water to be transferred at the direction of the Governor to a state's clean water revolving fund, or an equivalent dollar amount of a state's annual Capitalization Grant for clean water to be transferred to a state's drinking water revolving fund. The District made transfers from the Clean Water Capitalization Grant to the Drinking Water SRF pursuant to this authority for the years 2002 and 2003 in an aggregate amount of \$12,978,600.

The Safe Drinking Water Act also permits additional set-asides of portions of the Drinking Water Capitalization Grant for specific purposes such as program management, technical assistance and other activities, up to an aggregate maximum of 31% of the annual Drinking Water Capitalization Grant. Such set-asides reduce the Capitalization Grant available for the Drinking Water Program.

The Safe Drinking Water Act authorizes the Federal Government to provide annual funding of the Drinking Water Program with Capitalization Grants through federal fiscal year 2006. The Capitalization Grants (net of set-asides for purposes other than Program administration) awarded for the Drinking Water Program for the years ended September 30, 1997 to September 30, 2005, and the amounts drawn as of June 30, 2005, are as follows:

Drinking Water Capitalization Grants

<u>Year</u>	<u>Grant Amount</u>	<u>Total Set-Asides*</u>	<u>Net</u>	<u>Amount Drawn</u>	<u>Balance</u>
1997	\$12,558,800	\$606,652	\$11,952,148	\$11,952,148	\$-0-
1998	7,121,300	309,852	6,811,448	6,811,448	-0-
1999	7,463,800	423,552	7,040,248	7,040,248	-0-
2000	7,757,000	310,280	7,446,720	7,446,720	-0-
2001	7,789,100	382,770	7,406,330	7,406,330	-0-
2002**	14,563,300	483,150	14,080,150	14,080,150	-0-
2003**	14,471,900	420,164	14,051,736	4,441,984	9,609,752
2004	8,303,100	498,186	7,804,914	-0-	7,804,914
2005	8,285,500	497,130	7,788,370	-0-	7,788,370

*Includes 4% for administration

**Includes transfers from Clean Water SRF of \$6,510,800 from the 2002 Clean Water Capitalization Grant and \$6,467,800 from the 2003 Clean Water Capitalization Grant to the Drinking Water Program.

There can be no assurance that the funding by the Federal Government of the Drinking Water Program will continue in future years. The State expects to be awarded Capitalization Grants for the year ended September 30, 2006 in the amount of approximately \$8,352,500. The Series 2004 Bonds provided the State Match necessary to draw down the 2004 Drinking Water Capitalization Grant and the anticipated 2005 and 2006 Drinking Water Capitalization Grants. A portion of the Series 2005 Bonds will provide the State Match necessary to draw down the 2007 Drinking Water Capitalization Grants.

Capitalization Grants awarded for the Clean Water Program for each of the years ended September 30, 1989 to 2005, and the amounts drawn as of June 30, 2005, are as follows:

Year Ended September 30	<u>Clean Water Capitalization Grants</u>				
	Grant Amount	Total Set-Asides*	Net	Amount Drawn	Balance
1989	\$4,577,200	\$152,573	\$4,424,627	\$4,424,627	\$-0-
1990	4,738,000	157,933	4,580,067	4,580,067	-0-
1991	10,074,800	335,827	9,738,973	9,738,973	-0-
1992	9,534,900	317,830	9,217,070	9,217,070	-0-
1993	9,431,000	314,367	9,116,633	9,116,633	-0-
1994	5,813,800	193,793	5,620,007	5,620,007	-0-
1995	6,007,800	200,260	5,807,540	5,807,540	-0-
1996	9,904,700	330,157	9,574,543	9,574,543	-0-
1997	2,990,500	99,683	2,890,817	2,890,817	-0-
1998	6,577,300	219,243	6,358,057	6,358,057	-0-
1999	6,577,900	219,263	6,358,637	6,358,637	-0-
2000	6,555,200	218,507	6,336,693	6,336,693	-0-
2001	6,496,100	216,537	6,279,563	6,279,563	-0-
2002	**	**	**	**	**
2003	**	**	**	**	**
2004	6,471,800	215,727	6,256,073	1,125,566	5,130,507
2005	5,243,500	174,780	5,068,720	-0-	5,068,720

*Set asides were for administration purposes only

**The 2002 and 2003 Clean Water Capitalization Grants were transferred in their entirety to the Drinking Water Program in the amounts of \$6,510,800 and \$6,467,800 respectively.

There can be no assurance that the funding by the Federal Government of the Programs will continue in future years. The State expects to be awarded a Capitalization Grant for the years ended September 30, 2006 and 2007 in the amounts of approximately \$4,307,000 for each year. The District has provided the State Match for the 2004 and 2005 Clean Water Capitalization Grants from Bond proceeds on hand and, if necessary, other eligible funds. A portion of the Series 2005 Bonds will provide the State Match necessary to draw down the 2006 and 2007 Clean Water Capitalization Grants.

Availability of Future Capitalization Grants

The Series 2005 Bonds is to provide the State Match for the Clean Water Capitalization Grants and the Drinking Water Capitalization Grants expected to be received through 2007. There is a risk that the expected proceeds of the 2006 and 2007 Capitalization Grants for the Drinking Water Program or Clean Water Program, or both, will be reduced or eliminated by reason of (a) elimination or reduction in anticipated federal appropriations, (b) transfer of funds at the direction of the Governor from one Program to the other Program (if authority to do so is extended under federal law) and (c) determination to increase the set-asides above anticipated levels. Any such reductions will delay or reduce the anticipated interest earnings from Loan Obligations.

New Loans

The District expects to make Loans under the Programs with the proceeds of the Series 2005 Bonds and other amounts available for the Programs. Loans presently projected to be made under the Programs are for the projects described in Appendix C. Based on the District's previous loan origination experience, the District expects actual Loans may differ from those projected in Appendix C or otherwise identified in the District's Intended Use Plans. The changes in actual Loans made are likely to occur as a result of various factors, including the ability of some potential borrowers to fund the projects from competing funding

sources, timing and project scope modifications by Borrowers and the inability of some potential borrowers to meet Program eligibility criteria.

The Master Indenture is an “open indenture” which authorizes the issuance of additional Bonds and the lending of Bond proceeds and other funds to Borrowers to be identified in the future. The District expects to make additional Loans from the Federally Capitalized Loan Accounts and the State Match Loan Accounts in amounts and at interest rates which have not yet been determined. Thus, the credit quality of the Loan Obligations which may in the future be pledged to the Bonds cannot be predicted. Although additional Bonds are authorized only if sufficient Loan Obligations meet the Credit Standard, the Credit Standard may be waived at the discretion of the District. In the event of such a waiver, the related Loan Obligations cannot be included in the computation of coverage required for the issuance of additional Bonds. To date the District has not waived the Credit Standard for any Borrower. It is the intention of the District to continue to subsidize the interest rates on the Loans. As long as the requirements for the issuance of additional Bonds are met, there is no minimum rate for Loans made by the District.

In addition, the District has adopted a policy under which it provides interim Loans to certain Borrowers. Such Borrowers are permitted to satisfy the coverage requirement of the Credit Standard based upon the expectation of the District that the Borrowers will repay the interim Loans out of funds provided by a “take-out” or permanent financing provided by another source, such as Federal loan programs, loans from financial institutions or the public sale of bonds, rather than net revenues or sales tax collections.

Sources of Funds for Loans

The Master Indenture establishes three accounts within the Loan Fund of each State Revolving Fund for making Loans to Borrowers: the State Match Loan Account, the Federally Capitalized Loan Account and the Leveraged Loan Account. Under applicable EPA regulations, the State of South Dakota is required to provide a match equal to 20% of the amount of the Capitalization Grant. The Federally Capitalized Loan Account will be funded primarily with proceeds of any draws under the Letter of Credit which are not deposited in the Restricted Reserve Account of the Reserve Fund, together with any transfers from the Restricted Reserve Account of the Reserve Fund. The Leveraged Loan Account may be funded from the proceeds of any Bonds issued to provide additional funds for the Program beyond a level provided by the Capitalization Grants, Loan repayments and the State Match requirement.

Loans to Borrowers can be made from any available funds in the State Match Loan Account, the Federally Capitalized Loan Account or the Leveraged Loan Account in such proportions as the District may determine. For future Loans, the relative proportions in which Loans are made from Bond proceeds and Capitalization Grant proceeds will depend primarily on the availability of federal funds, the nature of the Borrowers and projects, the funding needs of the Program and the rate of interest at which the Loans are made.

Loan Agreements

Pursuant to each Loan Agreement, the District will agree to purchase specified Loan Obligations, and the Borrower will agree to pay certain amounts, including administrative fees, as long as the District is the owner of the Loan Obligations. The Loan Agreements set forth the terms and conditions under which Loan proceeds are to be disbursed to pay or reimburse eligible costs of the project being financed. The Loan Agreements include various representations and covenants as to the project to be financed and the authority of the Borrowers to issue the Loan Obligations. In the case of Borrowers which are political subdivisions, the Loan Agreements will include covenants pertaining to the tax exempt status of the Bonds and, in the case of Loan Obligations payable from utility revenues, a covenant to maintain either the net revenues of the utility or the net revenues of the facilities financed with Bond proceeds in each fiscal year at least equal to 110% of debt service on the Loan Obligations and any other parity lien debt. The coverage requirement for

Loan Obligations payable from sales tax revenues is 120%. In the case of Nonprofit Borrowers, the coverage requirement is 110%. The District reserves the right to waive or modify the foregoing coverage requirements. The Master Indenture permits the District to waive Loan Obligation prepayment restrictions as long as the District provides the Trustee with a Coverage Certificate (as defined in the Master Indenture) demonstrating that Adjusted Projected Revenues (after giving effect to the prepayment) will be at least 120% of the Allocable Portion of debt service due each year on the State Match Portion and Leveraged Portion of all outstanding Bonds.

Account Balances

The unaudited fund balances for the Programs, the amount Loan Obligations held by the District and the principal amount of outstanding Bonds as of June 30, 2005 are as follows:

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Summary of Fund Balances, Loan Balances
and Outstanding Bonds
(as of June 30, 2005)

<u>Fund Assets</u>	<u>Clean Water</u>	<u>Drinking Water</u>
Reserve Fund:		
State Match Reserve Account	\$ 385,203 ⁽¹⁾	\$ 959,718 ⁽²⁾
Restricted Reserve Account	-0-	-0-
Unrestricted Reserve Account	-0-	-0-
Loan Fund:		
Federally Capitalized Loan Account	\$ -0-	\$ -0-
State Match Loan Account	658	5,916,165
Leveraged Loan Account	-0-	18,434,907
Transfer Match Loan Account	-0-	1,336,977
Revenue Fund:		
Unrestricted Interest Repayments Account	\$ 1,472,562	\$ 506,214
Restricted Principal Repayments Account	4,451,786	889,398
Unrestricted Cumulative Excess	\$ 22,786,982	\$ 3,297,421
Restricted Cumulative Excess	22,854,155	4,654,080
Administration Fund:		
SRF Administration Account	\$ 86,281	\$ 4,649
State Administration Account	3,677,006	1,676,591
Bond Fund:		
State Match Bond Account	\$ 1,191,567	\$ 799,678
Leveraged Bond Account	275,612	511,397
Outstanding Loan Balances*	\$ 74,112,061	\$ 51,881,207
Disbursed Portion of Other Closed Loans	<u>\$ 6,069,455</u>	<u>\$ 17,092,436</u>
Total Assets	\$ 80,181,506	\$ 68,973,643
<u>Bonds Outstanding</u>		
Leveraged	\$ 2,942,175	\$ 22,145,000
State Match	<u>12,662,825</u>	<u>15,185,000</u>
Total Outstanding Bonds	\$ 15,605,000	\$ 37,330,000

*Does not include Loans which have been closed, but which are not in repayment.

⁽¹⁾ Secures only Series 1996 Bonds and Series 2001 Clean Water Bonds.

⁽²⁾ Secures only Series 1998 Bonds and Series 2001 Drinking Water Bonds.

Investment of Certain Funds

Amounts on deposit in the Funds and Accounts under the Master Indenture may be invested in various permitted investments. It is expected that substantially all of such amounts for the Series 2005 Bonds and related Capitalization Grants will be invested in a guaranteed investment contract (an "Investment

Agreement”) with an entity to be determined. The Master Indenture authorizes investments in Investment Agreements which are permitted under South Dakota law and the agreement or issuer or guarantor of which is assigned the highest short-term rating or a long-term debt rating in the two highest categories by the rating agency or agencies rating the Bonds at the time the agreement is entered into. Existing fund balances are invested under Investment Agreements as follows:

<u>Bond Issue</u>	<u>Provider</u>	<u>Investment Agreement</u>		<u>Amount Invested</u>	<u>Termination Date</u>
		<u>Interest Rate</u>	<u>Cap on Investment</u>		
1994 ⁽¹⁾	FGIC Capital Market Services, Inc. (guaranteed by General Electric Capital Corporation)	5.40%	\$70,000,000	\$19,700,167	8/1/12
1995 ⁽¹⁾	Societe Generale (New York Branch)	6.85	15,000,000	14,908,485	8/1/15
1996 ⁽¹⁾	MBIA Inc.	6.22	15,000,000	11,337,427	8/1/17
1998 ⁽²⁾	CDC Funding Corp.	5.56	40,000,000	7,187,344	8/1/08
2001 & 2004 ⁽¹⁾⁽²⁾	AIG Matched Funding Corp. (guaranteed by American International Group, Inc.)	5.07	60,000,000 ⁽⁴⁾	32,420,950	7/31/25
2005 ⁽¹⁾⁽²⁾⁽³⁾	AIG Matched Funding Corp. (guaranteed by American International Group, Inc.)	4.41	80,000,000 ⁽⁴⁾	0	8/1/26

⁽¹⁾ Clean Water

⁽²⁾ Drinking Water

⁽³⁾ Anticipated

⁽⁴⁾ Cap solely on Revenue Fund portion of total investment.

For purposes of preparing the Coverage Certificates for the Series 2005 Bonds for each Program and the tables contained elsewhere in the Official Statement under the caption “SOURCE OF PAYMENT AND SECURITY”, the District has assumed that the Investment Agreements relating to the Series 1994, 1995, 1996 and 2001 Clean Water Bonds, the Series 1998 and 2001 Drinking Water Bonds and Series 2004 Bonds and the anticipated Investment Agreement for the Series 2005 Bonds will remain in effect until the dates specified in the table above. However, the Investment Agreements which relate to proceeds from the Series 1996 Clean Water Bonds and the Series 1998 Drinking Water Bonds each provide that they will terminate earlier upon redemption, defeasance or refunding of all of the related Series 1996 Bonds or Series 1998 Bonds, respectively.

ESTIMATED SOURCES AND USES OF FUNDS

The following is a summary of the estimated sources and uses of Series 2005 Bond proceeds and other amounts:

<u>Sources:</u>	<u>Clean Water</u>	<u>Drinking Water</u>	<u>Total</u>
Series 2005 Bonds	\$34,205,000.00	\$15,795,000.00	\$50,000,000.00
Net Original Issue Premium	<u>1,065,040.05</u>	<u>500,608.10</u>	<u>1,565,648.15</u>
Total Sources of Funds	\$35,270,040.05	\$16,295,608.10	\$51,565,648.15
<u>Uses:</u>			
State Match Loan Account	\$ 1,440,000.00	\$ 1,670,500.00	\$ 3,110,500.00
Administration Account	60,000.00	-	60,000.00
Leveraged Loan Account	33,500,000.00	14,500,413.68	48,000,413.68
Underwriter's Discount and Cost of Issuance	<u>270,040.05</u>	<u>124,694.42</u>	<u>394,734.47</u>
Total Uses of Funds	<u>\$35,270,040.05</u>	<u>\$16,295,608.10</u>	<u>\$51,565,648.15</u>

SOURCE OF PAYMENT AND SECURITY

The Series 2005 Bonds, the Existing Bonds and other Bonds issued or to be issued by the District under the Master Indenture are payable from the limited sources described herein. They are not in any way a debt or liability of the State of South Dakota, the Board, or any political subdivision of the State, nor are the Bonds secured by the full faith and credit or taxing powers of the State.

Subject to the limitations and qualifications below (see “*General Limitation*”), the Drinking Water Portions and the Clean Water Portions, respectively, of the Existing Bonds, the Series 2005 Bonds and other Bonds to be issued under the Master Indenture will be payable from and secured by:

1. A lien on and pledge of the moneys and investments in the Bond Fund and, to the extent hereinafter described under “APPENDIX A--SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE,” the Revenue Fund, the Reserve Fund (but only if and to the extent any Series or portion of a Series of Bonds is expressly identified herein and in the related Series Resolution as being so secured) and the Loan Fund covenanted to be created and maintained under the Master Indenture; and
2. A lien on and pledge of the District’s interest in all Loan Agreements under the Program and all Loan Obligations acquired in connection therewith and all payments of principal and interest thereunder, except as hereinafter described, and all proceeds thereof;

provided, however, that Loan Obligations and other assets pledged under the Master Indenture may be released from the lien of the Master Indenture (or other Loan Obligations may be substituted) in the event, among other things, the District provides to the Trustee a certificate of the District showing estimated coverage from repayments of the remaining or substituted Loan Obligations and certain investment earnings to be at least 120% of average annual debt service requirements for the State Match Portion and Leveraged Portion of the Bonds. See “APPENDIX A--SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE--Release of Assets” herein.

To the extent such sources may be applied to particular portions of the debt service under the Master Trust Indenture, the Master Trust Indenture provides that moneys in any fund, account or subaccount therein

relating to the Clean Water SRF shall be held separate and apart from moneys in any fund, account or subaccount therein relating to the Drinking Water SRF. To accomplish this, separate accounts and subaccounts in the various funds are maintained for Clean Water SRF moneys and Drinking Water SRF moneys. See the “*General Limitation*” paragraph set forth below and “SOURCE OF PAYMENT AND SECURITY - Relationship Between Monies Held in Clean Water SRF and Drinking Water SRF; Limited Cross Collateralization”.

General Limitation. Notwithstanding any other provision of the Master Indenture, the following provisions shall govern the use and application of all funds and accounts under the Indenture, and if and to the extent these provisions conflict in any manner with any other express or implied provision of the Indenture, the following provisions shall prevail: (a) Drinking Water Bonds shall be secured solely by the Funds and Accounts within the Drinking Water SRF which are pledged pursuant to the granting clauses of the Master Indenture and no assets of the Clean Water Program may be used to secure Drinking Water Bonds and (b) Clean Water Bonds shall be secured solely by the Funds and Accounts within the Clean Water SRF which are pledged pursuant to the granting clauses of the Master Indenture and no assets of the Drinking Water Program may be used to secure Clean Water Bonds.

Sources of Payment for State Match Portion of Principal and Interest on Bonds. The sources of payment for the State Match Portion of the Series 2005 Bonds and the State Match Portions of the Drinking Water Portion and Clean Water Portion of the Existing Bonds and any other Series of Bonds hereafter issued under the Master Indenture consist solely of revenues to be derived from payments of interest on the Loan Obligations evidencing the Loans made under the Drinking Water Program or Clean Water Program, as applicable, and amounts on deposit in certain funds and accounts established under the Master Indenture. See “Revenues and Other Available Moneys - Unrestricted Interest Repayments Account” below for a further description of such revenues and sources of payment of the State Match Portions of Outstanding Bonds.

Sources of Payment for Leveraged Portion of Principal and Interest on Bonds. The sources of payment for the Leveraged Portions of the Series 2005 Bonds and the Leveraged Portions of the Drinking Water Portion and Clean Water Portion of the Existing Bonds and any other Series of Bonds hereafter issued under the Master Indenture consist solely of revenues to be derived from payments of principal of the Loan Obligations evidencing the Loans made under the Drinking Water Program or Clean Water Program, as applicable, and, to the extent not applied to debt service on the State Match Portion of Bonds, interest on such Loan Obligations and amounts on deposit in certain funds and accounts established under the Master Indenture. See “Revenues and Other Available Moneys - Restricted Principal Repayments Account” below for a further description of such revenues and sources of payment of the Leveraged Portions of Outstanding Bonds.

Revenues and Other Available Moneys

Consistent with federal regulations applicable to the Programs, the Master Indenture has provisions which are designed to separate principal repayments on the Loan Obligations from the interest payments on the Loan Obligations and to separate repayments of Clean Water Loan Obligations from repayments of Drinking Water Loan Obligations. The principal repayments on the Clean Water Loan Obligations are to be deposited in the Restricted Principal Repayments Account of the Clean Water Revenue Fund to secure the Leveraged Portion of the Clean Water Portion of debt service on the Bonds. The principal repayments on the Drinking Water Loan Obligations are to be deposited in the Restricted Principal Repayments Account of the Drinking Water Revenue Fund to secure the Leveraged Portion of the Drinking Water Portion of debt service on the Bonds. Interest payments on the Clean Water Loan Obligations and investment income on other Clean Water funds and accounts not required to be otherwise applied are to be deposited in the Unrestricted Interest Repayments Account of the Clean Water Revenue Fund to secure first the State Match Portion of the Clean Water Portion of debt service on the Bonds. Interest payments on the Drinking Water

Loan Obligations and investment income or other Drinking Water funds and accounts not required to be otherwise applied are to be deposited in the Unrestricted Interest Repayments Account of the Drinking Water Revenue Fund to secure first the State Match Portion of the Drinking Water Portion of debt service on the Bonds. Any excess amounts in a Unrestricted Interest Repayments Account may then be applied on a current basis to pay the Leveraged Portion of the Clean Water Portion or Leveraged Portion of the Drinking Water Portion, as applicable, of debt service on the Bonds.

Amounts in each Restricted Principal Repayments Account and the Unrestricted Interest Repayments Account for each SRF are permitted to be transferred and otherwise applied as follows:

Restricted Principal Repayments Account. Principal repayments on the Loan Obligations of each SRF secure payment of the Leveraged Portion of the portion of debt service portion allocable to the Drinking Water SRF or Clean Water SRF, as applicable, and are deposited in the Restricted Principal Repayments Account for such SRF. Such payments shall be transferred or otherwise applied on or prior to each Bond Payment Date as follows:

- to the Leveraged Bond Account of the Drinking Water Bond Fund or Clean Water Bond Fund, as applicable, to pay principal and interest on the Leveraged Portions of Bonds then due and, if such transfer is made on a February 1 Bond Payment Date, one half of the principal amount of the applicable Leveraged Portion of the applicable Bonds due on or before the next August 1,
- to replenish the Restricted Reserve Account (or any specific subaccount thereof to the extent of any applicable reserve requirement) of such SRF if any required valuation thereof indicates a deficiency therein,
- to the Restricted Principal Repayments Account of the other SRF to the extent necessary to pay debt service on obligations of the other SRF,
- to an account of the other SRF to the extent of a reimbursement obligation not satisfied from another source; and
- to the applicable Restricted Cumulative Excess Principal Repayments Subaccount for such SRF until applied as above or, at the direction of the District, transferred to the Federally Capitalized Loan Account of such SRF to finance additional loans to Borrowers to be evidenced by new Loan Obligations.

Unrestricted Interest Repayments Account. Amounts on deposit in each Unrestricted Interest Repayment Account for each SRF shall be transferred or otherwise applied on or before each Bond Payment Date as follows:

- to the applicable State Match Bond Account for such SRF to pay principal and interest on the applicable State Match Portion of Bonds for such SRF,
- to the Leveraged Bond Account for such SRF to pay principal and interest on the applicable Leveraged Portion of Bonds for such SRF to the extent the amounts available from the Restricted Principal Repayments Account and transfers from the other SRF are insufficient therefor,
- if such transfer is made on a February 1 Bond Payment Date, one half of the principal amount of any State Match Portion of the applicable Bonds due on or before the next August 1 shall be transferred to the State Match Bond Account of the applicable Bond Fund,

- to the Unrestricted Reserve Account (or any specific subaccount thereof to the extent of any applicable reserve requirement) for such SRF to the extent of any deficiency therein,
- to the Unrestricted Interest Repayments Account of the other SRF to the extent necessary to satisfy the debt service obligations of the other SRF,
- to an account of the other Fund to the extent necessary to satisfy a reimbursement obligation to such Fund, and
- to the Unrestricted Cumulative Excess Interest Repayments Subaccount for such SRF until applied above or, at the direction of the District, transferred to any other Fund or Account (except the State Match Reserve Account and State Administration Account).

Investment earnings on all funds and accounts under the Master Indenture which are not otherwise required to be maintained therein or otherwise transferred pursuant to the terms of the Master Indenture must be transferred to the Unrestricted Interest Repayments Account of the Revenue Fund.

Coincident with the issuance of the Series 2005 Bonds, the District and the Trustee will enter into the First amendment to the Master Trust Indenture which will provide that, notwithstanding any other provision of the Master Trust Indenture, the District may direct the Trustee to transfer funds between Programs or within a Program and between Funds, Accounts or Subaccounts for any purpose, including, without limitation, for the purpose of establishing greater flexibility of use, freedom from or achieving compliance with federal or state tax, regulatory, contractual or other requirements, if, as a result of a series of such transfers, the net balance of funds in each affected Program, Fund, Account and/or Subaccount, as applicable, is not less than the balance in such Program, Fund, Account or Subaccount, as applicable, immediately prior to such series of transfers.

See “APPENDIX A--SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE - Funds and Accounts” for additional information concerning the Funds and Accounts under the Master Indenture.

The following tables set forth the estimated revenues and debt service of the Programs as of the issuance of the Series 2005 Bonds. The tables are based upon the assumptions set forth in the footnotes presented below each respective table. While the District believes that these assumptions are reasonable, there can be no assurance that actual amounts received or coverage will equal the amounts set forth in the tables and the variations may be material. The tables do not take into consideration prospective defaults on existing Loans, the issuance of Additional Bonds, the making of additional Loans (other than those expected to be made with the proceeds of Outstanding Bonds, loan repayments and Capitalization Grants received in 2006 and 2007), a change in the creditworthiness of the Borrowers, a default in any investment, investment losses, changes in investment income available upon reinvestment, or other factors.

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**Drinking Water State Revolving Fund
Projected Coverage**

	State Match Bonds				Leveraged Bonds						Total Bonds			
	Annualized Interest Revenues Available ⁽¹⁾	Annual State Match Debt Service	Surplus of Available Revenues After Debt Service	Coverage	Unrestricted Revenues After State Match Debt Service	Loan Principal Repayments ⁽²⁾	Revenues Available for Leveraged Bonds	Annual Leveraged Debt Service	Coverage	Total Revenue Available for Total Debt Service	Annual Total Debt Service	Surplus of Available Revenues After Debt Service	Total Coverage	
8/1/2006	3,750,186	1,377,472	2,372,714	2.72x	2,372,714	3,936,297	6,309,010	2,254,497	2.80x	7,686,482	3,631,969	4,054,513	2.12x	
8/1/2007	3,201,296	1,449,515	1,751,781	2.21x	1,751,781	5,283,968	7,035,749	2,862,000	2.46x	8,485,264	4,311,515	4,173,749	1.97x	
8/1/2008	3,829,250	1,447,253	2,381,997	2.65x	2,381,997	6,457,897	8,839,894	2,863,913	3.09x	10,287,147	4,311,165	5,975,982	2.39x	
8/1/2009	4,441,055	1,448,008	2,993,047	3.07x	2,993,047	7,806,677	10,799,725	2,873,213	3.76x	12,247,732	4,321,220	7,926,512	2.83x	
8/1/2010	4,705,975	1,446,725	3,259,250	3.25x	3,259,250	8,782,910	12,042,160	2,865,625	4.20x	13,488,885	4,312,350	9,176,535	3.13x	
8/1/2011	4,913,850	1,448,545	3,465,305	3.39x	3,465,305	8,392,071	11,857,376	2,865,938	4.14x	13,305,921	4,314,483	8,991,439	3.08x	
8/1/2012	5,118,875	1,452,093	3,666,783	3.53x	3,666,783	8,637,179	12,303,962	2,880,900	4.27x	13,756,054	4,332,993	9,423,062	3.17x	
8/1/2013	5,358,140	1,452,300	3,905,840	3.69x	3,905,840	8,748,415	12,654,255	2,878,113	4.40x	14,106,555	4,330,413	9,776,143	3.26x	
8/1/2014	5,647,800	1,450,100	4,197,700	3.89x	4,197,700	8,632,046	12,829,746	2,881,713	4.45x	14,279,846	4,331,813	9,948,033	3.30x	
8/1/2015	5,940,236	1,450,613	4,489,624	4.09x	4,489,624	8,071,389	12,561,012	2,861,013	4.39x	14,011,625	4,311,625	9,700,000	3.25x	
8/1/2016	6,246,554	1,442,393	4,804,162	4.33x	4,804,162	7,811,204	12,615,365	2,866,263	4.40x	14,057,758	4,308,655	9,749,103	3.26x	
8/1/2017	6,538,618	1,447,123	5,091,496	4.52x	5,091,496	6,921,289	12,012,785	2,861,854	4.20x	13,459,907	4,308,976	9,150,931	3.12x	
8/1/2018	6,839,999	1,447,545	5,392,454	4.73x	5,392,454	6,908,804	12,301,258	2,864,721	4.29x	13,748,803	4,312,266	9,436,537	3.19x	
8/1/2019	7,151,241	1,450,235	5,701,006	4.93x	5,701,006	6,617,121	12,318,127	2,862,709	4.30x	13,768,362	4,312,944	9,455,418	3.19x	
8/1/2020	6,707,824	934,798	5,773,027	7.18x	5,773,027	6,490,340	12,263,367	2,860,196	4.29x	13,198,165	3,794,994	9,403,171	3.48x	
8/1/2021	6,963,797	937,298	6,026,499	7.43x	6,026,499	6,417,638	12,444,137	2,864,421	4.34x	13,381,435	3,801,719	9,579,716	3.52x	
8/1/2022	7,237,545	937,773	6,299,772	7.72x	6,299,772	6,596,625	12,896,398	2,863,071	4.50x	13,834,170	3,800,844	10,033,326	3.64x	
8/1/2023	6,811,627	516,223	6,295,404	13.20x	6,295,404	6,699,232	12,994,636	2,866,146	4.53x	13,510,859	3,382,369	10,128,490	3.99x	
8/1/2024	7,047,923	518,648	6,529,275	13.59x	6,529,275	6,460,636	12,989,911	2,863,121	4.54x	13,508,559	3,381,769	10,126,790	3.99x	
8/1/2025	7,276,804	520,403	6,756,401	13.98x	6,756,401	5,363,099	12,119,501	2,860,739	4.24x	12,639,903	3,381,141	9,258,762	3.74x	
8/1/2026	3,104,443	126,000	2,978,443	24.64x	2,978,443	4,362,281	7,340,724	1,102,469	6.66x	7,466,724	1,228,469	6,238,256	6.08x	

(1) Includes projected loan interest payments and projected interest earnings on invested funds.

(2) Consists of scheduled principal payments on loans in repayment and projected principal payments on other closed loans, approved loans as of June 30, 2005 and projected loans expected to be made through Fiscal Year 2007.

**Clean Water State Revolving Fund
Projected Coverage**

	State Match Bonds				Leveraged Bonds					Total Bonds			
	Annualized Interest Revenues Available ⁽¹⁾	Annual State Match Debt Service	Surplus of Available Revenues After Debt Service	Coverage	Surplus of Unrestricted Revenues After State Match Debt Service	Loan Principal Repayments ⁽²⁾	Revenues Available for Leveraged Bonds	Annual Leveraged Debt Service	Coverage	Total Revenue Available For Total Debt Service	Annual Total Debt Service	Surplus of Available Revenues After Debt Service	Total Coverage
8/1/2006	6,799,512	1,507,706	5,291,806	4.51x	5,291,806	6,697,668	11,989,474	1,468,141	8.17x	13,497,180	2,975,847	10,521,333	4.54x
8/1/2007	6,412,623	1,565,250	4,847,373	4.10x	4,847,373	8,360,635	13,208,008	2,886,512	4.58x	14,773,258	4,451,763	10,321,496	3.32x
8/1/2008	5,683,899	1,572,267	4,111,632	3.62x	4,111,632	11,352,760	15,464,392	2,893,270	5.34x	17,036,659	4,465,538	12,571,122	3.82x
8/1/2009	4,892,132	1,574,260	3,317,872	3.11x	3,317,872	12,848,173	16,166,045	2,889,790	5.59x	17,740,305	4,464,050	13,276,255	3.97x
8/1/2010	5,276,487	1,564,680	3,711,807	3.37x	3,711,807	13,300,811	17,012,617	2,887,038	5.89x	18,577,298	4,451,719	14,125,579	4.17x
8/1/2011	5,671,674	1,557,335	4,114,338	3.64x	4,114,338	13,336,211	17,450,550	2,887,608	6.04x	19,007,885	4,444,944	14,562,941	4.28x
8/1/2012	6,092,210	1,582,353	4,509,857	3.85x	4,509,857	13,360,043	17,869,900	2,890,691	6.18x	19,452,253	4,473,044	14,979,209	4.35x
8/1/2013	6,026,334	865,833	5,160,502	6.96x	5,160,502	12,776,316	17,936,818	2,895,011	6.20x	18,802,650	3,760,844	15,041,807	5.00x
8/1/2014	6,424,564	874,598	5,549,966	7.35x	5,549,966	13,069,796	18,619,763	2,883,496	6.46x	19,494,360	3,758,094	15,736,267	5.19x
8/1/2015	6,844,454	863,009	5,981,445	7.93x	5,981,445	13,106,231	19,087,675	2,887,472	6.61x	19,950,684	3,750,481	16,200,203	5.32x
8/1/2016	6,342,544	682,500	5,660,044	9.29x	5,660,044	13,062,969	18,723,012	2,546,831	7.35x	19,405,512	3,229,331	16,176,181	6.01x
8/1/2017	6,634,423	672,580	5,961,843	9.86x	5,961,843	11,339,344	17,301,187	2,552,681	6.78x	17,973,767	3,225,261	14,748,506	5.57x
8/1/2018	6,371,366	465,253	5,906,113	13.69x	5,906,113	8,700,863	14,606,976	2,549,666	5.73x	15,072,228	3,014,919	12,057,310	5.00x
8/1/2019	6,533,873	462,843	6,071,031	14.12x	6,071,031	7,710,584	13,781,615	2,553,286	5.40x	14,244,457	3,016,129	11,228,329	4.72x
8/1/2020	6,711,320	459,593	6,251,728	14.60x	6,251,728	7,594,805	13,846,533	2,561,036	5.41x	14,306,126	3,020,629	11,285,497	4.74x
8/1/2021	6,896,802	460,793	6,436,010	14.97x	6,436,010	7,345,315	13,781,325	2,553,636	5.40x	14,242,117	3,014,429	11,227,688	4.72x
8/1/2022	7,097,456	461,005	6,636,451	15.40x	6,636,451	6,959,291	13,595,742	2,552,436	5.33x	14,056,747	3,013,441	11,043,306	4.66x
8/1/2023	6,429,174	115,230	6,313,944	55.79x	6,313,944	6,249,490	12,563,434	2,551,961	4.92x	12,678,664	2,667,191	10,011,473	4.75x
8/1/2024	6,591,614	115,718	6,475,896	56.96x	6,475,896	5,653,154	12,129,050	2,551,974	4.75x	12,244,768	2,667,691	9,577,076	4.59x
8/1/2025	6,761,917	115,718	6,646,199	58.43x	6,646,199	5,309,402	11,955,601	2,551,951	4.68x	12,071,318	2,667,669	9,403,650	4.53x
8/1/2026	6,936,698	115,500	6,821,198	60.06x	6,821,198	4,970,607	11,791,805	2,556,656	4.61x	11,907,305	2,672,156	9,235,148	4.46x

(1) Includes projected loan interest payments and projected interest earnings on invested funds.

(2) Consists of scheduled principal payments on loans in repayment and projected principal payments on other closed loans, approved loans as of June 30, 2005 and projected loans expected to be made through Fiscal Year 2007.

Reserve Funds

The Series 2005 Bonds are not secured by a pledge of or lien on amounts on deposit in either Reserve Fund. However, the Existing Bonds (other than the Series 2004 Bonds) are secured by certain amounts on deposit in the Reserve Fund and Additional Bonds may be similarly secured.

The Drinking Water SRF and the Clean Water SRF each contain a Reserve Fund which has three accounts: the State Match Reserve Account, the Restricted Reserve Account and the Unrestricted Reserve Account. The Prior Indentures establish two reserve requirements applicable to Existing Bonds. The amounts on deposit in the existing subaccounts of the Reserve Funds secure solely the debt service on the Existing Bonds and shall not secure debt service on any of the Series 2005 Bonds. See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE –Funds and Accounts –Reserve Fund" herein.

The Master Indenture and future Series Resolutions may require certain further deposits to the credit of specific Subaccounts of the State Match Reserve Accounts and Restricted Reserve Accounts in connection with the issuance of additional Bonds and the specific allocation of such deposits depending upon the amount of the State Match Portions and the Leveraged Portions of debt service on such Bonds. The Restricted Reserve Accounts may also be funded under certain circumstances from amounts on deposit in the Restricted Revenue Accounts or from available funds under the Capitalization Grants. The Unrestricted Reserve Accounts may be funded under certain circumstances by transfers from the Unrestricted Revenue Accounts or with interest earnings on certain specified funds and accounts.

For the Existing Bonds (other than the Series 2004 Bonds) the applicable Subaccounts within each Reserve Fund are required to maintain (A) a "State Match Reserve Requirement" and (B) a "Total Reserve Requirement". For the Existing Bonds, (A) the State Match Reserve Requirement means the largest amount of the State Match Portion of principal (including Sinking Fund Installments) and interest due with respect to the State Match Portion of Existing Bonds Outstanding under the Master Indenture in the then current or any succeeding calendar year which are secured by amounts on deposit in specific Subaccounts of the State Match Reserve Account and Unrestricted Reserve Account for such Existing Bonds and (B) the "Total Reserve Requirement" means the largest amount of principal (including Sinking Fund Installments) and interest due with respect to the Clean Water Portions or Drinking Water Portions, as applicable, of all Existing Bonds Outstanding under the Master Indenture in the then current or any succeeding calendar year which are secured by amounts on deposit in specific Subaccounts of the Reserve Fund for such Existing Bonds.

Under the Master Indenture, the District has covenanted to establish and maintain each Reserve Fund in an amount equal to the applicable Total Reserve Requirement for the Existing Bonds and to maintain the aggregate amount in the Unrestricted Reserve Account and the State Match Reserve Account of each Reserve Fund in an amount not less than the applicable State Match Reserve Requirement, and subject to the right of the District to elect to issue Series of Bonds or a portion thereof without any reserve requirement on a case by case basis.

If required by a Series Resolution, a deposit will be made to a specific Subaccount of the Restricted Reserve Account and the State Match Reserve Account of each Reserve Fund at the time of issuance of each series of Bonds in an amount to be specified by such Series Resolution.

Relationship Between Monies Held in Clean Water SRF and Drinking Water SRF; Limited Cross-Collateralization

The Master Indenture implements certain provisions of federal law relating to what is commonly referred to as “cross-collateralization” of Clean Water and Drinking Water SRFs. The Master Indenture provides for limited reciprocal relationships between the Clean Water SRF and Drinking Water SRF in the form of subordinated loans between the Clean Water SRF and the Drinking Water SRF, if necessary to cover certain deficiencies. In the event on any Bond Payment Date amounts available in the funds and accounts with respect to either the Clean Water SRF or the Drinking Water SRF are insufficient to pay their respective portion of principal of or interest on Bonds then due and payable, the Trustee shall transfer to the deficient Bond Fund an amount sufficient to remedy such deficiency from the following sources in the following order:

- a) First, from any funds on deposit in the Restricted Cumulative Excess Principal Repayments Subaccount of the Revenue Fund of the other SRF to the extent necessary, together with other funds available, to pay the deficient Leveraged Portion of principal and interest on Bonds then due.
- b) Second, from the Unrestricted Cumulative Excess Interest Repayments Subaccount of the Revenue Fund of the other SRF to the extent necessary, together with other funds available, to pay the deficient State Match Portion of principal and interest on Bonds then due.
- c) Third, from Excess Unrestricted Revenues of the other SRF.

The “Excess Unrestricted Revenues” of a State Revolving Fund are any amounts on deposit in the Unrestricted Cumulative Excess Interest Repayments Subaccount and any investment income earned on various Funds and Accounts which is not required to be maintained therein or otherwise transferred under the Master Indenture.

In the event funds are at anytime transferred from one State Revolving Fund to the other, the State Revolving Fund from which the transfer was made shall reimburse to such State Revolving Fund the amounts so advanced (with or without interest thereon, as the District may determine in its discretion), on a basis subordinate to the payments of debt service obligations of the State Revolving Fund from which the transfer was made. Such reimbursement shall be made only from funds on deposit in the Restricted Cumulative Excess Principal Repayments Subaccount or the Unrestricted Cumulative Excess Interest Repayments Subaccount, and from other Excess Unrestricted Revenues of the State Revolving Fund which received the transferred funds.

In addition to the foregoing, balances in the Restricted Cumulative Excess Principal Repayments Subaccount and the Unrestricted Cumulative Excess Interest Repayments Subaccount may be transferred from one State Revolving Fund to the other as the District may direct, subject to certain coverage requirements and EPA limits and approvals.

Additional Bonds

Pursuant to the provisions of the Master Indenture, Additional Bonds may be issued thereunder if certain conditions are met including, but not limited to, except in the case of refunding Bonds issued to pay principal or interest on Bonds for the payment of which sufficient funds are not expected to be available, delivery of a Coverage Certificate (as defined in the Master Indenture). The Coverage Certificate shall have supporting schedules, estimating that, as of each Bond Payment Date, Projected Revenues (as defined below) available for deposit (i) in the State Match Bond Accounts of the Bond Funds will, in the aggregate,

equal an amount which will be no less than 120% of the amount necessary to pay the State Match Portion of principal and interest due on each Bond Payment Date on (A) all Bonds then Outstanding (except Bonds and interest thereon to be refunded from the proceeds of the Bonds to be issued) and (B) the State Match Portion of Bonds to be issued, and (ii) in the Leveraged Bond Accounts of the Bond Funds (including, for such purposes, the amounts on deposit in the Unrestricted Interest Repayments Accounts of the Bond Funds and not otherwise required to pay the State Match Portion of principal and interest due on such Bond Payment Date) will, in the aggregate, equal an amount which will be no less than 120% of the amount necessary to pay the Leveraged Portion of principal and interest due on each Bond Payment Date on (A) all Bonds then Outstanding (except Bonds and interest thereon to be refunded from the proceeds of the Bonds to be issued) and (B) the Leveraged Portion of Bonds to be issued. Projected Revenue for each Fund as of the date of a Coverage Certificate means (i) the scheduled principal and interest payments on all Loan Obligations held by the Trustee for the applicable SRF or required to be delivered to the Trustee pursuant to a Loan Agreement, except payments of principal and interest on Loan Obligations which either (A) are then in Default in the payment of principal or interest or (B) failed to meet the Credit Standard at the time the Loan Obligations were acquired and, if such Loan Obligation is secured solely by net revenues of a utility, also failed to meet the Credit Standard during both of the last two complete fiscal years, and (ii) all other amounts (excluding required balances in the Reserve Fund) which the District reasonably estimates will be received on investments of Loan Obligations and amounts then held or expected to be deposited in any Fund or Account of that SRF under the Master Indenture, including amounts which are reasonably expected to be drawn under the Letter of Credit. Investment Obligations are required to be valued at market value, or, in the case of guaranteed investment contracts, the face amount thereof.

Qualified Interest Rate Agreements

The Master Indenture provides that obligations of the District with respect to a "Qualified Interest Rate Agreement" may be secured on a parity with debt services on the Outstanding Bonds. A "Qualified Interest Rate Agreement" means any interest rate exchange agreements; contracts providing for payment or receipt of funds based on levels of or changes in interest rates; contracts to exchange cash flows or series of payments; or contracts incorporating interest rate caps, collars, floors, or locks between the District and a counterparty (i) which agreement is either approved by, or following review of such agreement, the rating upon all affected Bonds is confirmed by each Rating Agency and (ii) under which the District agrees to pay the counterparty an amount calculated at an agreed-upon rate or index based upon a notional amount and the counterparty agrees to pay the District for a specific period of time an amount calculated at an agreed-upon rate or index based upon such notional amount, where the counterparty, or the person who guarantees the obligation of the counterparty to make its payments to the District, has unsecured obligations rated, as of the date the swap agreement is entered into, in one of the two highest applicable rating categories by each Rating Agency then rating such counterparty or person who guarantees such obligation, but only if any such Rating Agency is then rating (1) bonds secured by such agreements of the counterparty or (2) the Series of Bonds to which such agreement may be related. To date the District has not entered into any such agreements.

Absence of Acceleration Remedy

The remedies available to the holders of the Series 2005 Bonds do not include a right of acceleration in the event of a default under the Master Indenture. Accordingly, in the event of revenue shortfalls, the amounts on deposit in any or all of the Subaccounts within the Reserve Fund for each SRF may be exhausted prior to the due date of principal on certain of the later maturing Bonds.

DESCRIPTION OF THE SERIES 2005 BONDS

Purpose and Authority

The Series 2005 Bonds are being issued pursuant to the Act, the Master Indenture and the Series Resolution adopted by the Board of Water and Natural Resources of the State of South Dakota.

Proceeds of the Series 2005 Bonds will be used by the District to make Loans and pay issuance and certain administrative costs. See “ESTIMATED SOURCES AND USES OF FUNDS” herein.

Terms of the Bonds

The Series 2005 Bonds will be dated the date of delivery, will mature on August 1 in the years and amounts and will bear interest from their date payable at the rates set forth on the cover of this Official Statement. Interest will be paid semiannually on each February 1 and August 1, commencing February 1, 2006.

Redemption of the Bonds

Optional Redemption. The Series 2005 Bonds maturing on or before August 1, 2015 are not subject to redemption prior to their respective maturities. The Series 2005 Bonds maturing on or after August 1, 2016 are subject to redemption and prior payment at the option of the District on August 1, 2015 and on any date thereafter in whole or in part in such amounts from such maturities as the District may determine and by lot within a maturity at the redemption price of par plus accrued interest to the redemption date.

Notice of Redemption

Thirty days prior to the redemption date, notice of any such redemption shall be given by mail to DTC, as the registered owner. In the event less than all of the Series 2005 Bonds of one maturity are called for redemption, the District shall notify DTC of the particular amount of such maturity to be called for redemption. DTC’s practice is to determine the amount to be redeemed from each Participant, and each Participant (as defined under “Book-Entry Only System” below) will then select by lot the ownership interest in such maturity to be redeemed. See “Book-Entry Only System” herein.

Book-Entry Only System

The Depository Trust Company (“DTC”), New York, New York will act as securities depository for the Series 2005 Bonds (the “Bonds”). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered certificate will be issued for each annual maturity of the Bonds, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations (“Direct Participants”). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect

Participants”). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. if less than all of the Bonds 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.)

Neither DTC or Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC’s practice is to credit Direct Participants’ accounts on the payable date in accordance with their respective holdings shown on DTC’s records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the District or the Trustee, disbursements of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

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

TAX EXEMPTION

General

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions that apply to the Series 2005 Bonds from and after the date of issuance of the Series 2005 Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of Series 2005 Bond proceeds and the facilities financed or refinanced therewith, and certain other matters. The District has covenanted in the Master Trust Indenture and the Borrowers will be required to covenant in the Loan Agreements to comply with all requirements of the Code that must be satisfied in order for interest on the Series 2005 Bonds and the Loan Obligations to be excludable from gross income. Failure to comply with certain of such covenants could cause interest on the Series 2005 Bonds to become includable in gross income retroactive to the date of issuance of the Series 2005 Bonds.

Subject to the condition that the District and the Borrowers comply with the above-referenced covenants, under present law, in the opinion of Bond Counsel, the Series 2005 Bonds are not "private activity bonds" under the Code, and interest on the Series 2005 Bonds is excludable from gross income of the owners thereof for federal income tax purposes. Interest on the Series 2005 Bonds will not be included as an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Series 2005 Bonds will be included in "adjusted current earnings" of certain corporations for purposes of computing the alternative minimum tax for such corporations.

In rendering its opinion, Bond Counsel will rely upon certifications of the District, the Borrowers and certain other parties with respect to certain material facts solely within their knowledge relating to the facilities to be financed or refinanced with the Series 2005 Bonds, the application of the proceeds of the Series 2005 Bonds and certain other matters pertinent to the tax exemption of the Series 2005 Bonds.

Ownership of the Series 2005 Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, (i) corporations subject to the branch profits tax, (ii) financial institutions, (iii) certain insurance companies, (iv) certain Subchapter S corporations, (v) individual recipients of Social Security or Railroad Retirement benefits, (vi) taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations, and (vii) individuals otherwise eligible for the earned income tax credit. Prospective purchasers of the Series 2005 Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

If a Series 2005 Bond is purchased at any time for a price that is less than the Series 2005 Bond's stated redemption price at maturity, the purchaser may be treated as having purchased a Series 2005 Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Series 2005 Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Series 2005 Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Series 2005 Bonds.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Series 2005 Bonds may affect the tax status of interest on the Series 2005 Bonds. It is

possible that future legislation or amendments to the Code, if enacted into law, will contain provisions which could directly or indirectly reduce the benefit of the exclusion of the interest on the Series 2005 Bonds from gross income for federal income tax purposes.

Bond Counsel's opinion is based on existing law, which is subject to change. Such opinion is further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Bond Counsel's opinion is not a guarantee of a particular result, and is not binding on the IRS or the courts; rather, such opinion represents Bond Counsel's professional judgment based on its review of existing law, and in reliance on the representations and covenants that it deems relevant to such opinion.

Original Issue Discount

The initial public offering prices of certain maturities of the Series 2005 Bonds are less than the respective principal amounts thereof (the "Discount Bonds"). The difference between the principal amount payable at maturity of the Discount Bonds and the initial public offering price of such Discount Bonds, assuming a substantial amount of each maturity is first sold at such price (the "Offering Price"), will be treated as "original issue discount." With respect to a taxpayer who purchases a Discount Bond in the initial public offering at the Offering Price and who holds such Discount Bond to maturity, the full amount of original issue discount will constitute interest which is excludable from the gross income of the owner of such Discount Bond for federal income tax purposes to the same extent as current interest, and will not be treated as taxable capital gain upon payment of such Discount Bond upon maturity.

The original issue discount on each of the Discount Bonds is treated as accruing daily over the term of such Discount Bond on the basis of a constant yield compounded at the end of each six-month period (or shorter period from the date of original issue). The amount of original issue discount accruing during such period will be added to the owner's tax basis for the Discount Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sale, redemption or payment at maturity). An owner of a Discount Bond who disposes of it prior to maturity should consult such owner's tax advisor as to the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bond prior to maturity.

Owners who purchase Discount Bonds in the initial public offering but at a price different than the Offering Price or who do not purchase Discount Bonds in the initial public offering should consult their tax advisors with respect to the tax consequences of the ownership of such Discount Bonds.

Owners of Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discount Bonds. It is possible that under the applicable provisions governing the determination of state or local income taxes, accrued original issue discount on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

Bond Premium

An amount equal to the excess of the purchase price of a Series 2005 Bond over the principal amount payable at maturity of such Series 2005 Bond constitutes amortizable Series 2005 Bond premium that may not be deducted for federal income tax purposes. A purchaser of a Series 2005 Bond must amortize any premium over such Series 2005 Bond's term using constant yield principles, based on the Series 2005 Bond's yield to maturity. As Series 2005 Bond premium is amortized, the purchaser's basis in such Series 2005 Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to such purchaser. This reduction will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on the sale or disposition of such Series 2005 Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of any Series 2005 Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the federal, state and local tax consequences of owning such Series 2005 Bonds.

Not Qualified Tax-Exempt Obligations

The Series 2005 Bonds will not be “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code relating to the ability of financial institutions to deduct from gross income for federal income tax purposes interest expense that is allocable to acquiring and carrying tax-exempt obligations.

UNDERWRITING

The Series 2005 Bonds offered hereby are being purchased from the District by UBS Financial Services Inc. (the “Underwriter”) at a price of \$51,343,913.68, which purchase price reflects a net original issue premium of \$1,565,648.15 and an Underwriter’s discount of \$221,734.47. The Bond Purchase Agreement provides that the Underwriter shall purchase all of the Series 2005 Bonds offered hereby if any are purchased, and that the obligation to make such purchase is subject to the approval of certain legal matters by Bond Counsel and certain other conditions. The initial public offering price may be changed from time to time by the Underwriter.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement the District will agree to provide notice of certain material events and certain annual financial information for the State Revolving Fund Program and each “obligated person” within the meaning of Rule 15c2-12 of the Securities and Exchange Commission, as it may be amended from time to time.

The “obligated persons” are considered to be the District and each Borrower for which the unpaid principal amount of Loan Obligations plus the principal amount of undisbursed funds exceeds 20% of the unpaid principal amount of outstanding Loan Obligations under the Clean Water Program or Drinking Water Program. At present and after origination of the expected loans described in Appendix C, there are no obligated persons other than the District and the City of Sioux Falls. Certain information relating to the City of Sioux Falls is set forth or referenced in Appendix D. The form of Continuing Disclosure Agreement is set forth in Appendix F. Reference is made to Appendix F for a description of the information to be provided, the rights of the beneficial owners of Series 2005 Bonds and the conditions for amendment of the Agreement.

RATINGS

Moody's Investors Service, Inc. and Standard & Poor's Public Finance Ratings have assigned ratings of "Aaa" and "AAA", respectively, to the Series 2005 Bonds. The ratings reflect only the views of such rating agencies, and an explanation of the significance of such ratings may be obtained only from such rating agencies. Generally, rating agencies base their ratings on the information and materials furnished to them and on investigation, studies and assumptions by the rating agencies. A security's rating is not a recommendation to buy, sell or hold securities. The rating of the Series 2005 Bonds represents a judgment as to the likelihood of timely payment of the Series 2005 Bonds according to their terms, but does not address the likelihood of redemption or acceleration prior to maturity. There is no assurance that either rating will remain in effect for any given period of time or that it may not be lowered, suspended or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward change in or suspension or withdrawal of such rating may have an adverse effect on the market price and marketability of the Series 2005 Bonds.

ABSENCE OF LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Series 2005 Bonds, or prohibiting the District from making Loans to Borrowers or purchasing Loan Obligations with the proceeds of the Series 2005 Bonds, or in any way contesting or affecting the validity of any Series 2005 Bonds or any proceedings of the District taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Series 2005 Bonds or the existence or necessary powers of the District.

LEGAL MATTERS

The Series 2005 Bonds offered hereby are subject to the approving legal opinion of Perkins Coie LLP, Chicago, Illinois, as Bond Counsel. The opinion of Bond Counsel will be in substantially the form attached to this Official Statement as Appendix E. Bond Counsel will also pass upon certain additional matters by separate opinion addressed to the Underwriter. The Underwriter has been represented in connection with the purchase and sale of the Series 2005 Bonds by Faegre & Benson LLP, Minneapolis, Minnesota. The District and the Board have been represented in connection with the Series 2005 Bonds and the Program by the office of the Attorney General of South Dakota.

FINANCIAL ADVISOR

The District has retained Public Financial Management, Inc., of Minneapolis, Minnesota, as financial advisor (the "Financial Advisor") in connection with the issuance of the Series 2005 Bonds. The Financial Advisor is not a public accounting firm and has not been engaged by the District to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities and therefore will not participate in the underwriting of the Series 2005 Bonds.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District or the Underwriter and purchasers or holders of any of the Series 2005 Bonds.

SOUTH DAKOTA CONSERVANCY DISTRICT

By /s/Bradley Johnson
Its Chairman

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SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE

The following is a brief summary of certain provisions of the Master Indenture and is not to be considered as a full statement of the provisions of the Master Indenture. The summary is qualified by reference to and is subject to the complete Master Indenture, copies of which may be examined at the offices of the District.

Funds and Accounts

Creation of Funds and Accounts. There are created in the Master Indenture the following Funds for each of the State Revolving Fund Programs:

- (a) Loan Fund;
- (b) Administration Fund;
- (c) Revenue Fund;
- (d) Bond Fund; and
- (e) Reserve Fund

The Master Indenture creates the separate accounts described below in each Fund, and permits the creation of separate accounts and subaccounts in each Fund for each Series of Bonds or for other purposes.

Loan Fund. Each Loan Fund consists of four accounts, a State Match Loan Account, a Leveraged Loan Account, a Federally Capitalized Loan Account, and a Bond Proceeds Account. In addition to moneys that may be deposited therein at the discretion of the District, the State Match Portion of the proceeds of each Series of Bonds is to be deposited in the State Match Loan Account, and the Leveraged Portion of the proceeds of each Series is to be deposited in the Leveraged Loan Account. Proceeds of a series of Bonds may also be deposited in the Bond Proceeds Account for later mandatory or optional transfer to the State Match Loan Account or Leveraged Loan Account. The Federally Capitalized Loan Account will be funded with proceeds of draws on the Letter of Credit, moneys transferred from the Restricted Principal Repayments Account of the Revenue Fund and other moneys transferred at the direction of the District. The Loan Fund is to be used to make loans to Borrowers through the purchase of Loan Obligations as provided in the Indenture. The SRF Administration Account will be funded from that portion of each draw on the Letter of Credit and that portion, if any, of the proceeds of the State Match Portion of a Series of Bonds which have been designated by the District for payment of administrative costs of the Program and which are permitted to be applied for that purpose under the Clean Water Act.

Administration Fund. Each Administration Fund consists of an SRF Administration Account and a State Administration Account. From the proceeds of each Series of Bonds, an amount sufficient to pay Costs of Issuance may be deposited in the State Administration Account and used to pay Costs of Issuance. In addition, fees paid by Borrowers pursuant to their Loan Agreements are to be paid into the State Administration Account and used to pay administrative costs of the Program and other uses authorized under the Federal Acts. The Program Administration Account will be funded from the Letter of Credit which is permitted to be applied for that purpose under the applicable Federal Act.

Revenue Fund. The Revenue Fund for each State Revolving Fund consists of a Restricted Principal Repayments Account and an Unrestricted Interest Repayments Account. All payments of principal of, premium (if any) on and interest on Loan Obligations shall be deposited in Revenue Fund for each Program as follows:

(a) Amounts received as principal of a Loan Obligation for such Program shall be deposited in the related Restricted Principal Repayments Account; and

(b) Amounts received as interest on a Loan Obligation for such Program shall be deposited in the related Unrestricted Interest Repayments Account.

For each Program the Trustee will also deposit in the related Unrestricted Interest Repayments Account investment earnings on the accounts in the Loan Fund and investment earnings not required to be applied to other purposes. Moneys on deposit in the Restricted Principal Repayments Account for each Program are to be transferred to the related Leveraged Bond Account of the Bond Fund on or before each Bond Payment Date, to be used to pay the Leveraged Portion of principal and interest on the Bonds allocable to such Program. Moneys on deposit in the Unrestricted Interest Repayments Account of each Revenue Fund are to be transferred to the related State Match Bond Account of the Bond Fund on or before each Bond Payment Date, to be used to pay the State Match Portion of principal of and interest on the Bonds allocable to such Program. In addition, any amounts remaining on deposit in the Unrestricted Interest Repayments Account after transfer of an amount sufficient to pay the State Match Portion of the principal of and interest on the Bonds shall be applied in the following order: (i) to pay any unpaid portion of the Leveraged Portion of principal of and interest on the Bonds allocable to such Program; (ii) if a transfer is made on a February 1 Bond Payment Date, an amount equal to one-half of the principal amount of the any State Match Portion of Bonds due on or before the next August 1 shall be transferred to the related State Match Bond Account of the Bond Fund; (iii) to replenish the amount in the related Reserve Fund (and any account or subaccount thereof on a pro rata basis to the extent of any applicable reserve requirements) to satisfy the Total Reserve Requirement or the State Match Reserve Requirement, by transfer to the Unrestricted Reserve Account of the Reserve Fund (and a corresponding account or subaccount for such purpose); and (iv) to the extent needed to meet an interest payment obligation of the other Program, to the Unrestricted Interest Repayments Account of the Revenue Fund for the other Program, (v) to a fund or account of the other Program to the extent necessary to satisfy a Reimbursement Obligation to such Program, and (vi) to the Unrestricted Cumulative Excess Interest Repayments Subaccount of the Revenue Fund for such Program for subsequent transfer if the District so directs to any other Fund or Account, other than the State Administration Account of the Administration Fund and the State Match Reserve Account of the Reserve Fund. Moneys remaining on deposit in the Restricted Principal Repayments Account of the Revenue Fund after transfer to the Leveraged Bond Account of an amount sufficient to pay the Leveraged Portion of the principal of and interest on the Bonds, and, if such transfer is made on a February 1 Bond Payment Date, one half of the principal amount of any Leveraged Portion of the Bonds due on or before the next August 1 must be applied in the following order: (i) to restore any deficiency in the Total Reserve Requirement by transfer to the Restricted Reserve Account of the Reserve Fund (and any account or subaccount thereof on a pro rata basis to the extent of any applicable reserve requirements), (ii) to the extent necessary to meet a principal payment obligation of the other Program, to the Restricted Principal Repayments Account of the Revenue Fund for the other Program, (iii) to a fund or account of the other Program to the extent necessary to satisfy a Reimbursement Obligation to such Program, and (iv) to be retained in a Restricted Cumulative Excess Principal Repayments Subaccount of the Restricted Principal Repayments Account until the District directs that the amounts be deposited in either the Restricted Reserve Account of the Reserve Fund or the Federally Capitalized Loan Account of the Loan Fund.

Bond Fund. The Bond Fund for each State Revolving Fund consists of a State Match Bond Account, a Leveraged Bond Account, and, if provided for in a Series Resolution, a Capitalized Interest Account. On each Bond Payment Date, moneys in the Leveraged Bond Account of the Bond Fund shall be used to pay the Leveraged Portion of principal of and interest on the Bonds allocable to such Program then due and payable, and moneys in the State Match Bond Account of the Bond Fund shall be used to pay the State Match Portion of principal of and interest on the Bonds allocable to such Program then due and payable. In the event moneys available to be transferred to the Leveraged Bond Account from the Restricted Principal Repayments Account are insufficient to pay the Leveraged Portion of principal of and interest on

the Bonds then due and payable, the Trustee shall transfer funds to the Leveraged Bond Account to make up such deficiency from the following sources in the following order:

- (a) First, from the Unrestricted Cumulative Excess Interest Repayments Subaccount of the Unrestricted Interest Repayments Account of the Revenue Fund for such Program;
- (b) Second, from Excess Revenues of the other Program available to cure the deficiency;
- (c) Third, from the Restricted Reserve Account of the Reserve Fund for such Program (but only if and to the extent such Bonds are secured by the Reserve Fund and in such event, only from the corresponding Reserve Account or Subaccount allocable to Bonds secured thereby);
- (d) Fourth, from the Unrestricted Reserve Account of the Reserve Fund for such Program (but only if and to the extent such Bonds are secured by the Reserve Fund and in such event, only from the corresponding Reserve Account or Subaccount allocable to Bonds secured thereby);
- (e) Fifth, from any other available Fund or Account within such Program established under the Indenture (other than the State Match Reserve Account and the State Administration Account); and
- (f) Sixth, from any available account of the other Program.

In the event of a deficiency in the amounts transferred from the Unrestricted Interest Repayments Account of the Revenue Fund to the State Match Bond Account of the Bond Fund (and following other allowed transfers described herein), the Trustee shall withdraw an amount equal to the deficiency from the State Match Reserve Account of the Reserve Fund to pay the State Match Portion of the principal and interest on the Bonds due on such Bond Payment Date and apply the same directly to the payment of such State Match Portion (but only if and to the extent such Bonds are secured by the Reserve Fund and in such event, only from the corresponding Reserve Account or Subaccount allocable to Bonds secured thereby). In the event sufficient funds in the State Match Reserve Account are not available for this purpose, the Trustee shall transfer funds to the State Match Bond Account to make up the remainder of such deficiency from the Unrestricted Reserve Account of the Reserve Fund (but only if and to the extent such Bonds are secured by the Reserve Fund and in such event, only from the corresponding Reserve Account or Subaccount allocable to Bonds secured thereby). In the event such other transfers are insufficient to make up such deficiency, the Trustee shall withdraw an amount equal to the remaining deficiency from the State Administration Account of the Administration Fund and apply the same directly to the payment of the State Match Portion of the principal and interest on the Bonds due on such Bond Payment Date. Under no circumstances shall any amounts be transferred directly to the State Match Bond Account from the Leveraged Loan Account, the State Match Loan Account or the Federally Capitalized Loan Account of the Loan Fund, the Restricted Principal Repayments Account of the Revenue Fund, the Leveraged Bond Account of the Bond Fund, the Restricted Reserve Account of the Reserve Fund or the Program Administration Account of the Administration Fund.

Reserve Fund. The Reserve Fund for each State Revolving Fund consists of a Restricted Reserve Account, an Unrestricted Reserve Account and a State Match Reserve Account. Any amounts eligible to be drawn on the Letter of Credit with respect to any Loan pledged hereunder (to the extent such amounts are not otherwise required to be disbursed to a Borrower) shall be deemed to be part of the Restricted Reserve Account of the Reserve Fund but shall not be used to determine the amount on deposit therein for purposes of the definition of Total Reserve Requirement.

If any Series of Bonds or portion thereof is to be secured by amounts on deposit in the Reserve Fund or any Account or Subaccount thereof, then Bond proceeds or other amounts may be deposited in the Restricted Reserve Account and the State Match Reserve Account as provided in a Series Resolution and revenues may be applied to replenish amounts required to be deposited therein up to the applicable reserve requirements established by the Series Resolution. Initial deposits of Bond proceeds into the Reserve Fund shall be made to a specific Subaccount within the State Match Reserve Account or the Restricted Reserve Account, and such Subaccount shall be designated so as to designate the specific series of Bonds or portion thereof so secured. Each Subaccount so established shall secure solely the Series of Bonds or portion thereof which is entitled to the security of such reserve as shall be expressly provided in the applicable Series Resolution. Moneys deposited in the Reserve Fund, other than Bond proceeds, proceeds of a draw on the Letter of Credit and other moneys required to be deposited in the Restricted Reserve Account or the State Match Reserve Account under the Master Indenture or a Series Resolution, shall be deposited in a Subaccount to be established in the Unrestricted Reserve Account, such Subaccount to have a designation which identifies the specific series of Bonds or portion thereof so secured. The District may also transfer funds from the Unrestricted Cumulative Excess Interest Repayments Subaccount or any other account to satisfy any reserve requirement and thereupon transfer excess amounts on deposit in the Reserve Fund to any account within the Loan Fund. Moneys on deposit in the Reserve Fund shall be used to make up any deficiencies in the Bond Fund; provided, that under no circumstances shall the Trustee transfer any amounts on deposit in the Restricted Reserve Account of the Reserve Fund to the State Match Bond Account of the Bond Fund.

As described elsewhere herein, the District may determine on a case by case basis whether any Series of Bonds, or the Leveraged Portion or State Match Portion thereof, shall be entitled to the benefit of the security of the Reserve Fund or any account or subaccount therein. The Series 2005 Bonds will not be secured by a pledge of or lien on amounts on deposit in either Reserve Fund. If and to the extent that any Series of Bonds or any Leverage Portion of State Match Portion of debt service on any Series of Bonds is entitled to the benefit of the security of amounts on deposit in any specific account or subaccount of the Reserve Fund, the following provisions apply. When amounts in the applicable account or subaccount of the Reserve Fund exceed the applicable Total Reserve Requirement, amounts in the applicable account or subaccount of the Restricted Reserve Account may, to the extent of such excess, be transferred at the direction of the District to the Federally Capitalized Loan Account of the Loan Fund, but not to any other Fund or Account. When the sum of the amounts on deposit in the applicable accounts or subaccounts of the Unrestricted Reserve Account and the State Match Reserve Account exceeds the applicable State Match Reserve Requirement, amounts in the applicable subaccount of the State Match Reserve Account may be transferred at the direction of the District to the State Match Loan Account of the Loan Fund and amounts in the applicable subaccount of the Unrestricted Reserve Account may be transferred at the direction of the District to any fund or Account other than the State Match Reserve Account of the Reserve Fund and the State Administration Account of the Administration Fund; provided, that the aggregate amount of such transfers shall be limited to the excess over the applicable State Match Reserve Requirement and shall be made only if and to the extent that the applicable Total Reserve Requirement is satisfied both before and after such transfers.

In the event either (a) the sum of the amounts on deposit in the applicable subaccounts of the Restricted Reserve Account, the Unrestricted Reserve Account and the State Match Reserve Account is at any time less than the applicable Total Reserve Requirement, if any, or (b) the sum of the amounts on deposit in the applicable subaccounts of the Unrestricted Reserve Account and the State Match Reserve Account is at any time less than the applicable State Match Reserve Requirement, if any, the Trustee shall forthwith give written notice to the District.

Investment of Funds. Moneys on deposit to the credit of the Funds and Accounts under the Master Indenture shall be invested by the Trustee at the direction of the District in Investment Obligations (as defined below) permitted under the Master Indenture and the Act; however, no Investment Obligation shall

have a maturity date beyond the date upon which the moneys in the respective Fund or Account are required or are likely to be needed for the purposes of the respective Fund or Account to which such Investment Obligation is credited. Investment Obligations so purchased shall be deemed at all times to be a part of the respective Fund or Account, but may from time to time be sold or otherwise converted into cash, whereupon the proceeds derived from such sale or conversion shall be credited to such Fund or Account. The District may direct that all interest earnings on the Funds and Accounts be deposited in the Unrestricted Interest Repayments Account of the Revenue Fund. Otherwise, any interest accruing or any profit realized from such investment shall be credited to the specific Fund or Account. Investment Obligations, as defined in the Master Indenture, include any of the following, if and to the extent the same are at the time not prohibited for investment of the District's moneys: (a) direct obligations of, bonds, debentures, notes or other evidences of indebtedness issued or fully insured or guaranteed by any agency or instrumentality of the United States of America which is backed by the full faith and credit of the United States of America; (b) interest-bearing time or demand deposits, certificates of deposit or similar banking arrangements with any depository, provided that such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation; (c) money market funds or similar funds investing exclusively in obligations described in clauses (a), (d) or (e); (d) bonds, debentures, notes or other evidences of indebtedness issued by any state of the United States of America or any political subdivision thereof or any public authority or body or instrumentality therein which constitute obligations described in Section 103(a) of the Code and which are rated by Moody's Investors Service, Inc. at least as high as the rating on outstanding Bonds (disregarding any credit enhancement); (e) certain repurchase agreements or similar financial transaction with one of the 100 largest United States commercial banks or a primary dealer that report to the Federal Reserve Bank of New York; or (f) guaranteed investment contracts or similar obligations issued, secured or guaranteed by a corporation or national banking association which has a long-term debt rating in the two highest rating categories by Moody's Investors Service Inc. (or other agency rating the most recent series of Bonds).

Release of Assets. The District may release any Loan Obligations and Loan Agreements and other assets from the Trust Estate to the extent such Loans are not necessary to maintain Projected Revenue above a specified 120% coverage requirement. To cause one or more Loan Obligations and Loan Agreements to be released from the lien of the Master Indenture, the District must prepare and file with the Trustee (1) a list of Loan Obligations, Loan Agreements and other assets together with any related instruments to be released and (2) a Coverage Certificate which, with supporting schedules, must demonstrate that (a) for the recently completed Bond Year (August 2 of one year through August 1 of the next year) the Adjusted Projected Revenues (which, for such purposes shall not include any amounts received with respect to the proposed Released Obligations or any earnings received thereon) equaled or exceeded 120% of the principal and interest due in such year on the State Match Portion and the Leveraged Portion on all then Outstanding Bonds and (b) during each year that the Bonds are scheduled to be Outstanding, the Adjusted Projected Revenues (which, for such purposes, shall not include any amounts receivable with respect to the proposed Released Obligations) will be at least 120% of the principal and interest due in each such year on the State Match Portion and the Leveraged Portion on all then Outstanding Bonds. The Trustee shall then execute a release and such other instruments as Bond Counsel for the District shall advise in writing as necessary in order to effect a release from the lien of the Master Indenture. The Master Indenture includes similar provisions, including the requirement for a Coverage Certificate demonstrating Projected Revenues of 120% of the principal and interest due in future years, for the substitution of Loan Obligations.

Additional Series of Bonds

The District anticipates the issuance of additional Series of Bonds under the Master Indenture. The Master Indenture permits the issuance of additional Series of Bonds pursuant to the Master Indenture, in order to purchase Loan Obligations authorized for purchase under the Act and the Master Indenture, upon compliance with the requirements of the Master Indenture, including deposit of sufficient amounts in the applicable accounts and subaccounts of the Reserve Funds to satisfy the Total Reserve Requirements and the State Match Reserve Requirements (if any) with respect to the Series of Bonds, to be issued and all other

Series of Bonds outstanding under the Master Indenture such additional Bonds shall be secured on a parity with the Existing Bonds and the Series 2005 Bonds, except that the District may elect, on a case by case basis, whether or not such Additional Bonds shall be secured by amounts on deposit in the related Reserve Fund and the amount of any such reserve requirement applicable thereto.

Pursuant to the provisions of the Master Indenture, additional Bonds may be issued if certain conditions are met including, but not limited to, except in the case of refunding Bonds issued to pay principal or interest on Bonds for the payment of which sufficient funds are not expected to be available, the following: (i) a Coverage Certificate (as defined in the Master Indenture), with supporting schedules, estimating that, as of each Bond Payment Date, Projected Revenues (as defined below) available to be deposited in both the Leveraged Bond Account and the State Match Bond Account of the Bond Fund will be sufficient to pay respectively the State Match Portion and the Leveraged Portion of principal of and interest due on each Bond Payment Date on all Bonds then Outstanding (except Bonds and interest thereon refunded from the proceeds of the Bonds to be issued) and the Bonds to be issued (including with respect to the test for the Leveraged Portion amounts on deposit in the Unrestricted Interest Repayments Account and not otherwise required to pay the State Match Portion of principal and interest due on such Bond Payment Date); and (ii) a Coverage Certificate with supporting schedules, estimating that, during each year that the Bonds to be issued are scheduled to be Outstanding, Projected Revenue will be at least 120% of the principal and interest due in such year on all the Outstanding Bonds and Bonds to be issued. Projected Revenue as of the date of a Coverage Certificate means for each Program (i) the scheduled principal and interest payments on all Loan Obligations held for such Program by the Trustee or required to be delivered to the Trustee pursuant to a Loan Agreement, except payments of principal and interest on Loan Obligations which either (A) are then in Default in the payment of principal or interest or (B) failed to meet the Credit Standard in effect at the time the Loan Obligations were acquired and, if such Loan Obligation is secured solely by Net Revenues of a utility, also failed to meet the coverage requirement of the applicable Credit Standard during both of the last two complete fiscal years, and (ii) the principal and interest which the District reasonably estimates will be received on Loan Obligations and investments of all other amounts then held or expected to be deposited in any Fund or Account for such Program under the Master Indenture, including amounts which are reasonably expected to be drawn under the Letter of Credit.

Default and Remedies

The following are Events of Default under the Master Indenture:

- (a) Failure of the District to pay principal or the redemption price of any Bond when due;
- (b) Failure of the District to pay interest on any Bond when due;
- (c) If as a result of a withdrawal of funds from either Reserve Fund either (i) the amounts on deposit in such Reserve Fund are at any time less than any applicable Total Reserve Requirement or (ii) the sum of the amounts on deposit in the State Match Reserve Account and the Unrestricted Reserve Account of either Reserve Fund are at any time less than any applicable State Match Reserve Requirement and such deficiency in either the Restricted Reserve Account or the Unrestricted Reserve Account of such Reserve Fund shall have existed for a period of six consecutive months during which the deficiency shall not have been replenished from any source;
- (d) If as a result of a decline in market value either (i) the amounts on deposit in either Reserve Fund are at any time less than 90% of any applicable Total Reserve Requirement or (ii) the sum of the amounts on deposit in the State Match Reserve Account and the Unrestricted Reserve Account of either Reserve Fund are at any time less than 90% of any applicable State Match Reserve Requirement and such deficiency in either the Restricted Reserve

Account or the Unrestricted Reserve Account of either Reserve Fund shall have existed for a period of six consecutive months during which the deficiency shall not have been replenished or otherwise eliminated from any source;

- (e) The District shall fail to perform or observe any other covenant, agreement or condition on its part contained in the Master Indenture or any Series Resolution or in the Bonds, and such failure shall continue for a period of thirty days after written notice thereof to the District by the Trustee or to the District and to the Trustee by the Holders of not less than twenty-five percent (25%) in the aggregate of the principal amount of the Bonds outstanding; or
- (f) Filing by the District of a petition seeking a composition of indebtedness under the federal bankruptcy law or other applicable federal or state law.

Upon the occurrence and continuance of any Event of Default, the Trustee may, and upon the written request of the Holders of not less than 25% in the aggregate of the principal amount of the Bonds outstanding and with any necessary consent of a credit enhancement provider, together with indemnification of the Trustee to its satisfaction therefor, the Trustee shall, proceed forthwith to protect and enforce its rights and the rights of the Bondholders under the Act, the Bonds and the Master Indenture by such suits, action or proceedings as the Trustee, being advised by counsel, shall deem expedient, including but not limited to:

- (i) Enforcement of the right of the Bondholders to require the District to collect and enforce the payment of principal of and interest due or becoming due on the Loan Obligations and to collect and enforce any rights in respect to the Loan Obligations as may be set forth in any resolutions therefor or the Loan Agreements and, to require the District to carry out its duties, obligations and agreements under the terms of the Master Indenture and any Series Resolution authorizing the issuance of Bonds of any Series then outstanding, and to require the District to perform its duties under the Act;
- (ii) Suit upon all or any part of the Bonds;
- (iii) Civil action to require the District to account as if it were the trustee of an express trust for the Holders of the Bonds;
- (iv) Civil action to enjoin any acts or things that may be unlawful or in violation of the rights of the Holders of the Bonds; and
- (v) Enforcement of any other right of the Bondholders conferred by law or by the Master Indenture.

Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the Holders of not less than 25% in the aggregate of the principal amount of the Bonds then outstanding and with any consent of a credit enhancement provider, shall, upon being indemnified to its satisfaction therefor institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Master Indenture by any acts that may be unlawful or in violation of the Master Indenture, or (ii) to preserve or protect the interests of the Bondholders, provided that such request is in accordance with the law and the provisions of the Master Indenture and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the Holders of Bonds not making such request.

Actions taken by the Trustee are subject to the rights of the Holders of a majority in principal amount of the outstanding Bonds to direct the method and place of conducting all proceedings under the Master Indenture or to waive any Default (other than Default in the payment of the principal of any Bond at the date of maturity), upon compliance with the terms and conditions of the Master Indenture. The Master

Indenture provides that a Series Resolution may confer certain rights to providers of credit enhancement in connection with the exercise of remedies, including the power and authority to provide consents and waivers on behalf of the Holders of the Series 2005 Bonds.

Certain Conditions Relating to Acceptance of Prepayment of Loan Obligations

The District has generally required the Loan Agreements to contain a prohibition against prepayment of Loan Obligations in advance of their scheduled maturity dates, but has allowed certain Borrowers to prepay Loan Obligations. The Master Indenture provides that the District may waive such prepayment restrictions allocable to each Program in an annual cumulative amount not exceeding the greater of \$5,000,000 or 5% the unpaid principal amount of Loan Obligations as of the most recent August 1 (the "Annual Prepayment Amount"). In the event that the District determines it is necessary or appropriate to waive such prepayment restrictions in an amount which will exceed the Annual Prepayment Amount for a Program in a Bond Year (defined as the period beginning on August 2 of any year through August 1, of the succeeding year), then prior to waiving such prepayment restrictions and accepting prepayments which are not otherwise permitted by the terms of the Loan Obligations, the District shall first cause to be prepared and shall file with the Trustee (1) a list of Loan Obligations to be so prepaid in an amount in excess of the Annual Prepayment Amount as described in this paragraph, and (2) a Coverage Certificate which, with supporting schedules, shall demonstrate that the adjusted Projected Revenues (which, for such purposes shall reflect such Loan Obligations as prepaid and applied as the District shall reasonably project) will be at least 120% of the Allocable Portion of principal and interest due in such year on the State Match Portion and the Leveraged Portion on all then Outstanding Bonds for such Program. Within 30 days of receipt of any such prepayment in excess of the Annual Prepayment Amount, the District shall provide a copy of the items described in clauses (1) and (2) hereof to any Rating Agency then maintaining a rating with respect to any Outstanding Bonds

Covenants and Miscellaneous

The District covenants and agrees, so long as the Bonds of any Series shall be outstanding, and subject to the limitations on its obligations established in the Master Indenture, to the following requirements:

Payment of Bonds. The District will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Master Indenture and each Series Resolution and in each and every Bond executed, authenticated and delivered and will pay or cause to be paid, but solely from the sources specified in the Master Indenture and any Series Resolution, the principal of and interest on every Bond issued on the dates, at the places and in the manner prescribed in the Bonds.

Authority of the District. The District is duly authorized under the constitution and laws of the State to execute and deliver the Master Indenture and to make the covenants as provided therein.

Accounts and Reports. The District shall keep or cause to be kept properly, books of accounts and records, in which full, true and correct entries will be made of all dealings and transactions relating to the operation of the Program. A copy of an annual report, which the District is required to provide for each year ended September 30 by the following December 31, will be mailed to any bondholder who makes a written request with the Trustee. The report is required to include a schedule of outstanding Bonds, a schedule of Loan Obligations and the status of the Reserve Fund and other Funds, Accounts and Subaccounts.

Compliance with Federal Acts. The District will not cause or permit any funds received under a Letter of Credit or held in any Fund or Account established under the Master Indenture to be applied in a manner which is in violation of any provision of the either Federal Act.

ACQUIRED LOCAL OBLIGATIONS

STATE OF SOUTH DAKOTA
STATE REVOLVING FUND LOAN PROGRAM
Drinking Water Loans in Repayment
(as of June 30, 2005)

Loan	Outstanding Balance	Interest Rate	Final Payment Date	Security
Baltic	\$ 238,954	3.50%	1/15/2024	Water Rev.
BDM Rural Water (N)	265,906	3.50%	1/15/2024	Water Rev.
Big Stone City #1	459,105	5.25%	10/1/2019	GO & Water
Big Stone City #2	85,500	3.50%	7/1/2025	GO & Water
Black Hawk WUD	407,739	5.25%	1/1/2020	Water Rev.
Brandon	1,364,849	4.75%	1/1/2015	Water Rev.
Britton	288,680	4.50%	7/1/2022	Water Rev.
Bryant (D)	131,749	3.00%	1/1/2032	Water Rev.
Canton	491,571	3.50%	12/1/2025	Water Rev.
Centerville (D)	860,716	3.25%	1/1/2035	Water Rev.
Clear Lake (D)	483,020	3.00%	10/1/2030	Water Rev.
Colonial Pine Hills San Dist	577,655	3.50%	1/1/2023	Water Rev.
Colton (D)	619,029	3.50%	6/1/2034	Water Rev.
Custer	762,280	3.50%	2/15/2024	Water Rev.
Dakota Dunes	301,995	3.50%	4/1/2024	Water Rev.
Dell Rapids	612,878	3.50%	3/28/2025	Water Rev.
Elk Point #1	202,192	3.50%	1/15/2023	Water Rev.
Fall River #1 (D)	697,010	3.00%	10/1/2031	Water Rev.
Fall River #2 (D)	247,423	2.50%	4/1/2033	Water Rev.
Garretson (D)	1,079,197	3.50%	6/1/2024	Water Rev.
Gettysburg	518,790	4.50%	10/1/2022	Water Rev.
Gregory (D)	327,625	2.50%	1/1/2033	Water Rev.
Groton #1	436,179	3.50%	3/28/2025	Sales Tax
Harrisburg #1	465,932	5.00%	1/1/2022	Water Rev.
Hartford #1	164,346	5.00%	1/1/2022	Water Rev.
Hartford #2	492,685	3.50%	1/15/2024	Water Rev.
Hermosa	247,607	5.00%	1/1/2020	Water Rev.
Huron #3	3,103,821	3.50%	4/1/2024	Water Rev.
Kingsbrook Rural Water Sys (N)(D)	424,105	0.00%	4/1/2032	Water Rev.
Lead #1	156,613	4.50%	1/1/2013	Water Rev.
Lincoln Co. RWS (N)	1,069,799	3.50%	1/31/2024	Water Rev.
Mina Lake San & Water	217,617	5.00%	10/1/2020	Water Rev.
Minnehaha Comm Water Dist (N)	5,859,675	3.50%	6/1/2024	Water Rev.
Mitchell	2,755,470	4.00%	4/1/2024	Water Rev.
Nisland (D)	332,500	0.00%	1/1/2034	S Assessment
Pierre #1	854,444	3.50%	1/1/2018	Water Rev.
Redfield	70,598	4.50%	10/1/2020	Water Rev.
Salem	111,011	3.50%	3/28/2015	Water Rev.
Scotland (D)	233,580	2.50%	3/28/2035	Sales Tax
Sioux Falls #1	3,780,179	4.50%	7/1/2010	Water Rev.
Sioux Falls #2	1,907,440	4.50%	1/1/2013	Water Rev.
Sioux Falls #3	7,217,717	3.50%	4/1/2014	Water Rev.
Sioux Falls #4	273,388	3.50%	1/1/2015	Water Rev.
South Lincoln RWS (N)	712,380	3.50%	4/15/2025	Water Rev.
Tripp (D)	215,285	2.50%	4/15/2033	Water Rev.
Tripp County WUD #1 (D)	3,441,283	2.50%	9/1/2034	Water Rev.
Tripp County WUD #2 (D)	129,278	0.00%	1/14/2034	Water Rev.
Tyndall #1 (D)	196,160	2.50%	10/1/2011	Water Rev.
Vermillion #1	670,902	5.00%	7/1/2020	Water Rev.
Vermillion #2	1,466,462	3.50%	6/1/2024	Water Rev.
Webster	298,925	3.50%	7/1/2023	Water Rev.

Loan	Outstanding Balance	Interest Rate	Final Payment Date	Security
WR/LJ (N) (D)	322,366	2.50%	1/15/2033	Water Rev.
Worthing	113,268	3.50%	7/1/2025	Water Rev.
Yankton #1	<u>3,116,060</u>	3.50%	10/1/2023	Water Rev.
Total	<u>\$51,881,207</u>			

(N) Nonprofit Borrower

(D) Disadvantaged Community

Drinking Water Loans Closed

Loan	Loan Amount	Interest Rate	Term	First Payment Date	Security
Aberdeen #1A	\$ 9,460,000	3.50%	20 years	4/15/2006	Water Rev.
Aberdeen #1B	7,300,000	3.50%	20 years	4/15/2006	Water Rev.
Crooks	302,900	3.25%	20 years	7/15/2005	Water Rev.
Elk Point #2	570,000	3.25%	20 years	7/15/2006	Water Rev.
Groton #2	365,900	3.25%	20 years	4/15/2006	Sales Tax
Hartford #3	1,123,556	3.25%	20 years	4/15/2007	Water Rev.
Keystone	762,000	3.25%	20 years	4/15/2006	Sales Tax
Kingbrook RWS #2 (N) (D)	2,115,000	3.25%	30 years	10/1/2005	Water Rev.
Lead #2 (D)	205,800	3.25%	30 years	10/1/2025	Water Rev.
Martin (D)	920,000	2.50%	30 years	10/15/2005	Water Rev.
McLaughlin (D)	350,000	2.50%	30 years	7/15/2006	Water Rev.
Parker	730,000	3.25%	20 years	1/15/2007	Water Rev.
Pierre #2	1,832,900	2.50%	20 years	9/30/2005	Water Rev.
Platte	400,000	2.50%	10 years	1/15/2006	Water Rev.
Rapid City	3,500,000	3.50%	20 years	11/15/2006	Water Rev.
Sioux Falls #5	12,749,000	2.50%	10 years	4/15/2005	Sales Tax
Tyndall #2 (D)	<u>861,000</u>	2.50%	30 years	12/15/2004	Water Rev.
Total	<u>\$43,548,056</u>				

Drinking Water Loans Approved, But Not Closed

Loan	Loan Amount	Interest Rate	Term	Security
Brookings-Deuel Rural Water System #1 (N) (D)	\$ 1,200,000	3.25%	30 years	Water Rev.
Brookings-Deuel Rural Water System #2 (N) (D)	1,750,000	3.25%	30 years	Water Rev.
Clay RWS (1) (2)	3,631,000	3.25%	30 years	Water Rev.
Kingbrook RWS #3 (N)	3,324,000	3.25%	20 years	Water Rev.
Lennox #1 (D)	2,000,000	3.25%	30 years	Water Rev.
Redfield #2 (D)	342,755	2.50%	30 years	Water Rev.
Salem #2	348,540	3.25%	20 years	Water Rev.
West River/Lyman Jones RWS #2 (N) (D)	8,000,000	3.25%	30 years	Water Rev.
Wolsey	<u>263,000</u>	3.25%	20 years	Sales Tax
Total	<u>\$20,859,295</u>			

(N) Nonprofit Borrower

(D) Disadvantaged Community

**Clean Water Loans in Repayment
(as of June 30, 2005)**

Loan	Outstanding Balance	Interest Rate	Final Payment Date	Security
Aurora	\$ 276,365	5.00%	1/1/2022	Sewer Rev.
Baltic	387,736	3.50%	1/15/2024	Sewer Rev.
Belle Fourche #1	112,967	3.00%	1/1/2013	Sewer Rev.
Belle Fourche #2	19,175	4.50%	2/1/2006	Sewer Rev.
Beresford	694,571	4.50%	1/1/2011	Sales Tax
Box Elder	212,498	3.00%	10/1/2010	GO
Bridgewater	70,496	5.25%	1/1/2019	Sales & Sewer
Britton #1	271,547	4.50%	1/1/2010	Sewer Rev.
Britton #2	280,828	3.50%	10/1/2024	Sewer Rev.
Canton #1	139,196	4.00%	9/1/2008	Sewer Rev.
Canton #2	589,822	3.50%	12/1/2004	Sewer Rev.
Castlewood	202,388	3.50%	7/15/2023	Sewer Rev.
Centerville	482,403	3.50%	6/1/2024	Sewer Rev.
Chamberlain #4	355,652	5.25%	4/1/2019	Sales Tax
Clark	391,910	3.50%	1/1/2025	Sewer Rev.
Custer #1	187,240	3.00%	9/15/2012	S.A. & Sewer
Deadwood	126,858	4.00%	11/15/2008	Sewer Rev.
Elk Point #1	175,498	4.00%	4/1/2010	Sewer Rev.
Elk Point #2	328,249	3.50%	4/15/2023	Sewer Rev.
Ft. Pierre #1	15,828	3.00%	11/1/2005	Sales Tax
Ft. Pierre #2	407,598	3.50%	4/1/2018	Sewer Rev.
Groton #1	10,881	3.00%	1/1/2006	Sewer Rev.
Groton #2	4,285	3.00%	1/1/2006	Sewer Rev.
Groton #3	369,877	5.25%	1/1/2019	Sewer Rev.
Groton #4	123,320	3.50%	3/28/2025	Sales Tax
Groton #5	436,179	3.50%	3/28/2025	Sewer Rev.
Harrisburg	413,712	5.00%	4/1/2020	Sewer Rev.
Hartford #1	452,085	5.00%	4/1/2022	Sewer Rev.
Hartford #2	620,380	5.00%	4/1/2022	Sales Tax
Hartford #3	270,056	3.50%	10/1/2022	Sewer Rev.
Hartford #4	531,857	3.50%	1/15/2024	Sewer Rev.
Highmore	248,331	3.50%	1/1/2024	Sales & Sewer
Hot Springs NPS #1	589,747	5.00%	10/1/2015	Solid W & Sales
Huron #3	1,316,264	5.25%	3/10/2017	Sewer Rev.
Jefferson	166,084	3.50%	4/15/2025	Sewer Rev.
Lake Cochrane San. Dist.#1	24,527	3.00%	6/1/2010	GO & Sewer
Lake Cochrane Sa. Dist. #2	149,349	3.50%	1/15/2025	Sewer Rev.
Lake Madison San Dist #2	608,752	3.50%	1/1/2025	Sewer Rev.
Lead #1	69,764	3.00%	8/1/2011	Sewer Rev.
Lead #4	194,305	4.50%	1/1/2013	Sewer Rev.
Lemmon	143,884	3.00%	10/1/2010	GO
Lennox #1	246,743	5.25%	1/1/2017	Sewer Rev.
Lennox #2	458,153	5.25%	1/1/2019	Sewer Rev.
McCook Lake San. Dist.	354,062	5.00%	12/1/2013	Sewer Rev.
Mitchell #1	658,448	4.50%	1/1/2009	Sales Tax
Mobridge #1	575,157	3.00%	10/1/2011	Sewer Rev.

Loan	Outstanding Balance	Interest Rate	Final Payment Date	Security
Mobridge #2	26,969	4.00%	6/1/2007	Sewer Rev.
Mobridge #3	1,006,328	4.50%	4/1/2012	Sales Tax
North Sioux City #2	350,340	5.00%	1/1/2012	Assessment
Philip #1	220,324	5.00%	6/1/2011	Sales Tax
Philip #2	249,687	5.25%	12/1/2018	Sales & Sewer
Pickeral Lake San Dist #1	350,462	5.25%	1/1/2018	Sewer Rev.
Pickeral Lake San Dist #2	294,654	5.25%	1/1/2019	Sewer Rev.
Pierre #2	3,522,111	5.25%	1/1/2019	Sales Tax
Pierre #3	4,599,669	5.00%	1/1/2021	Sewer Rev.
Pierre #4	1,178,903	3.50%	3/28/2025	Sales Tax
Rapid City #1	676,223	4.00%	7/1/2008	S.A. & Sewer
Rapid City #2	363,161	4.00%	10/1/2009	S.A. & Sewer
Rapid City #3	271,939	4.00%	4/1/2010	S.A. & Sewer
Rapid City #4	467,346	4.00%	1/1/2010	Storm Sewer Rev.
Rapid City #5	12,942,676	4.50%	10/15/2022	Sewer Rev.
Rapid Valley San. Dist. #2	159,769	4.00%	11/1/2010	Sewer Rev.
Rapid Valley San. Dist. #3	477,012	5.25%	1/1/2018	Sewer Rev.
Salem	504,421	3.50%	3/28/2025	Sewer Rev.
Scotland	247,829	3.50%	3/28/2025	Sales Tax
Sioux Falls #1	1,203,459	3.00%	7/15/2012	Sales Tax
Sioux Falls #7	86,579	3.00%	8/15/2005	Sewer Rev.
Sioux Falls #8	92,638	3.00%	8/15/2006	Sewer Rev.
Sioux Falls #9	131,816	3.00%	5/15/2006	Storm Sewer Rev.
Sioux Falls #10	150,673	3.00%	5/15/2006	Sales Tax
Sioux Falls #11	227,133	4.50%	1/15/2007	Sewer Rev.
Sioux Falls #12	299,114	4.50%	5/15/2007	Sewer Rev.
Sioux Falls #13	817,390	4.50%	6/15/2008	Sewer Rev.
Sioux Falls #14	3,646,480	4.50%	6/15/2012	Sewer Rev.
Sioux Falls #15	1,385,004	3.50%	7/15/2014	Sewer Rev.
Sioux Falls #16	2,437,019	3.50%	1/15/2015	Sewer Rev.
Sioux Falls #17	541,638	3.50%	1/15/2015	Storm Sewer
Southern Missouri WMD	209,611	5.00%	10/1/2017	Solid Waste
Spearfish	616,079	4.00%	5/1/2009	Sewer Rev.
Tea #1	229,910	4.00%	4/1/2010	GO
Tea #2	250,128	4.00%	10/1/2010	Storm Sewer Rev.
Tea #3	152,158	5.25%	1/1/2018	Sales Tax
Tea #4	245,322	5.00%	1/1/2014	Sewer Rev.
Tea #5	473,597	3.50%	4/1/2024	Sewer Rev.
Valley Springs #1	338,407	5.25%	10/1/2019	Sewer Rev.
Vermillion #1	57,439	3.00%	3/1/2013	Sewer Rev.
Vermillion #2	162,020	4.00%	12/1/2010	Storm Sewer Rev.
Vermillion #3	266,765	3.50%	3/1/2025	Sewer Rev.
Vermillion NPS #1	43,018	4.50%	6/1/2006	Solid Waste
Wall Lake San Dist.	165,800	3.50%	10/1/2023	Sewer Rev.
Watertown #1	500,726	4.00%	4/1/2008	Sales & Sewer
Watertown #2	1,250,032	4.00%	1/1/2009	Sewer Rev.
Watertown #3	1,807,591	5.25%	10/1/2016	Sewer Rev.
Watertown #5	993,678	3.50%	3/28/2025	Sp. Assessment
Webster #1	72,988	4.50%	1/1/2007	Sewer Rev.
Webster #2	757,039	3.50%	7/1/2023	Sewer Rev.

Loan	Outstanding Balance	Interest Rate	Final Payment Date	Security
Whitewood #1	48,800	4.00%	9/1/2008	GO & Sewer
Whitewood #2	164,038	5.00%	7/1/2021	Sewer Rev.
Willow Lake	99,132	3.50%	1/31/2026	Sewer Rev.
Worthing	164,420	5.25%	7/1/2017	GO & Sewer
Yankton #1	2,204,636	5.25%	10/1/2020	Sewer Rev.
Yankton #2	3,921,682	6.00%	4/1/2021	Sewer Rev.
Yankton #3	<u>5,223,258</u>	3.50%	10/1/2023	Sewer Rev.
Total	\$74,112,061			

Clean Water Loans Closed

Borrower	Loan Amount	Interest Rate	Repayment Begins	Loan Term	Security
Black Hawk Sanitary District	\$ 589,600	3.50%	7/15/2006	20 years	Sewer Rev.
Bridgewater	321,600	3.25%	7/15/2007	20 years	Sewer Rev.
Clear Lake #2	910,000	3.25%	7/15/2006	20 years	Sewer Rev.
Elk Point #3	345,000	3.50%	7/15/2005	20 years	Sales Tax
Fort Pierre #3	450,000	3.50%	9/1/2006	20 years	Sewer Rev.
Freeman	300,000	2.50%	4/1/2007	10 years	Sewer Rev.
Gayville	275,000	3.25%	10/15/2006	20 years	Sewer Rev. Sales Tax
Lead #5	333,700	3.25%	10/1/2005	20 years	Sewer Rev.
Mitchell #2	1,320,000	3.50%	10/1/2005	20 years	Solid Waste
Nisland	204,000	3.25%	1/1/2007	20 years	PRO
Parker	430,000	3.25%	1/15/2007	20 years	Sewer Rev.
Sioux Falls #18	3,951,000	2.50%	7/15/2006	10 years	Sewer Rev.
Sioux Falls #19	801,000	2.50%	7/15/2006	10 years	Storm Sewer
Sioux Falls #20A	16,000,000	1.50%	4/15/20/07	10 years	Storm Sewer
Sioux Falls #20NPS	1,249,349	1.50%	4/15/2007	10 years	Storm Sewer
Sioux Falls #21A	12,500,000	2.25%	4/15/2007	20 years	Sewer Rev.
Sioux Falls #21NPS	3,269,418	2.25%	4/15/2007	20 years	Sewer Rev.
Valley Springs #2	350,000	3.25%	1/1/2006	20 years	Sales Tax
Vermillion	<u>3,548,351</u>	3.25%	7/120/06	20 years	Sewer Rev.
Total	<u><u>\$47,148,018</u></u>				

Clean Water Loans Approved, But Not Closed

Borrower	Loan Amount	Interest Rate	Loan Term	Security
Aberdeen #1	\$ 12,062,600	2.25%	20 years	Project Fee
Aberdeen #1NPS	1,156,259	2.25%	20 years	Project Fee
Huron #4	1,500,000	3.25%	20 years	Sewer Rev.
Lake Poinsett San Dist	590,000	3.25%	20 years	Sewer Rev.
Redfield	333,788	3.25%	20 years	Sewer Rev.
Salem #2	<u>387,960</u>	3.25%	20 years	Sewer Rev.
Total	<u><u>\$16,030,607</u></u>			

LIST OF POTENTIAL LOANS

Clean Water Projects

	Borrower	Expected Loan Amount
2005		
	Colton	\$ 204,500
	Montrose	142,621
	Philip	347,040
	Vermillion	1,000,000
	Gettysburg	150,000
	Highmore	200,000
2006-07		
	Sioux Falls	19,010,000
	Redfield	800,000
	Spearfish	3,000,000
	Other	<u>15,500,000</u>
	Total	<u>\$40,354,161</u>

Drinking Water Projects

Borrower	Expected Loan Amount
2005	
Chancellor	\$ 230,000
Milbank	4,741,000
Vermillion	3,772,500
2006-07	
Wagner	\$ 350,000
Sioux Falls	8,120,000
Tripp County WUD	1,000,000
Rapid Valley Sanitary District	4,000,000
T-M WUD	1,250,000
Other	29,500,000
Total	<u>\$52,963,500</u>

OBLIGATED PERSONS

The City of Sioux Falls is the Borrower under the Drinking Water Program with the largest amount of outstanding Loan Obligations. Sioux Falls, with 141,000 residents, is the largest city in South Dakota, accounting for more than 18% of the State's population.

The City of Sioux Falls has entered into five separate Loan Obligations with the District to finance improvements to its water system. The outstanding unpaid principal amount of such Loan Obligations as of June 30, 2005 was \$14,994,531 and the amount of undisbursed funds authorized to be drawn under such Loan Obligations was an additional \$10,933,193. There are no other Borrowers for which the sum of its outstanding Loan Obligations under the Drinking Water Program and the undisbursed amount of such Loan obligations exceeds 20% of the principal amount of all outstanding Loan Obligations under the Drinking Water Program.

The City's five Drinking Water Loan Obligations are revenue bonds payable from the net revenues of the facilities financed by each loan. The purposes of these Loan Obligations include central pressure zone improvements, facility improvements, distributor line equipment and main replacement and improvement of operational efficiency, maintenance space and pressure zones, improvements to water treatment plant, and West Side Pump Station, replacement of water mains and upgrade of elevated furnish tanks and collective wells.

Water revenues, operating expenses and debt service coverage for obligations payable from the City's Water Fund for the past five fiscal years were as follows:

Fiscal Year	Operating Revenue	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements				
				Principal		Interest	Total	Coverage
				Certificates of Participation	State Revolving Fund			
2000	\$13,396,317	\$8,009,241	\$5,387,076	\$1,240,000	\$ 100,856	\$601,679	\$1,942,535	2.77
2001	13,819,851	8,969,044	4,850,807	1,325,000	509,943	799,153	2,634,096	1.84
2002	13,831,965	8,947,477	4,884,488	1,400,000	594,943	701,618	2,696,561	1.81
2003	13,843,494	8,752,262	5,091,232	1,470,000	726,135	699,929	2,896,064	1.76
2004	13,857,261	8,762,605	5,094,656	1,540,000	1,181,626	846,322	3,567,948	1.43

The City is expected to outgrow its water resources for new development by 2012. To provide for the growth the City is a primary participant in the jointly governed Lewis and Clark Rural Water System to pump water from the Missouri River. The costs of meeting projected capacity needs are expected to require future increases in water rates. The City believes its water rates are relatively low and that there is adequate capacity to increase rates to fund further growth of the system.

Water rates for the major categories of retail customers for the years 2000 to 2004 were as follows:

Retail Water Rates

	2003 and 2004	2000 to 2002
Residential		
Monthly Basic Charge		
5/8"	\$1.22	\$1.07
3/4"	1.65	1.50
1"	3.03	2.88
Volume charge-single family		
0-7 ccf	\$1.40	\$1.40
7-50 ccf	1.50	
Over 50 ccf	2.80	
Volume charge-multi-family		
Less than 2.5 monthly avg.	\$1.40	
2.5 or more times monthly avg.	2.80	
Commercial		
Monthly Basic Charge		
5/8"	\$4.59	\$4.44
3/4"	5.00	4.85
1"	5.53	5.38
2"	8.85	8.70
Volume charge	\$1.14-\$1.22	\$1.14-\$1.22
	dependent on volume	dependent on volume
	consumed and size of	consumed and size of
	meter	meter
Less than 2.5 monthly avg.	\$1.14	
2.5 or more times monthly avg.	2.28	
Industrial		
Monthly Basic Charge	\$568.32	\$568.32
Volume charge		
0-90,000 ccf	\$0.787/ccf	\$0.787/ccf
90,000-100,000 ccf	\$0.827/ccf	\$0.827/ccf
Over 100,000 ccf	\$0.847/ccf	\$0.847/ccf

The City of Sioux Falls has entered into 21 separate Loan Obligations with the District to finance improvements to its storm drainage and sewer systems. The outstanding unpaid principal amount of such Loan Obligations as of June 30, 2005 was \$13,770,665 and the amount of undisbursed funds authorized to be drawn under such Loan Obligations was an additional \$65,327,045. There are no other Borrowers for which the sum of its outstanding Loan Obligations under the Clean Water Program and the undisbursed amount of such Loan obligations exceeds 20% of the principal amount of all outstanding Loan Obligations under the Clean Water Program.

The City's sixteen presently outstanding Clean Water Loan Obligations are revenue bonds payable from the net revenues of the facilities financed by each loan, except that two Loan Obligations aggregating an outstanding \$1,354,132 are also supported by sales tax revenues. These projects include

the construction of new interceptor lines and lift stations, rehabilitation of the sanitary sewers and lift stations, purchase of sludge handling equipment and improvements, infiltration/inflow correction, improvement of storm water drainage, sewer, flow equalization basin construction, and other wastewater system improvements.

Sewer revenues, operating expenses and debt service coverage for obligations payable from the City's Water Reclamation Fund for the past five fiscal years were as follows:

Fiscal Year	Operating Revenue	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements				
				Principal		Interest	Total	Coverage
				Revenue Bonds	State Revolving Fund			
2000	\$8,005,748	\$4,747,127	\$3,258,621	–	\$1,521,735	\$306,243	\$1,827,978	1.78
2001	8,188,065	5,205,390	2,982,675	–	1,602,127	253,550	1,855,677	1.61
2002	8,552,198	5,575,546	2,976,652	–	1,863,691	275,217	2,138,908	1.39
2003	8,650,354	5,350,667	3,299,687	–	2,083,633	410,367	2,494,000	1.32
2004	8,586,610	5,337,657	3,248,953	–	1,962,571	397,960	2,360,531	1.38

The basic sewer rates for the years 2000 to 2004 were as follows:

Sewer Rates: 2000 to 2004

Monthly Residential Customers

Basic Charge \$1.38

Volume Charge \$1.30/ccf

Volume charge shall be based on actual water use for the months of November, December, January, and February. All other months shall be based on the average of actual water usage in the months of November, December, January, and February. The City may adjust the months used for calculating sewer use charges if unusual weather conditions promote outdoor water use.

Monthly Commercial Domestic Customers

Basic Charge \$4.90

Volume Charge \$1.27/ccf

Volume charge shall be based on actual water use for the months of November, December, January, and February. All other months shall be based on the average of actual water usage in the months of November, December, January, and February. The City may adjust the months used for calculating sewer use charges if unusual weather conditions promote outdoor water use.

Monthly Commercial Customers

Basic Charge	\$4.90
Volume Charge	\$1.27/ccf

Volume charge shall be based on the water consumed during the month.

Monthly Commercial Wholesale Customers

Basic Charge	\$0.00
Volume Charge	\$1.27/1,000 gallons

Volume charge shall be based on the three lowest months' average for the months of November, December, January, February, and March.

Monthly Industrial Customers

Basic Charge	\$4.90
Flow per 1,000 gallons	\$0.50
BOD, per pound	0.09
SS, per pound	0.09
TKN, per pound	0.33
Grease, per pound (exceeding 100 mg/l)	0.30

Storm sewer revenues are derived primarily from a frontage tax imposed on varying rates according to the nature of the property.

Storm sewer revenues, operating expenses and debt service coverage for obligations payable from the City's Storm Drainage Fund for the past five fiscal years were as follows:

Fiscal Year	Operating Revenue	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			
				Principal	Interest	Total	Coverage
2000	\$2,411,542	\$1,439,369	\$ 972,173	\$ 323,381	\$ 42,338	\$ 365,719	2.66
2001	2,407,784	2,040,215	367,569	337,113	28,594	365,707	1.01
2002	3,140,332	836,767	2,303,565	343,424	22,270	365,694	6.30
2003	3,345,068	583,008	2,762,060	229,924	13,965	243,889	11.33
2004	3,937,786	769,407	3,168,379	137,652	35,504	173,156	18.30

Additional information relating to the financed condition of the City of Sioux Falls is set forth in the City's comprehensive Annual financial Report which can be found on the City's official website at www.siouxfalls.org.

DRAFT APPROVING OPINION OF BOND COUNSEL

[To be dated the date of original issuance of the Series 2005 Bonds]

October 19, 2005

South Dakota Conservancy District
Joe Foss Building
Pierre, South Dakota 57501

\$50,000,000
South Dakota Conservancy District
State Revolving Fund Program Bonds
Series 2005

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by the South Dakota Conservancy District (the "District"), a governmental agency and body politic and corporate organized and existing under the constitution and laws of the State of South Dakota, of \$50,000,000 aggregate principal amount of its State Revolving Fund Program Bonds, Series 2005 (the "Series 2005 Bonds"). The Series 2005 Bonds are authorized by a Series Resolution of the District adopted on September 23, 2005 (the "Series Resolution") and are issued under and pursuant to the provisions of that certain Amended and Restated Master Trust Indenture dated as of July 1, 2004 as heretofore amended and supplemented (the "Master Indenture") between the District and The First National Bank in Sioux Falls, South Dakota, as trustee (the "Trustee"). The Master Indenture provides for the financing and administration of the District's Clean Water State Revolving Fund Program (the "Clean Water Program") and the District's Drinking Water State Revolving Fund Program (the "Drinking Water Program" and, together with the Clean Water Program, the "Programs"). The capitalized terms used herein which are not otherwise defined herein shall have the meanings assigned to them in the Master Indenture, as supplemented by the Series Resolution and a Bond Order dated as of October 19, 2005 (the "Bond Order").

The Series 2005 Bonds are issuable as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof. The Series 2005 Bonds mature on the dates and bear interest at the rates established by the Master Indenture, Series Resolution and Bond Order (collectively, the "Indenture") and are subject to optional and mandatory redemption as set forth in the Indenture.

As a result of certain federal restrictions on the use of particular funds in the Programs, the Indenture in effect divides each payment of principal of and interest on the Bonds of each series into a "Clean Water Portion" and a "Drinking Water Portion" in proportion to the amount of proceeds of the series of Bonds deposited in the Clean Water Program and the Drinking Water Program, respectively, and then subdivides both the Clean Water Portion and the Drinking Water Portion into a State Match Portion and Leveraged Portion either in proportion to the amounts of Bond proceeds allocated to such Program which are deposited in the State Match Loan Account and Leveraged Loan Account, respectively, of such Program or by assigning different percentages of debt service as between Programs for one or more maturities of Bonds of a series. Accordingly, each payment of principal and interest on each series of Bonds may have a "Clean Water State Match Portion", a "Drinking Water State Match Portion," a "Clean Water Leveraged Portion" and a "Drinking Water Leveraged Portion", each of which may be payable from separate sources under the Master Indenture. For convenience only, the debt service obligations represented by the Clean Water State Match Portion and the Clean Water Leveraged Portion are sometimes referred to herein as the "Clean Water Bonds" and the debt service obligations represented by the Drinking Water State Match

Portion and the Drinking Water Leveraged Portion are sometimes referred to herein as the “Drinking Water Bonds.”

The Series 2005 Bonds are limited obligations of the District payable only in accordance with their terms and the terms of the Indenture and are not obligations general, special or otherwise, or a debt, legal or moral, of the State of South Dakota. The principal of, premium, if any, and interest on the State Match Portion of the Series 2005 Bonds and the State Match Portion of all other Bonds then outstanding will be payable solely from the amounts and revenues pledged to secure the State Match Portion of debt service with respect to the Bonds, and the principal of, premium, if any, and interest on the Leveraged Portion of the Series 2005 Bonds and the Leveraged Portion of all other Bonds then outstanding will be payable solely from the amounts and revenues pledged to secure the Leveraged Portion of debt service with respect to the Bonds, but only to the extent and in the manner provided in the Indenture including, without limitation, the “General Limitation” as established by the Indenture and summarized below.

Notwithstanding any other provision of the Indenture, the Indenture contains a “General Limitation” which specifies that the following provisions shall govern the use and application of all funds and accounts under the Indenture, and if and to the extent these provisions conflict in any manner with any other express or implied provision of the Indenture, the following provisions shall prevail: (a) Drinking Water Bonds shall be secured solely by the Funds and Accounts within the Drinking Water Program which are pledged pursuant to the granting clauses of the Indenture and no assets of the Clean Water Program may be used to secure Drinking Water Bonds and (b) Clean Water Bonds shall be secured solely by the Funds and Accounts within the Clean Water Program which are pledged pursuant to the granting clauses of the Indenture and no assets of the Drinking Water Program may be used to secure Clean Water Bonds.

The Series 2005 Bonds are being issued by the District in order to raise certain moneys for the purpose of making loans to certain Political Subdivisions and other borrowers.

As to questions of fact material to our opinion, we have relied upon representations of the District and other parties contained in the documents described herein and other certifications of public officials and others without undertaking to verify the same by independent investigation.

In connection with the issuance of the Series 2005 Bonds, we have examined the following:

- (a) A certified copy of the Series Resolution in connection with the issuance by the District of the Series 2005 Bonds pursuant to and under the provisions of Chapters 46A-1 and 46A-2 of the Codified Laws of South Dakota, as amended (the “Act”);
- (b) An executed counterpart of the Master Indenture, as amended and supplemented;
- (c) An executed Bond Order;
- (d) The opinion dated of even date herewith of the Attorney General for the State of South Dakota, and legal advisor to the District, a copy of which is being delivered concurrently with this opinion;
- (e) An executed copy of the Tax Regulatory Agreement dated as of this date between the District and the Trustee (the “Tax Regulatory Agreement”);
- (f) A specimen Series 2005 Bond; and

(g) Such other documents as we deemed relevant and necessary in rendering this opinion.

From such examination, we are of the opinion that:

1. The District is a governmental agency and body politic and corporate of the State of South Dakota. Pursuant to the Act, the District is empowered to issue the Series 2005 Bonds and to loan the proceeds thereof to “Public Entities” (as defined in the Act) pursuant to the Loan Agreements for the purposes set forth in S.D.C.L. §§46A-1-60.1 through 46A-1-60.3 and to assign and pledge to the Trustee the Trust Estate, as defined in the Indenture, to secure payment of the Series 2005 Bonds as provided in the Indenture. The Master Indenture provides that additional Bonds (which may be designated as State Match Portion, Leveraged Portion or some combination thereof) may be hereafter issued under the Indenture and secured on a parity with the Series 2005 Bonds.

2. The Series 2005 Bonds have been validly authorized, executed and issued in accordance with the laws of the State of South Dakota now in force and represent valid and binding limited obligations of the District.

3. The Series Resolution has been duly adopted by the District. The Master Indenture has been duly authorized, executed and delivered by the District and is the valid and binding agreement of the District enforceable in accordance with its terms.

4. Subject to the condition that the District and the Political Subdivisions comply with their respective covenants set forth in the Indenture and the Tax Regulatory Agreement (with respect to the District) and the Loan Agreements (with respect to the Political Subdivisions), under present law, the Series 2005 Bonds are not “private activity bonds” under the Internal Revenue Code of 1986, as amended (the “Code”), and interest on the Series 2005 Bonds is excludable from gross income of the owners thereof for federal income tax purposes. Interest on the Series 2005 Bonds will not be included as an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Series 2005 Bonds will be included in “adjusted current earnings” of certain corporations for purposes of computing the alternative minimum tax for such corporations. Failure to comply with certain of these covenants could cause interest on the Series 2005 Bonds to be included in gross income retroactive to the date of issuance of the Series 2005 Bonds. Ownership of the Series 2005 Bonds may result in other federal tax consequences to certain taxpayers. We express no opinion regarding any such collateral consequences arising with respect to the Series 2005 Bonds. In rendering our opinion on tax exemption, we have relied upon certifications of the District, the Political Subdivisions and certain other parties with respect to certain material facts solely within their knowledge relating to the facilities to be financed or refinanced with the Series 2005 Bonds, the application of the proceeds of the Series 2005 Bonds and certain other matters pertinent to the tax-exempt status of the Series 2005 Bonds.

The obligations of the District and the security provided therefor, as contained in the Series 2005 Bonds and the Indenture, may be subject to general principles of equity which permit the exercise of judicial discretion and are subject to the provisions of applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect.

We express no opinion with respect to the Loans heretofore made or to be made in the future to Political Subdivisions, whose obligations with respect to such Loans have been or are to be made subject to the receipt of approving legal opinions from various other counsel at the times such Loans were heretofore made or are to be made.

For the purposes of this opinion, our services as Bond Counsel have not extended beyond the examinations and expressions of the conclusions referred to above. The opinions expressed herein are based upon existing law as of the date hereof, and we express no opinion herein as of any subsequent date or with respect to any pending legislation.

Very truly yours,

CONTINUING DISCLOSURE AGREEMENT
FOR THE PURPOSE OF PROVIDING
CONTINUING DISCLOSURE INFORMATION
UNDER SECTION (B)(5) OF RULE 15C2-12

This Continuing Disclosure Agreement (the “Agreement”) is executed and delivered by the South Dakota Conservancy District (the “District”) in connection with the issuance of \$50,000,000 South Dakota Conservancy District State Revolving Fund Program Bonds, Series 2005 (the “Series 2005 Bonds”). The Series 2005 Bonds are being executed and delivered pursuant to a Master Trust Indenture dated as of July 1, 2004 (as now or hereafter amended or supplemented, the “Master Indenture”) between the District and The First National Bank in Sioux Falls, as trustee (the “Trustee”) and a Series Resolution (as now or hereafter amended or supplemented, the “Series Resolution”) adopted by the South Dakota Board of Water and Natural Resources (the “Board”). The Master Indenture and Series Resolution are collectively referred to as the “Indenture.”

In consideration of the issuance of the Series 2005 Bonds by the District and the purchase of such Series 2005 Bonds by the beneficial owners thereof, the District covenants and agrees as follows:

Section 1. PURPOSE OF THIS AGREEMENT. This Agreement is executed and delivered by the District as of the date set forth below, for the benefit of the beneficial owners of the Series 2005 Bonds and to assist the Participating Underwriters in complying with the requirements of the Rule (as defined below).

Section 2. DEFINITIONS. The terms set forth below shall have the following meanings in the Agreement, unless the context clearly otherwise requires. Terms not defined herein shall have the meanings given thereto in the Indenture.

Annual Financial Information Disclosure means the dissemination of disclosure concerning District Annual Financial Information and Obligated Person Annual Financial Information, and the dissemination of the District Audited Financial Statements and Obligated Person Audited Financial Statements as set forth in Section 4.

District Annual Financial Information means the financial information and operating data described in Exhibit I.

District Audited Financial Statements means the audited financial statements of the District prepared pursuant to the standards and as described in Exhibit I.

Event means the occurrence of any of the events set forth in Exhibit II.

Final Official Statement means the final Official Statement relating to the Series 2005 Bonds dated October 6, 2005.

Material Event means the occurrence of an Event that is material, as materiality is interpreted under the 1934 Act.

Material Events Disclosure means dissemination of a notice of a Material Event as set forth in Section 5.

MSRB means the Municipal Securities Rulemaking Board.

1934 Act means the Securities Exchange Act of 1934, as amended.

NRMSIRs means, as of any date, all Nationally Recognized Municipal Securities Information Repositories then recognized by the SEC for purposes of the Rule. As of the date of this Agreement, the Participating Underwriters advise the District that the NRMSIRs are:

DPC Data, Inc.
One Executive Drive, Suite 105
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
email: nrmsir@dpcdata.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street
45th Floor
New York, NY 10041
Attention: Repository
Phone: (212) 438-4595
Fax: (212) 438-3975
email: NRMSIR_repository@sandp.com

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, NJ 08558-3629
Phone: (609) 279-3225
Fax: (609) 279-5962
email: Munis@Bloomberg.com

FT Interactive Data
Attn: NRMSIR
100 William Street
15th Floor
New York, NY 10038
Phone: (212) 771-6999
Fax: (212) 771-7390
email: NRMSIR@ftid.com

Obligated Person means for each District fiscal year, each Borrower (as defined in the Final Official Statement) which has, as of the most recent calendar year for which such information is available to the District: (i) executed and delivered one or more Loan Agreements (as defined in the Final Official Statement); and (ii) the sum of (A) the unpaid principal amount of all outstanding Loan Obligations (as defined in the Final Official Statement) issued thereunder or in connection therewith, and (B) the principal amount of funds authorized but not yet disbursed to such Borrower (as defined in the Final Official Statement) thereunder, exceeds 20% of the principal amount of the unpaid principal the outstanding Loan Obligations under the Clean Water Program or the Drinking Water Program. (as such terms are defined in the Final Official Statement).

Obligated Person Annual Financial Information means the financial information and operating data described in Exhibit I.

Obligated Person Financial Statements means the financial statements of any Obligated Person prepared pursuant to the standards and as described in Exhibit I.

Participating Underwriters means each broker, dealer or municipal securities dealer acting as an Underwriters in the primary offering of the Series 2005 Bonds.

Rule means Rule 15c2-12 adopted by the SEC under the 1934 Act, as the same may be amended from time to time.

SEC means the Securities and Exchange Commission.

SID means any public or private repository designated by the State as the state repository and recognized as such by the SEC for purposes of the Rule. As of the date of this Agreement there is no SID.

State means the state of South Dakota.

Undertaking means the obligations of the District pursuant to Sections 4 and 5.

Section 3. CUSIP NUMBER. The CUSIP Numbers of the Series 2005 Bonds are as set forth on Exhibit III.

Section 4. ANNUAL FINANCIAL INFORMATION DISCLOSURE. Subject to Section 9 of this Agreement, District hereby covenants that it will disseminate: (i) the District Annual Financial Information and District Audited Financial Statements (in the form and by the dates set forth in Exhibit I) to each NRMSIR and to the SID, if any, and (ii) that it will use its best efforts to cause any Obligated Person to provide the District with the Obligated Person Annual Financial Information and Obligated Person Financial Statements for dissemination together with the District Annual Financial Information and the District Audited Financial Statements in accordance with this Section 4 (i). The District is required to deliver such information in such manner and by such time so that such entities receive the information by the dates specified. The District assumes no responsibility for the accuracy or completeness of the Obligated Person Annual Financial Information and Obligated Person Financial Statements.

The District covenants that, if necessary to comply with this Section 4, it will enforce the provisions of the Loan Agreements that require an Obligated Person to provide the District with certain financial and operational information in connection with the issuance of any District Series 2005 Bonds.

If any part of the District Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the District shall disseminate a statement to such effect as part of the District Annual Financial Information for the year in which such event first occurs. For any fiscal year in which there is no Obligated Person, the District shall disseminate a statement to such effect as part of the District Annual Financial Information.

If any amendment is made to this Agreement, the District Annual Financial Information for the year in which such amendment is made shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

Section 5. EVENTS NOTIFICATION; MATERIAL EVENTS DISCLOSURE. Subject to Section 9 of this Agreement, the District hereby covenants that it will disseminate in a timely manner Material Events Disclosure to each NRMSIR or to the MSRB and to the SID, if any. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any Series 2005 Bonds or defeasance of any Series 2004 Bonds need not be given under this Agreement any earlier than the notice (if any) of such redemption or defeasance is given to the registered owners pursuant to the Indenture.

Section 6. DUTY TO UPDATE NRMSIRs/SID. The District shall determine, in the manner it deems appropriate, the names and addresses of the then-existing NRMSIRs and SID each time it is required to file information with such entities.

Section 7. CONSEQUENCES OF FAILURE OF DISTRICT TO PROVIDE INFORMATION. The District shall give notice in a timely manner to each NRMSIR or to the MSRB and to the SID, if any, of any failure to provide Annual Financial Information Disclosure when the same is due hereunder.

In the event of a failure of the District to comply with any provision of this Agreement, the beneficial owner of any Bond may seek mandamus or specific performance by court order, to cause the District to comply with its obligations under this Agreement. Any court action to enforce this Agreement must be commenced in the Circuit Court, Sixth Judicial Circuit, Hughes County, South Dakota. A default under this Agreement shall not be deemed a default under the Indenture, and the sole remedy under this Agreement in the event of any failure of the District to comply with this Agreement shall be an action to compel performance.

Section 8. AMENDMENTS; WAIVER. Notwithstanding any other provision of this Agreement, the Chairman of the District, pursuant to authorization granted in the Series Resolution and the Indenture, may amend this Agreement, and any provision of this Agreement may be waived, if:

- (a) (i) the amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the District or type of business conducted;
 - (ii) this Agreement, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
 - (iii) the amendment or waiver does not materially impair the interests of the beneficial owners of the Series 2005 Bonds, as determined by a party unaffiliated with the District (such as Bond Counsel) at the time of the amendment; or
- (b) the amendment or waiver is otherwise permitted by the rule.

Section 9. TERMINATION OF UNDERTAKING. The Undertaking of the District shall be terminated hereunder if the District shall no longer have any legal liability for any obligation on or relating to repayment of the Series 2005 Bonds under the Indenture. If this Section is applicable, the District shall give notice in a timely manner to each NRMSIR or to the MSRB and to the SID, if any.

Section 10. DISSEMINATION AGENT. The District may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Agreement, and may discharge any such agent, with or without appointing a successor dissemination agent.

Section 11. ADDITIONAL INFORMATION. Nothing in this Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information Disclosure or notice of occurrence of a Material Event, in addition to that which is required by this Agreement. If the District chooses to include any other information in any Annual Financial Information Disclosure or Material Event Disclosure in addition to that which is specifically required by this Agreement, the District shall have no obligation under this Agreement to update such information or include it in any future Annual Financial Information Disclosure or Material Event Disclosure.

Section 12. BENEFICIARIES. This Agreement has been executed to assist the Participating Underwriters in complying with the Rule; however, this Agreement shall inure solely to the benefit of the District and the beneficial owners of the Series 2005 Bonds, and shall create no rights in any other person or entity.

Section 13. ASSIGNMENT. The District shall not transfer its obligations under the Indenture unless the transferee agrees to assume all obligations of the District under this Agreement or to execute an Undertaking under the Rule.

Section 14. GOVERNING LAW. This Agreement shall be governed by the laws of the State.

South Dakota Conservancy District

By:
Its: Chairman
South Dakota Conservancy District
c/o South Dakota Department of Environment
and Natural Resources —SRF Programs
Joe Foss Building
523 East Capitol
Pierre, South Dakota 57501
Attention: SRF Section
Telephone: (605) 773-4216
Telecopy: (605) 773-4068

Attest:

Secretary

Date: October 19, 2005

EXHIBIT I
ANNUAL FINANCIAL INFORMATION AND TIMING AND AUDITED
FINANCIAL STATEMENTS

District Annual Financial Information and Obligated Person Annual Financial Information means the financial information and operating data as set forth below. All or a portion of the District Annual Financial Information and Obligated Person Annual Financial Information, and the District Audited Financial Statements and Obligated Person Financial Statements as set forth below may be included by reference to other documents, including other official statements (subject to the following sentence), which have been submitted to each NRMSIR and to the SID, if any, or filed with the SEC. If the information included by reference is contained in a final official statement, the final official statement shall have been submitted by the District to the MSRB. The District shall clearly identify each such item of information included by reference.

Part I. Annual Financial Information:

(a) District Annual Financial Information:

- (i) Financial information and operating data (exclusive of the District Audited Financial Statements) means information generally consistent with that contained in the Final Official Statement under the following captions:

the Program information under the “DISTRICT,” the table and Loan data under the caption “STATE REVOLVING FUND- Loans,” and the table and Capitalization Grant data under the caption “SOUTH DAKOTA STATE REVOLVING FUND- The Capitalization Grant and Letter of Credit.”

- (ii) District Annual Financial Information (currently expected to be compiled consistent with the federal year end of September 30 and presented as part of the District’s annual report to the United States Environmental Protection Agency) exclusive of District Audited Financial Statement will be provided to each NRMSIR and to the SID, if any, not more than 210 days after the last day of the District’s fiscal year, which is currently June 30.
- (iii) District Audited Financial Statements as described in Part II should be filed at the same time as the District Annual Financial Information described in this Part I. If the District Audited Financial Statements are not available when the District Annual Financial Information is filed, unaudited District financial statements shall be included, and Audited Financial Statements will be filed when available.

(b) Obligated Person Annual Financial Information

- (i) Financial information and operating data (exclusive of Obligated Person Financial Statements) means information generally consistent with that presented in Appendix A to the Final Official Statement, but with respect to Loans actually originated to Borrowers. Such information will be provided to each NRMSIR and to the SID, if any, not more than 210 days after the last day of the District’s fiscal year, which is currently June 30. This information and data is currently expected to be included in the annual report described in Part I(a)(i) of this Exhibit I.

- (ii) Obligated Person Financial Statements as described in Part II should be filed at the same time as the District Annual Financial Information described in this Part I. If Obligated Person Financial Statements are not available when the District Annual Financial Information is filed, unaudited financial statements shall be included, and Obligated Person Financial Statements will be filed when available.

Part II. Audited Financial Statements:

- (a) District Audited Financial Statements will be prepared in accordance with generally accepted accounting principles applicable to governmental units (GAAP) as in effect from time to time. The District does not covenant that Obligated Person Financial Statements will be audited or prepared in accordance with GAAP. Obligated Person Financial Statements will be audited or prepared in accordance with GAAP only if an Obligated Person otherwise prepares its financial statements in such manner.
- (b) District Audited Financial Statements and Obligated Person Financial Statements will be provided to each NRMSIR and to the SID, if any, not more than 210 days after the last day of the District's fiscal year, which is currently June 30. If the District Audited Financial Statements or other Obligated Person Financial Statements are not available when the Obligated Person Annual Financial Information is filed pursuant to Part I (a) and (b), then unaudited District financial statements shall be included, and Audited District Financial Statements will be filed when available.

EXHIBIT II
EVENTS FOR WHICH MATERIAL EVENTS DISCLOSURE IS REQUIRED

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers, or their failure to perform;
6. adverse tax opinions or events affecting the tax-exempt status of the Series 2005 Bonds;
7. modifications to rights of bondholders;
8. bond calls;
9. defeasances;
10. release, substitution or sale of property securing repayment of the Series 2005 Bonds; and
11. rating changes.

EXHIBIT III
CUSIP NUMBERS

YEAR OF MATURITY	CUSIP NUMBER
2007	837545ES7
2008	837545ET5
2009	837545EU2
2010	837545EV0
2011	837545EW8
2012	837545EX6
2013	837545EY4
2014	837545EZ1
2015	837545FA5
2016	837545FB3
2016	837545FC1
2017	837545FD9
2017	837545FE7
2018	837545FF4
2018	837545FG2
2019	837545FH0
2020	837545FJ6
2021	837545FK3
2022	837545FL1
2023	837545FM9
2024	837545FN7
2024	837545FP2
2025	837545FQ0
2025	837545FR8
2026	837545FS6
2026	837545FT4