

*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 2004 Bonds is excludable from gross income of the owners thereof for federal income tax purposes. Interest on the Series 2004 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 2004 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.*

**\$38,460,000**  
**SOUTH DAKOTA CONSERVANCY DISTRICT**  
**State Revolving Fund Program Bonds**  
**Series 2004**

Dated date of delivery

Due: August 1, as shown below

The State Revolving Fund Program Bonds, Series 2004 (the "Series 2004 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 2004 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 2004 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 2004 Bonds. See "Description of the Series 2004 Bonds -- Book-Entry Only System" herein.

Payments of the principal of and interest on the Series 2004 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 2004 Bonds as described herein. Interest on the Series 2004 Bonds is payable semi-annually on each February 1 and August 1, commencing February 1, 2005.

The Series 2004 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>
2005	\$1,010,000	2.00%	1.65%	837545DM1	2016	\$1,385,000	4.875%	4.38% <sup>(1)</sup>	837545EC2
2006	1,955,000	2.50	2.14	837545DN9	2017	10,000	4.40	4.43	837545ED0
2007	2,000,000	3.00	2.64	837545DP4	2017	1,455,000	5.25	4.43 <sup>(1)</sup>	837545EE8
2008	720,000	3.50	3.00	837545DQ2	2018	1,435,000	5.25	4.51 <sup>(1)</sup>	837545EF5
2008	1,350,000	3.00	100	837545DR0	2019	10,000	4.50	4.59	837545EG3
2009	2,140,000	3.75	3.16	837545DS8	2019	1,500,000	5.25	4.59 <sup>(1)</sup>	837545EH1
2010	2,200,000	3.75	3.46	837545DT6	2020	1,590,000	5.25	4.67 <sup>(1)</sup>	837545EJ7
2011	2,280,000	4.00	3.65	837545DU3	2021	1,675,000	5.25	4.73 <sup>(1)</sup>	837545EK4
2012	2,425,000	4.00	3.77	837545DV1	2022	1,760,000	5.25	4.81 <sup>(1)</sup>	837545EL2
2013	1,800,000	4.00	3.93	837545DW9	2023	1,855,000	5.25	4.88 <sup>(1)</sup>	837545EM0
2014	575,000	4.00	4.06	837545DX7	2024	25,000	4.90	5.00	837545EN8
2014	1,300,000	4.25	4.06	837545DY5	2024	1,925,000	5.00	100	837545EP3
2015	285,000	4.20	4.28	837545DZ2	2025	350,000	4.90	5.06	837545EQ1
2015	1,635,000	5.00	4.28 <sup>(1)</sup>	837545EA6	2025	1,700,000	5.00	5.06	837545ER9
2016	110,000	4.30	4.38	837545EB4					

Proceeds of the Series 2004 Bonds, together with other available funds, will be used by the District to refund certain outstanding bonds of the District and 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 to establish certain reserves 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 2004 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 2004 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 2004 Bonds are offered, subject to prior sale, when, as and if accepted by UBS Financial Services Inc., Dougherty & Company, LLC and Northland Securities Inc., the Underwriters, 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 Underwriters, and by the office of the South Dakota Attorney General, as counsel to the District, and certain other conditions. The Underwriters intend, but are not required, to engage in secondary market trading in the Series 2004 Bonds, subject to applicable securities laws. It is anticipated that the Series 2004 Bonds will be delivered to The Depository Trust Company in New York, New York on or about July 13, 2004.

## UBS Financial Services Inc.

Dougherty &amp; Company, LLC

Northland Securities, Inc.

The date of this Official Statement is July 7, 2004.

(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 Underwriters to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such information and representations must not be relied upon as having been authorized by the South Dakota Conservancy District or the Underwriters.

This Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any sale of the Series 2004 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.

**TABLE OF CONTENTS**

	<u>Page</u>
<b>INTRODUCTORY STATEMENT .....</b>	<b>1</b>
<b>THE DISTRICT.....</b>	<b>4</b>
<b>SOUTH DAKOTA STATE REVOLVING FUNDS.....</b>	<b>4</b>
General.....	4
Loans.....	5
Drinking Water Terms .....	6
Clean Water Terms .....	7
Selection of Borrowers; Credit Standard .....	7
The Capitalization Grants and Letters of Credit.....	7
Availability of Future Capitalization Grants .....	9
New Loans .....	9
Sources of Funds for Loans .....	10
Loan Agreements .....	11
Account Balances.....	11
Investment of Certain Funds .....	12
<b>SOURCE OF PAYMENT AND SECURITY .....</b>	<b>13</b>
Revenues and Other Available Moneys .....	14
Reserve Funds.....	19
Relationship Between Monies Held in Clean Water SRF and Drinking Water SRF; Limited Cross- Collateralization .....	20
Additional Bonds .....	20
Qualified Interest Rate Agreements .....	21
Absence of Acceleration Remedy .....	21
<b>DESCRIPTION OF THE SERIES 2004 BONDS .....</b>	<b>22</b>
Purpose and Authority .....	22
Terms of the Bonds .....	22
Redemption of the Bonds.....	22
Notice of Redemption .....	22
Book-Entry Only System .....	22
<b>PLAN OF REFUNDING .....</b>	<b>24</b>
<b>ESTIMATED SOURCES AND USES OF FUNDS.....</b>	<b>24</b>
Initial Deposits.....	24
<b>SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE .....</b>	<b>25</b>
Funds and Accounts.....	25
Additional Series of Bonds .....	30
Default and Remedies .....	31
Certain Amendments and Consents Deemed Given by Holders of Series 2004 Bonds .....	32
Certain Conditions Relating to Acceptance of Prepayment of Loan Obligations .....	34
Covenants and Miscellaneous.....	35
<b>TAX EXEMPTION .....</b>	<b>35</b>
General.....	35
Original Issue Discount.....	37

Bond Premium .....	37
Not Qualified Tax-Exempt Obligations .....	38
<b>UNDERWRITING .....</b>	<b>38</b>
<b>VERIFICATION .....</b>	<b>38</b>
<b>CONTINUING DISCLOSURE .....</b>	<b>38</b>
<b>RATING .....</b>	<b>38</b>
<b>ABSENCE OF LITIGATION .....</b>	<b>39</b>
<b>LEGAL MATTERS .....</b>	<b>39</b>
<b>FINANCIAL ADVISOR .....</b>	<b>39</b>
<b>MISCELLANEOUS .....</b>	<b>39</b>
<b>Appendix A – Existing Loan Obligations .....</b>	<b>A-1</b>
<b>Appendix B - Anticipated Loan Obligations .....</b>	<b>B-1</b>
<b>Appendix C - Form of Bond Counsel Opinion .....</b>	<b>C-1</b>
<b>Appendix D - Continuing Disclosure Agreement .....</b>	<b>D-1</b>

THE SERIES 2004 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**

**\$38,460,000**

### **SOUTH DAKOTA CONSERVANCY DISTRICT State Revolving Fund Program Bonds Series 2004**

#### **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 2004 (the "Series 2004 Bonds"). The Series 2004 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 2004 BONDS" herein. The Series 2004 Bonds are issued pursuant to and secured by an Amended and Restated Master Trust Indenture dated as of July 1, 2004 (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 2004 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 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 A hereto.

A description of Loan Obligations expected to be acquired by the District under the Programs is set forth in Appendix B 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") 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").

The Series 2004 Bonds are issued under the Master Indenture and a Series Resolution adopted by the District. The proceeds of Series 2004 Bonds and certain available funds will be used to (i) refund all of the District's outstanding Series 1994 Bonds and Series 1995 Bonds, and advance refund all but a portion of the 2017 maturities of the District's outstanding Series 1996 Bonds, (ii) provide funds for the State Match and other new Loans under the Drinking Water Program and (iii) to fund certain issuance costs. Upon issuance of the Series 2004 Bonds, the Bonds outstanding under the Master Indenture will consist of a portion of the Series 1996 Bonds and all currently outstanding Series 1998 Bonds, Series 2001 Drinking Water Bonds and Series 2001 Clean Water Bonds (collectively, the "Existing Bonds") and the Series 2004 Bonds. The Existing Bonds, Series 2004 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".

A primary purpose of the refunding is to place the two Programs under a single Master Indenture 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". The Series 2004 Bonds provide that the initial purchaser thereof, and each subsequent holder thereof, shall be deemed to have consented to various amendments and supplements of the each of the Prior Clean Water Indenture and the Prior Drinking Water Indenture (the "Prior Indentures") so that from and after the date of delivery of the Series 2004 Bonds, each such Prior Indenture shall be amended and restated by the Master Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE" – Certain Amendments and Consents Deemed Given by Holders of 2004 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" either in proportion to the amount of proceeds of the series of Bonds deposited in the Clean Water SRF and the Drinking Water SRF, respectively, or by assigning different percentages of debt service as between Programs for one or more maturities of Bonds of a series. The latter method would typically be utilized in circumstances in which the weighted average maturity of Bonds issued for one program would be different from the weighted average maturity of Bonds issued for the other Program, such as is the case with respect to the Series 2004 Bonds in which the Clean Water Portion of the Series 2004 Bonds are being issued to refund prior Bonds and the Drinking Water Portion of the Bonds are being issued to fund new loans. The Master Indenture further subdivides both the

Clean Water Portion and the Drinking Water Portion into a State Match Portion and Leveraged Portion in proportion to the amounts of Bond proceeds allocated to such State Revolving Fund which are deposited in the State Match Loan Account and Leveraged Loan Account, respectively, of such Fund. 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. In the case of the Series 2004 Bonds, which include refunding Bonds, the determination of the Clean Water Portion and Drinking Water Portion may be made separately by maturity in order to match the Allocable Portions with maturity schedules developed for the separate Programs. 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 2004 Bonds, the portions of each payment of principal and interest are to be divided approximately as follows: (i) for the period ending August 1, 2012, Clean Water State Match Portion, 31%; Clean Water Leveraged Portion, 9%; Drinking Water State Match Portion, 11%; and Drinking Water Leveraged Portion, 49%; (ii) for the period August 2, 2012 to August 1, 2015, Clean Water State Match Portion, 14%; Clean Water Leveraged Portion, 12%; Drinking Water State Match Portion, 13%; and Drinking Water Leveraged Portion, 61%; (iii) for the period August 2, 2015 to August 1, 2017, Clean Water State Match Portion, 8%; Drinking Water State Match Portion, 17%; and Drinking Water Leveraged Portion, 75%; and (iv) for the period August 2, 2017 to August 1, 2025, Drinking Water State Match Portion, 18%; and Drinking Water Leveraged Portion, 82%.

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," "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 “SUMMARY OF 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>
Gregg Greenfield	Chairman	July 1, 2007
Dale Kennedy	Secretary	July 1, 2007
John Loucks	Member	July 1, 2006
Gene Jones, Jr.	Member	July 1, 2005
Donald Bollweg	Member	July 1, 2006
Bradley Johnson	Member	July 1, 2007
Don Rounds	Member	July 1, 2004

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 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.

The State Revolving Funds may be funded, from year to year, from some or all of the following sources: proceeds of Capitalization Grants from the EPA (in the form of letters of credit or other funding arrangements), proceeds of Bonds issued by the District under the Master Indenture, any appropriations by the State for this purpose, loan repayments pursuant to the Loan Obligations and interest earnings on fund balances.

The Programs are administered by the District. The District is responsible for reviewing and assessing the financial capacity of Borrowers applying for Loans, arranging financing for Program activities, accounting for the Loans and Loan repayments and investment of Program funds. The District is also responsible for the ongoing operation of the Programs, monitoring construction progress of facilities financed by the Programs and evaluating Loan applications made by Borrowers for compliance with requirements of the State Act and the Federal Acts. Each Loan must be approved by Board action.

### ***Loans***

The Loan Obligations held by the District under the Programs are described in Appendix A 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 B.

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 six loans to six Nonprofit Borrowers with an aggregate outstanding balance of \$10,756,458. The expected loans described in Appendix B 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 2003 the Board set the interest rates for fiscal year 2004 at 3.50% for Drinking Water Loan Obligations having a term of up to 20 years. In March 2004 rates were reduced to 2.50% for loans with a term of 10 years or less and to 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 lowered the rate for loans intended for interim financing from 2.5% to 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.

A 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 counsel, bond underwriting, and trustee expenses. The administrative surcharge is waived for interim financing loans and loans made to disadvantaged communities with interest rate less than 3.25%.

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 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 A, an aggregate of \$9,763,007 (or approximately 11% of the principal amount of total outstanding Drinking Water Loan Obligations) involve loans to disadvantaged

communities. \$3,330,000 of the expected loans described in Appendix B involve loans to disadvantaged communities.

### ***Clean Water Terms***

In September 2003 the Board set the interest rates for fiscal year 2004 at 3.50% for Clean Water Loan Obligations having a term of up to 20 years. In March 2004 rates were reduced to 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 percent 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 lowered the rate for loans intended for interim financing from 2.5% to 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 subject to the rates described in the previous paragraph.

### ***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 provides 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. Unless extended by federal law, the Governor's authority to make such transfers expires on September 30, 2004, but the authority has been extended in the past at one-year intervals. 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 2004. 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, 2004, and the amounts thereof drawn as of March 31, 2004, 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	411,564	7,377,536	7,377,536	-0-
2002**	14,563,300	483,150	14,080,150	2,062,845	\$12,017,305
2003**	14,471,900	420,164	14,051,736	-0-	14,051,736
2004	8,303,100	498,186	7,804,914	-0-	7,804,914

\*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 years ended September 30, 2005 and September 30, 2006 in the amount of approximately \$8,352,500 in each year. The Series 2004 Bonds are intended to provide the State Match necessary to draw down the 2004 Drinking Water Capitalization Grant and the anticipated 2005 and 2006 Drinking Water Capitalization Grants.

Capitalization Grants awarded for the Clean Water Program for each of the years ended September 30, 1989 to 2004, and the amounts there drawn as of March 31, 2004, are as follows:

Year Ended September 30	Clean Water Capitalization Grants				
	Grant Amount	Total Set-Asides*	Net	Amount Drawn	Balance
1989	\$4,577,200	\$183,088	\$4,394,112	\$4,394,112	\$-0-
1990	4,738,000	189,520	4,548,480	4,548,480	-0-
1991	10,074,800	402,992	9,671,808	9,671,808	-0-
1992	9,534,900	381,396	9,153,504	9,153,504	-0-
1993	9,431,000	377,240	9,053,760	9,053,760	-0-
1994	5,813,800	232,552	5,581,248	5,581,248	-0-
1995	6,007,800	240,312	5,767,488	5,767,488	-0-
1996	9,904,700	396,188	9,508,512	9,508,512	-0-
1997	2,990,500	119,620	2,870,880	2,870,880	-0-
1998	6,577,300	263,092	6,314,208	6,314,208	-0-
1999	6,577,900	263,116	6,314,784	6,314,784	-0-
2000	6,555,200	262,208	6,292,992	6,292,992	-0-
2001	6,496,100	259,844	6,236,256	4,934,526	\$1,301,730
2002	**	**	**	**	**
2003	**	**	**	**	**
2004	\$6,471,800	\$215,727	\$6,256,073	-0-	\$6,256,073

\*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, 2005 and 2006 in the amounts of approximately \$6,500,000 for each year. The District will provide the State Match for the 2004 and expected 2005 and 2006 Clean Water Capitalization Grants from Bond proceeds on hand and, if necessary, other eligible funds.

#### ***Availability of Future Capitalization Grants***

The Series 2004 Bonds is to provide the State Match for the 2004 Drinking Water Capitalization Grant and the Drinking Water Capitalization Grants expected to be received in 2005 and 2006. There is a risk that the expected proceeds of the 2005 and 2006 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 2004 Bonds (in the case of the Drinking Water Program) and other amounts available for the Programs. Loans presently projected to be made under the Programs are for the projects described in Appendix B. Based on its experience, the District expects actual Loans to differ from those projected in Appendix B or otherwise identified in its Intended Use Plans, and changes in the nature and amount of the Loans and the identity of the Borrowers may be substantial. The changes 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.

The State Match Funds provided by the Series 2004 Bonds will enable the District to draw all of the expected 2005 and 2006 Capitalization Grants under the Drinking Water Program. The District plans to use unexpended proceeds of Existing Bonds and, if necessary, accumulated administrative fees to provide the State Match for the 2004 and expected 2005 and 2006 Capitalization Grants under the Clean Water Program.

### ***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 March 31, 2004 are as follows:

[The balance of this page intentionally left blank.]

Summary of Fund Balances, Loan Balances  
and Outstanding Bonds  
(as of March 31, 2004)

<u>Fund Assets</u>	<u>Clean Water</u>	<u>Drinking Water</u>
Reserve Fund:		
State Match Reserve Account	\$ 1,778,446	\$ 950,309
Restricted Reserve Account	772,954	-
Unrestricted Reserve Account	-	-
Loan Fund:		
Federally Capitalized Loan Account	\$ -	\$ -
State Match Loan Account	129,832	2,988,112
Leveraged Loan Account	7,540	-
Transfer Match Loan Account	-	2,604,706
Revenue Fund:		
Unrestricted Interest Repayments Account	\$ 1,764,266	\$ 198,184
Restricted Principal Repayments Account	949,813	97,530
Unrestricted Cumulative Excess	\$ 17,885,882	\$ 1,641,514
Restricted Cumulative Excess	26,796,304	4,312,755
Administration Fund:		
SRF Administration Account	\$ 130,396	\$ 4,558
State Administration Account	3,218,590	1,022,738
Bond Fund:		
State Match Bond Account	\$ 1,339,528	\$ 669,609
Leveraged Bond Account	342,097	-
Outstanding Loan Balances*	\$ 73,023,989	\$ 30,733,048
Disbursed Portion of Other Closed Loans	<u>\$ 4,101,248</u>	<u>\$ 15,847,957</u>
Total Assets	\$132,240,885	\$ 61,071,016
<u>Bonds Outstanding</u>		
Leveraged	\$ 3,816,788	\$ -
State Match	<u>14,913,212</u>	<u>10,675,000</u>
Total Outstanding Bonds	\$ 18,730,000	\$ 10,675,000

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

***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 2004 Bonds and related 2004, 2005 and 2006 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 issued, secured or guaranteed by a corporation or national bank which has a long-term debt rating in the two highest categories by Moody's Investors Service, Inc. 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 <sup>(1)</sup>	FGIC Capital Market Services, Inc. (guaranteed by General Electric Capital Corporation)	5.40%	\$70,000,000	\$26,658,858	8/1/12
1995 <sup>(1)</sup>	Societe Generale (New York Branch)	6.85	15,000,000	14,170,802	8/1/15
1996 <sup>(1)</sup>	MBIA Inc.	6.22	15,000,000	9,460,094	8/1/17
1998 <sup>(2)</sup>	CDC Funding Corp.	5.56	40,000,000	7,160,801	8/1/08
2001 & 2004 <sup>(1)(2)(3)</sup>	AIG Matched Funding Corp. (guaranteed by American International Group, Inc.)	5.07	60,000,000 <sup>(4)</sup>	0	7/31/25

<sup>(1)</sup> Clean Water

<sup>(2)</sup> Drinking Water

<sup>(3)</sup> Anticipated

<sup>(4)</sup> Cap solely on Revenue Fund portion of total investment.

For purposes of preparing the Coverage Certificates for the Series 2004 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 and 1996 Clean Water Bonds and the anticipated Investment Agreement per the Series 2001 Clean Water, Series 2001 Drinking Water and Series 2004 Bonds, the Series 1998 Drinking Water 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.

### **SOURCE OF PAYMENT AND SECURITY**

The Series 2004 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 2004 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 “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 “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 2004 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 2004 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.

See “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE - Funds and Accounts” for a more detailed summary of the purposes and limitations of 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 2004 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 2004, 2005 and 2006), 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.

[Balance of page intentionally left blank.]

**Drinking Water State Revolving Fund  
Projected Coverage**

	State Match Bonds				Leveraged Bonds					Total Bonds			
	Annualized Interest Revenues Available <sup>(1)</sup>	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 <sup>(2)</sup>	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
8/1/2005	\$3,180,983	\$1,170,728	\$2,010,255	2.72x	\$2,010,255	\$2,994,398	\$5,004,653	\$1,073,933	4.66x	\$6,175,381	\$2,244,661	\$3,930,720	2.75x
8/1/2006	3,385,336	1,320,735	2,064,601	2.56x	2,064,601	4,257,616	6,322,218	1,762,794	3.59x	7,642,953	3,083,529	4,559,424	2.48x
8/1/2007	3,586,911	1,322,085	2,264,826	2.71x	2,264,826	5,712,623	7,977,449	1,759,294	4.53x	9,299,534	3,081,379	6,218,155	3.02x
8/1/2008	4,096,346	1,321,610	2,774,736	3.10x	2,774,736	6,785,492	9,560,228	1,761,644	5.43x	10,881,838	3,083,254	7,798,585	3.53x
8/1/2009	4,327,077	1,319,153	3,007,925	3.28x	3,007,925	7,595,093	10,603,017	1,766,869	6.00x	11,922,170	3,086,021	8,836,148	3.86x
8/1/2010	4,597,944	1,319,895	3,278,049	3.48x	3,278,049	8,000,611	11,278,660	1,761,494	6.40x	12,598,555	3,081,389	9,517,166	4.09x
8/1/2011	4,875,556	1,318,815	3,556,741	3.70x	3,556,741	7,452,618	11,009,359	1,760,181	6.25x	12,328,174	3,078,996	9,249,177	4.00x
8/1/2012	5,182,612	1,324,800	3,857,812	3.91x	3,857,812	7,677,561	11,535,374	1,775,581	6.50x	12,860,174	3,100,381	9,759,792	4.15x
8/1/2013	5,509,617	1,322,445	4,187,172	4.17x	4,187,172	7,768,285	11,955,458	1,773,981	6.74x	13,277,903	3,096,426	10,181,476	4.29x
8/1/2014	5,854,413	1,323,045	4,531,368	4.42x	4,531,368	7,582,756	12,114,124	1,775,981	6.82x	13,437,169	3,099,026	10,338,143	4.34x
8/1/2015	6,202,229	1,321,358	4,880,871	4.69x	4,880,871	6,946,293	11,827,165	1,759,681	6.72x	13,148,522	3,081,039	10,067,483	4.27x
8/1/2016	6,567,142	1,316,138	5,251,005	4.99x	5,251,005	6,670,855	11,921,860	1,760,131	6.77x	13,237,997	3,076,269	10,161,729	4.30x
8/1/2017	6,921,223	1,319,018	5,602,206	5.25x	5,602,206	5,741,555	11,343,760	1,758,673	6.45x	12,662,778	3,077,690	9,585,088	4.11x
8/1/2018	7,289,338	1,318,393	5,970,946	5.53x	5,970,946	5,779,374	11,750,320	1,760,220	6.68x	13,068,712	3,078,613	9,990,100	4.25x
8/1/2019	7,677,513	1,325,243	6,352,271	5.79x	6,352,271	5,817,464	12,169,735	1,758,533	6.92x	13,494,977	3,083,775	10,411,202	4.38x
8/1/2020	6,846,148	809,055	6,037,093	8.46x	6,037,093	5,952,078	11,989,171	1,758,770	6.82x	12,798,226	2,567,825	10,230,401	4.98x
8/1/2021	7,142,293	810,830	6,331,463	8.81x	6,331,463	5,864,960	12,196,423	1,760,520	6.93x	13,007,253	2,571,350	10,435,903	5.06x
8/1/2022	7,458,013	810,818	6,647,196	9.20x	6,647,196	6,030,920	12,678,116	1,758,595	7.21x	13,488,933	2,569,413	10,919,521	5.25x
8/1/2023	6,638,934	389,018	6,249,917	17.07x	6,249,917	6,120,188	12,370,105	1,762,995	7.02x	12,759,123	2,152,013	10,607,110	5.93x
8/1/2024	6,876,065	391,430	6,484,635	17.57x	6,484,635	5,727,934	12,212,569	1,758,195	6.95x	12,603,999	2,149,625	10,454,374	5.86x
8/1/2025	7,098,826	393,685	6,705,141	18.03x	6,705,141	4,399,934	11,105,075	1,758,465	6.32x	11,498,760	2,152,150	9,346,610	5.34x

(1) Includes loan interest repayments and interest earnings on funds.

(2) Consists of approved loans as of March 31, 2004 and projected loans to be made through Fiscal Year 2006.

**Clean Water State Revolving Fund  
Projected Coverage**

	State Match Bonds				Leveraged Bonds					Total Bonds			
	Annualized Interest Revenues Available <sup>(1)</sup>	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 <sup>(2)</sup>	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
8/1/2005	\$5,624,026	\$1,454,823	\$4,169,203	3.87x	\$4,169,203	\$6,451,097	\$10,620,300	\$334,729	31.73x	\$12,075,122	\$1,789,552	\$10,285,571	6.75x
8/1/2006	5,863,035	1,456,609	4,406,426	4.03x	4,406,426	6,050,035	10,456,462	331,348	31.56x	11,913,071	1,787,958	10,125,113	6.66x
8/1/2007	6,005,962	1,450,020	4,555,942	4.14x	4,555,942	6,248,504	10,804,446	335,287	32.22x	12,254,466	1,785,308	10,469,158	6.86x
8/1/2008	6,287,928	1,458,662	4,829,266	4.31x	4,829,266	7,496,508	12,325,774	337,795	36.49x	13,784,436	1,796,458	11,987,979	7.67x
8/1/2009	6,661,860	1,462,280	5,199,579	4.56x	5,199,579	7,284,629	12,484,209	336,365	37.12x	13,946,489	1,798,645	12,147,844	7.75x
8/1/2010	6,949,755	1,449,388	5,500,367	4.79x	5,500,367	6,972,950	12,473,317	333,270	37.43x	13,922,705	1,782,658	12,140,048	7.81x
8/1/2011	7,229,643	1,443,968	5,785,675	5.01x	5,785,675	6,788,104	12,573,778	336,365	37.38x	14,017,746	1,780,333	12,237,414	7.87x
8/1/2012	7,419,524	1,466,048	5,953,476	5.06x	5,953,476	6,582,608	12,536,084	341,509	36.71x	14,002,133	1,807,558	12,194,575	7.75x
8/1/2013	5,122,030	756,778	4,365,253	6.77x	4,365,253	5,752,544	10,117,796	339,580	29.80x	10,874,574	1,096,358	9,778,216	9.92x
8/1/2014	5,094,823	757,743	4,337,081	6.72x	4,337,081	5,885,246	10,222,327	337,265	30.31x	10,980,070	1,095,008	9,885,062	10.03x
8/1/2015	5,066,083	743,754	4,322,329	6.81x	4,322,329	6,073,539	10,395,868	337,241	30.83x	11,139,622	1,080,995	10,058,627	10.30x
8/1/2016	3,987,815	566,045	3,421,770	7.05x	3,421,770	6,243,133	9,664,903	-	-	10,230,948	566,045	9,664,903	18.07x
8/1/2017	3,920,607	559,125	3,361,482	7.01x	3,361,482	5,781,577	9,143,059	-	-	9,702,184	559,125	9,143,059	17.35x
8/1/2018	2,893,537	350,250	2,543,287	8.26x	2,543,287	5,704,892	8,248,178	-	-	8,598,428	350,250	8,248,178	24.55x
8/1/2019	2,827,743	346,500	2,481,243	8.16x	2,481,243	5,517,135	7,998,378	-	-	8,344,878	346,500	7,998,378	24.08x
8/1/2020	2,767,423	347,250	2,420,173	7.97x	2,420,173	5,427,838	7,848,011	-	-	8,195,261	347,250	7,848,011	23.60x
8/1/2021	2,708,393	347,250	2,361,143	7.80x	2,361,143	5,076,495	7,437,638	-	-	7,784,888	347,250	7,437,638	22.42x
8/1/2022	2,662,631	346,500	2,316,131	7.68x	2,316,131	4,588,819	6,904,950	-	-	7,251,450	346,500	6,904,950	20.93x
8/1/2023	277,533	-	277,533	-	277,533	3,815,331	4,092,864	-	-	4,092,864	-	4,092,864	-
8/1/2024	207,882	-	207,882	-	207,882	3,240,197	3,448,079	-	-	3,448,079	-	3,448,079	-
8/1/2025	148,907	-	148,907	-	148,907	3,153,489	3,302,397	-	-	3,302,397	-	3,302,397	-

(1) Includes loan interest repayments and interest earnings on funds.

(2) Consists of approved loans as of March 31, 2004 and projected loans to be made through Fiscal Year 2006.

## ***Reserve Funds***

The Series 2004 Bonds are not secured by a pledge of or lien on amounts on deposit in either Reserve Fund. However, the Existing 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 2004 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 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 2004 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 2004 BONDS**

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

The Series 2004 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 2004 Bonds will be used by the District to refund certain outstanding bonds of the District, make Loans and pay issuance costs. See “ESTIMATED SOURCES AND USES OF FUNDS” herein.

### ***Terms of the Bonds***

The Series 2004 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, 2005.

### ***Redemption of the Bonds***

**Optional Redemption.** The Series 2004 Bonds maturing on or before August 1, 2014 are not subject to redemption prior to their respective maturities. The Series 2004 Bonds maturing on or after August 1, 2015 are subject to redemption and prior payment at the option of the District on August 1, 2014 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 2004 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 2004 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.

### **PLAN OF REFUNDING**

A portion of the Series 2004 Bonds will be used to refund and redeem: (i) on August 1, 2004, all of the District's \$5,695,000 in principal amount of outstanding Clean Water State Revolving Fund Revenue Bonds, Series 1994A having scheduled maturities in the years 2005 to 2012 at par plus a 1.00% premium; (ii) on August 1, 2004, all of the District's \$5,580,000 in principal amount of outstanding Clean Water State Revolving Fund Revenue Bonds, Series 1995A having scheduled maturities in the years 2005 to 2015 at par plus a 1.00% premium; (iii) the scheduled August 1, 2005 and August 1, 2006 maturities on such maturity dates and, on August 1, 2006, \$1,810,000 of the \$1,910,000 outstanding principal amount of the stated 2017 maturity of the District's Clean Water State Revolving Fund Revenue Bonds, Series 1996A at par. To accomplish the refunding, a portion of the proceeds of the Series 2004 Bonds and other available funds will be deposited in escrow accounts to be held by the Trustee and invested in U.S. government obligations which will bear interest sufficient to pay the redemption prices and interest on such refunded bonds to their respective redemption dates.

### **ESTIMATED SOURCES AND USES OF FUNDS**

#### ***Initial Deposits***

The following is a summary of the estimated sources and uses of Series 2004 Bond proceeds and other amounts:

<u>Sources:</u>	Clean Water	Drinking Water	Total
Series 2004 Bonds	\$11,390,000	\$27,070,000	\$38,460,000
Net Original Issue Premium	173,865	729,674	903,539
Other <sup>(1)</sup>	<u>3,529,200</u>	<u>-</u>	<u>3,529,200</u>
Total Sources of Funds	<u>\$15,093,065</u>	<u>\$27,799,674</u>	<u>\$42,892,739</u>
 <u>Uses:</u>			
Refunding Escrow	\$14,980,113	\$ -	\$14,980,113
State Match Loan Account	-	5,001,620	5,001,620
Leveraged Loan Account	-	22,503,662	22,503,662
Underwriter's Discount and Cost of Issuance	<u>112,952</u>	<u>294,392</u>	<u>407,344</u>
Total Uses of Funds	<u>\$15,093,065</u>	<u>\$27,799,674</u>	<u>\$42,892,739</u>

<sup>(1)</sup> Other includes transfers from debt service reserve funds and other funds on hand

## **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. All loans to Borrowers shall be evidenced by Loan Obligations and a related Loan Agreement and shall comply with the applicable Series Resolution and the Master Indenture.

**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. The SRF 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 SRF as follows:

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

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

For each SRF 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 SRF 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 SRF. 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 SRF. 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 SRF; (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 SRF, to the Unrestricted Interest Repayments Account of the Revenue Fund for the other SRF, (v) to a fund or account of the other SRF to the extent necessary to satisfy a Reimbursement Obligation to such SRF, and (vi) to the Unrestricted Cumulative Excess Interest Repayments Subaccount of the Revenue Fund for such SRF 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 SRF, to the Restricted Principal Repayments Account of the Revenue Fund for the other SRF, (iii) to a fund or account of the other SRF to the extent necessary to satisfy a Reimbursement Obligation to such SRF, 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 SRF 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 SRF 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 SRF;
- (b) Second, from Excess Revenues of the other SRF available to cure the deficiency;
- (c) Third, from the Restricted Reserve Account of the Reserve Fund for such SRF (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 SRF (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 SRF 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 SRF.

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 SRF 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.

The Series 1996 Bonds and the Series 2001 Clean Water Bonds (herein, the "Prior Clean Water Bonds") are currently secured by specified amounts on deposit in the Series 1996/2001 Subaccount of the State Match Reserve Account of the Clean Water SRF (the "Series 1996/2001 Subaccount"). The amount on deposit in the Series 1996/2001 Subaccount was approximately \$600,900 as of June 1, 2004 and is expected to be reduced to \$453,875 upon the refunding of the Series 1994, Series 1995 and Series 1996 Bonds described herein. The Series 1996/2001 Subaccount only secures the Prior Clean Water Bonds; none of the Series 2004 Bonds are secured by the Series 1996/2001 Subaccount. The Series 1998 Bonds and the Series 2001 Drinking Water Bonds (herein, the "Prior Drinking Water Bonds") are currently secured by specified amounts on deposit in the Series 1998/2001 Subaccount of the State Match Reserve Account of the Drinking Water SRF (the "Series 1998/2001 Subaccount"). The amount on deposit in the Series 1998/2001 Subaccount was approximately \$951,200 as of June 1, 2004. The Series 1998/2001 Subaccount only secures the Prior Drinking Water Bonds; none of the Series 2004 Bonds are secured by the Series 1998/2001 Subaccount.

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 2004 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 2004 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 SRF (i) the scheduled principal and interest payments on all Loan Obligations held for such SRF 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 SRF 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 2004 Bonds.

#### ***Certain Amendments and Consents Deemed Given by Holders of Series 2004 Bonds***

The Series 2004 Bonds provide that the initial purchaser thereof, and each subsequent holder thereof, shall be deemed to have consented to various amendments and supplements of the each of the Prior Clean Water Indenture and the Prior Drinking Water Indentures (the "Prior Indentures") so that from and after the date of delivery of the Series 2004 Bonds, each such Prior Indenture shall be amended and restated by the Master Indenture. The Master Indenture amends the Prior Indentures in many respects, the principal amendments being briefly described as follows:

Amendment #	Description of Amendment
1.	Cross-collateralization of Programs using subordinate loans derived from excess revenues.
2.	The Master Indenture also allow transfers of federal capitalization grant and State Match funds to the other SRF Program under certain circumstances. While the District has been able to achieve these transfers in previous years simply by “transferring” Funds from one Program to the other prior to any initial deposit of funds within the applicable SRF, the new provisions provide additional administrative convenience and flexibility.
3.	The Prior Indentures require that the District deliver a Coverage Certificate demonstrating that Projected Revenues be equal to at least 125% of the scheduled principal and interest on each applicable portion of debt service on all Outstanding Bonds and the Bonds to be issued. The Master Indenture reduces such coverage requirement to 120%.
4.	The Prior Indentures each contain a provision allowing the release of pledged Loan Obligations or other assets so long as a Coverage Certificate demonstrates that Projected Revenues demonstrate coverage of 150% of the scheduled principal and interest due in future years. The Master Indenture reduces this requirement to 120%.
5.	The Prior Indentures contain a requirement that all Bonds be secured by deposits in the Reserve Fund and specified Accounts therein (depending on whether the applicable Bonds are Leveraged Bonds or State Match Bonds). As described elsewhere herein, the Master Indenture provides that 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 one or more Accounts or Subaccounts in the Reserve Fund.
6.	The Prior Indentures provide that certain amendments or supplements require the consent of Holders of two-thirds of the outstanding principal amount of Bonds. The Master Indenture provides that upon obtaining the necessary consent of all Holders of Outstanding Bonds, such requirement is reduced to consents from the Holders of a majority of the outstanding principal amount of all Bonds Outstanding.

7. The Master Indenture expressly allows amendments and supplements if in the judgment of the District, the rating then in effect on any Outstanding Bonds from each Rating Agency rating the Bonds immediately preceding the time such supplemental indenture becomes effective will be maintained or improved after such supplemental indenture becomes effective. For such purposes, such judgment will be based upon the written ratings report or other written evidence provided by each Rating Agency and each rating will be defined by reference only to the major letter category and any plus (+) or minus (-) designation or similar numerical designation (and without any further designation within a rating category whether now or hereafter used by a Rating Agency).
8. The Master Indenture permits the District to enter into Qualified Interest Rate Agreements on a parity with debt service on Bonds as described elsewhere herein.

With the exception of the reduction of the Holder consent requirement from 2/3rds to a majority, the amendments and supplemental provisions contained in the Master Indenture shall be immediately effective for each of the Prior Indentures (thereby allowing the Master Indenture described herein, in effect, to supersede the Prior Indentures) upon obtaining the consent of the Holders of 2/3rds of the Outstanding Bonds under such Prior Indenture. The 2/3rds consent threshold will be achieved in each case by virtue of the consent deemed provided by the holders of the Series 2004 Bonds upon the purchase thereof, so such amendments shall take immediate effect. The amendment described as item #6 above will require the consent of 100% of all Holders of Outstanding Bonds, and thus will not be deemed achieved until the earlier of the redemption or defeasance of the Series 1996 Bonds or the consent of the Holders thereof.

#### ***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.

## **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 2004 Bonds from and after the date of issuance of the Series 2004 Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of Series 2004 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 2004 Bonds and the Loan Obligations to be excludable from gross income. The District has further covenanted that none of the proceeds of the Series 2004 Bonds will be used to make or finance loans to persons other than Political Subdivisions. Failure to comply with certain of such covenants could cause interest on the Series 2004 Bonds to become includable in gross income retroactive to the date of issuance of the Series 2004 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 2004 Bonds are not "private activity bonds" under the Code, and interest on the Series 2004 Bonds is excludable from gross income of the owners thereof for federal income tax purposes. Interest on the Series 2004 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 2004 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 2004 Bonds, the application of the proceeds of the Series 2004 Bonds and certain other matters pertinent to the tax exemption of the Series 2004 Bonds.

Ownership of the Series 2004 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 2004 Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

If a Series 2004 Bond is purchased at any time for a price that is less than the Series 2004 Bond's stated redemption price at maturity, the purchaser may be treated as having purchased a Series 2004 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 2004 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 2004 Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Series 2004 Bonds.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Series 2004 Bonds may affect the tax status of interest on the Series 2004 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 2004 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 2004 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 2004 Bond over the principal amount payable at maturity of such Series 2004 Bond constitutes amortizable Series 2004 Bond premium that may not be deducted for federal income tax purposes. A purchaser of a Series 2004 Bond must amortize any premium over such Series 2004 Bond's term using constant yield principles, based on the Series 2004 Bond's yield to maturity. As Series 2004 Bond premium is amortized, the purchaser's basis in such Series 2004 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 2004 Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of any Series 2004 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 2004 Bonds.

### ***Not Qualified Tax-Exempt Obligations***

The Series 2004 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 2004 Bonds offered hereby are being purchased from the District by the Underwriters at a price of \$39,136,194.35, which purchase price reflects a net original issue premium of \$903,538.80 and an Underwriter’s discount of \$227,344.45. The Bond Purchase Agreement provides that the Underwriters shall purchase all of the Series 2004 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 Underwriters.

### **VERIFICATION**

The District has retained Berens-Tate Consulting Group, as verification agent (the “Verification Agent”) in connection with the issuance of the Series 2004 Bonds. The Verification Agent will verify the adequacy of the cash and securities placed in the escrow accounts to retire the bonds being called for redemption as described herein under “PLAN OF REFUNDING” and will perform various yield calculations required under Section 148 of the Internal Revenue Code of 1986, as amended, upon which the Bond Counsel will rely in its determination that the Series 2004 Bonds are not “arbitrage bonds”.

### **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 Program. At present and after origination of the expected loans described in Appendix B, there are no obligated persons other than the District. The form of Continuing Disclosure Agreement is set forth in Appendix D. Reference is made to Appendix D for a description of the information to be provided, the rights of the beneficial owners of Series 2004 Bonds and the conditions for amendment of the Agreement.

### **RATING**

Moody’s Investors Service, Inc. and Standard & Poor’s Public Finance Ratings have assigned ratings of “Aaa” and “AAA”, respectively, to the Series 2004 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 2004 Bonds represents a judgment as to the likelihood of timely payment of the Series 2004 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 2004 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 2004 Bonds, or prohibiting the District from making Loans to Borrowers or purchasing Loan Obligations with the proceeds of the Series 2004 Bonds, or in any way contesting or affecting the validity of any Series 2004 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 2004 Bonds or the existence or necessary powers of the District.

### **LEGAL MATTERS**

The Series 2004 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 C. Bond Counsel will also pass upon certain additional matters by separate opinion addressed to the Underwriters. The Underwriters has been represented in connection with the purchase and sale of the Series 2004 Bonds by Faegre & Benson LLP, Minneapolis, Minnesota. The District and the Board have been represented in connection with the Series 2004 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 2004 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 2004 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 Underwriters and purchasers or holders of any of the Series 2004 Bonds.

[THIS PAGE INTENTIONALLY LEFT BLANK]

**ACQUIRED LOCAL OBLIGATIONS**

[THIS PAGE INTENTIONALLY LEFT BLANK]

**STATE OF SOUTH DAKOTA  
STATE REVOLVING FUND LOAN PROGRAM  
Drinking Water Loans in Repayment  
(as of March 31, 2004)**

<b>Loan</b>	<b>Outstanding Balance</b>	<b>Interest Rate</b>	<b>Admin Rate</b>	<b>Final Payment Date</b>	<b>Security</b>
Baltic	\$ 250,000	3.50%	1.00%	1/15/2024	Water Rev.
BDM Rural Water	280,251	3.50%	1.00%	1/15/2024	Water Rev.
Big Stone City	485,382	5.25%	1.31%	10/1/2019	GO & Water
Black Hawk WUD	430,505	5.25%	1.31%	1/1/2020	Water Rev.
Brandon	1,498,641	4.75%	1.00%	1/1/2015	Water Rev.
Britton	302,172	4.50%	1.00%	7/1/2022	Water Rev.
Bryant	135,749	3.00%	0.00%	1/1/2032	Water Rev.
Clear Lake	498,737	3.00%	0.00%	10/1/2030	Water Rev.
Colonial Pine Hills	606,963	3.50%	1.00%	1/1/2023	Water Rev.
Custer	797,693	3.50%	1.00%	2/15/2024	Water Rev.
Dakota Dunes	44,337	3.50%	1.00%	4/1/2024	Water Rev.
Elk Point	212,257	3.50%	1.00%	1/15/2023	Water Rev.
Fall River	718,462	3.00%	0.00%	10/1/2031	Water Rev.
Fall River #2	255,036	2.50%	0.00%	4/1/2033	Water Rev.
Gettysburg	537,896	4.50%	1.00%	10/1/2022	Water Rev.
Gregory	337,832	2.50%	0.00%	1/1/2033	Water Rev.
Harrisburg #1	488,021	5.00%	1.00%	1/1/2022	Water Rev.
Hartford	172,138	5.00%	1.00%	1/1/2022	Water Rev.
Hartford #2	249,980	3.50%	1.00%	1/15/2024	Water Rev.
Hermosa	258,708	5.00%	1.00%	1/1/2020	Water Rev.
Huron	2,853,339	3.50%	1.00%	4/1/2024	Water Rev.
Kingsbrook	443,922	0.00%	0.00%	4/1/2032	Water Rev.
Lead	173,146	4.50%	1.00%	1/1/2013	Water Rev.
Mina Lake San & Water	226,709	5.00%	1.00%	10/1/2020	Water Rev.
Mitchell	2,794,300	4.00%	1.00%	4/1/2024	Water Rev.
Mobridge #1	749,870	5.25%	1.31%	7/1/2014	Water Rev.
Mobridge #2	283,088	5.25%	1.31%	1/1/2015	Water Rev.
Nisland	347,083	0.00%	0.00%	1/1/2034	S Assessment
Pierre	934,160	3.50%	1.00%	1/1/2018	Water Rev.
Redfield	74,576	4.50%	1.00%	10/1/2020	Water Rev.
Sioux Falls #1	4,556,712	4.50%	1.00%	7/1/2010	Water Rev.
Sioux Falls #2	2,157,756	4.50%	1.00%	1/1/2013	Water Rev.
Sioux Falls #3	6,605,919	3.50%	1.00%	4/1/2014	Water Rev.
Tripp	221,827	2.50%	0.00%	4/15/2033	Water Rev.
Tyndall	231,857	2.50%	0.00%	10/1/2011	Water Rev.
Vermillion	706,546	5.00%	1.00%	7/1/2020	Water Rev.
Webster	250,042	3.50%	1.00%	7/1/2023	Water Rev.
WR/LJ	332,284	2.50%	0.00%	1/15/2033	Water Rev.
Yankton	<u>2,785,850</u>	3.50%	1.00%	10/1/2023	Water Rev.
<b>Total</b>	<u><b>\$35,289,760</b></u>				

## Drinking Water Loans Closed

<b>Loan</b>	<b>Outstanding Balance</b>	<b>Interest Rate</b>	<b>Admin Rate</b>	<b>Term</b>	<b>First Payment Date</b>	<b>Security</b>
Aberdeen #1	\$ 8,460,000	3.50%	1.00%	20	10/15/2005	Water Rev.
Aberdeen #2	1,000,000	3.50%	1.00%	20	1/1/2006	Water Rev.
Aberdeen #3	7,300,000	3.50%	1.00%	20	4/1/2006	Water Rev.
Big Stone City #2	240,000	3.50%	1.00%	20	7/1/2005	GO & Water
Canton	500,000	3.50%	1.00%	20	12/1/2004	Water Rev.
Centerville	870,000	3.25%	0.75%	30	7/1/2006	Water Rev.
Colton	681,720	3.50%	1.00%	20	7/1/2004	Water Rev.
Dakota Dunes	863,663	3.50%	1.00%	19	7/1/2005	Water Rev.
Dell Rapids	621,000	3.50%	1.00%	20	4/1/2005	Water Rev.
Garretson	1,261,060	3.50%	1.00%	20	7/1/2004	Water Rev.
Groton	440,000	3.50%	1.00%	20	7/15/2004	Sales Tax
Hartford #2	550,977	3.50%	1.00%	19	4/15/2005	Water Rev.
Huron	1,146,661	3.50%	1.00%	19	4/1/2005	Water Rev.
Keystone	762,000	3.25%	0.75%	20	7/1/2006	Sales Tax
Lincoln County	1,200,000	3.50%	1.00%	20	1/15/2005	Water Rev.
Martin	920,000	2.50%	0.00%	30	10/1/2005	Water Rev.
Minnehaha	6,500,000	3.50%	1.00%	20	7/15/2004	Water Rev.
Mitchell	205,700	4.00%	1.00%	19	4/1/2005	Water Rev.
Pierre #2	1,832,900	3.50%	1.00%	15	10/1/2005	Water Rev.
Rapid City	3,500,000	3.50%	1.00%	20	1/1/2006	Water Rev.
Salem	126,921	3.50%	1.00%	20	10/15/2004	Water Rev.
Scotland	340,000	2.50%	0.00%	30	4/1/2005	Sales Tax
Sioux Falls #3	1,324,081	3.50%	1.00%	9	4/1/2005	Water Rev.
Sioux Falls #4	5,279,000	3.50%	1.00%	20	1/15/2005	Water Rev.
South Lincoln	2,000,000	3.50%	1.00%	20	1/1/2005	Water Rev.
Tripp County #1	3,500,000	2.50%	0.00%	30	12/1/2004	Water Rev.
Tripp County #2	148,000	0.00%	0.00%	30	12/1/2004	Water Rev.
Tyndall #2	861,000	2.50%	0.00%	30	8/1/2004	Water Rev.
Vermillion #2	1,510,000	3.50%	1.00%	20	6/1/2004	Water Rev.
Worthing	<u>288,000</u>	3.50%	1.00%	20	7/1/2004	Water Rev.
<b>Total</b>	<b><u>\$54,232,683</u></b>					

**Clean Water Loans in Repayment  
(as of March 31, 2004)**

Loan	Outstanding Balance	Interest Rate	Admin Rate	Final Payment Date	Security
Aurora	\$ 291,991	5.00%	1.00%	1/1/2022	Sewer Rev.
Baltic	386,224	3.50%	1.00%	1/15/2024	Sewer Rev.
Belle Fourche #1	129,447	3.00%	0.75%	1/1/2013	Sewer Rev.
Belle Fourche #2	58,610	4.50%	1.13%	2/1/2006	Sewer Rev.
Beresford	856,160	4.50%	1.00%	1/1/2011	Sales Tax
Box Elder	257,579	3.00%	0.75%	10/1/2010	GO
Brandon #2	65,645	3.00%	0.75%	4/1/2005	Sewer Rev.
Bridgewater	74,849	5.25%	1.31%	1/1/2019	Sales & Sewer
Britton #1	333,920	4.50%	1.00%	1/1/2010	Sewer Rev.
Canton #1	188,117	4.00%	1.00%	9/1/2008	Sewer Rev.
Castlewood	212,093	3.50%	1.00%	7/15/2023	Sewer Rev.
Centerville	500,000	3.50%	1.00%	4/1/2024	Sewer Rev.
Chamberlain #4	377,058	5.25%	1.31%	4/1/2019	Sales Tax
Clear Lake	11,775	4.00%	1.00%	3/1/2006	Assessment
Custer City #1	215,608	3.00%	0.75%	9/15/2012	S.A. & Sewer
Deadwood	169,282	4.00%	1.00%	11/15/2008	Sewer Rev.
Dell Rapids	34,203	3.00%	0.75%	3/1/2005	Sales Tax
Elk Point	216,426	4.00%	1.00%	4/1/2010	Sewer Rev.
Elk Point #2	344,286	3.50%	1.00%	4/15/2023	Sewer Rev.
Ft. Pierre	62,143	3.00%	0.75%	11/1/2005	Sales Tax
Fort Pierre #2	438,631	3.50%	1.00%	4/1/2018	Sewer Rev.
Groton #1	42,566	3.00%	0.75%	1/1/2006	Sewer Rev.
Groton #2	16,761	3.00%	0.75%	1/1/2006	Sewer Rev.
Groton #3	397,109	5.25%	1.31%	1/1/2019	Sewer Rev.
Harrisburg	436,756	5.00%	1.00%	4/1/2020	Sewer Rev.
Hartford #1	473,049	5.00%	1.00%	4/1/2022	Sewer Rev.
Hartford #2	649,150	5.00%	1.00%	4/1/2022	Sales Tax
Hartford #3	284,023	3.50%	1.00%	10/1/2022	Sewer Rev.
Hartford #4	158,111	3.50%	1.00%	1/15/2024	Sewer Rev.
Highmore	262,300	3.50%	1.00%	1/1/2024	Sales & Sewer
Hot Springs #1	22,452	3.00%	0.75%	4/1/2005	Sewer Rev.
Hot Springs NPS #1	643,154	5.00%	1.25%	10/1/2015	Solid W & Sales
Huron #1	761,762	3.00%	0.75%	12/10/2011	Sewer Rev.
Huron #3	1,414,343	5.25%	1.31%	3/10/2017	Sewer Rev.
Lake Cochrane San. Dist.	30,106	3.00%	0.75%	6/1/2010	GO & Sewer
Lead #1	81,572	3.00%	0.75%	8/1/2011	Sewer Rev.
Lead #4	214,817	4.50%	1.00%	1/1/2013	Sewer Rev.
Lemmon	173,415	3.00%	0.75%	10/1/2010	GO
Lennox #1	265,157	5.25%	1.31%	1/1/2017	Sewer Rev.
Lennox #2	485,729	5.25%	1.31%	1/1/2019	Sewer Rev.
McCook Lake San. Dist.	394,590	5.00%	1.25%	12/1/2013	Sewer Rev.
Mitchell	854,495	4.50%	1.13%	1/1/2009	Sales Tax
Mobridge #1	676,337	3.00%	0.75%	10/1/2011	Sewer Rev.
Mobridge #2	42,763	4.00%	1.00%	6/1/2007	Sewer Rev.
Mobridge #3	1,155,150	4.50%	1.00%	4/1/2012	Sales Tax
North Sioux City #2	403,283	5.00%	1.25%	1/1/2012	Assessment

<b>Loan</b>	<b>Outstanding Balance</b>	<b>Interest Rate</b>	<b>Admin Rate</b>	<b>Final Payment Date</b>	<b>Security</b>
Philip #1	\$ 259,115	5.00%	1.25%	6/1/2011	Sales Tax
Philip #2	265,210	5.25%	1.31%	12/1/2018	Sales & Sewer
Pickernel Lake #1	414,409	5.25%	1.31%	1/1/2018	Sewer Rev.
Pickernel Lake #2	354,465	5.25%	1.31%	1/1/2019	Sewer Rev.
Pierre #2	3,737,352	5.25%	1.31%	1/1/2019	Sales Tax
Pierre #3	4,838,427	5.00%	1.00%	1/1/2021	Sewer Rev.
Platte	879,216	5.00%	1.00%	1/1/2021	Sewer Rev.
Rapid City #1	913,888	4.00%	1.00%	7/1/2008	S.A. & Sewer
Rapid City #2	453,020	4.00%	1.00%	10/1/2009	S.A. & Sewer
Rapid City #3	331,879	4.00%	1.00%	4/1/2010	S.A. & Sewer
Rapid City #4	576,337	4.00%	1.00%	1/1/2010	Storm Sewer Rev.
Rapid City #5	13,535,214	4.50%	1.00%	10/15/2022	Sewer Rev.
Rapid Valley San. Dist. #2	191,983	4.00%	1.00%	11/1/2010	Sewer Rev.
Rapid Valley San. Dist. #3	509,410	5.25%	1.31%	1/1/2018	Sewer Rev.
Richmond Lake San. Dist.	328,524	5.25%	1.31%	1/1/2018	Sewer Rev.
Sioux Falls #1	1,390,568	3.00%	0.75%	7/15/2012	Sales Tax
Sioux Falls #5	58,025	3.00%	0.75%	6/15/2004	Sewer Rev.
Sioux Falls #7	722,328	3.00%	0.75%	8/15/2005	Sewer Rev.
Sioux Falls #8	188,365	3.00%	0.75%	8/15/2006	Sewer Rev.
Sioux Falls #9	305,827	3.00%	0.75%	5/15/2006	Storm Sewer Rev.
Sioux Falls #10	349,579	3.00%	0.75%	5/15/2006	Sales Tax
Sioux Falls #11	395,380	4.50%	1.13%	1/15/2007	Sewer Rev.
Sioux Falls #12	480,765	4.50%	1.13%	5/15/2007	Sewer Rev.
Sioux Falls #13	1,126,771	4.50%	1.13%	6/15/2008	Sewer Rev.
Sioux Falls #14	4,185,358	4.50%	1.00%	6/15/2012	Sewer Rev.
Southern Missouri WMD	224,514	5.00%	1.25%	10/1/2017	Solid Waste
Spearfish	797,425	4.00%	1.00%	5/1/2009	Sewer Rev.
Tea #1	283,528	4.00%	1.00%	4/1/2010	GO
Tea #2	302,365	4.00%	1.00%	10/1/2010	Storm Sewer Rev.
Tea #3	162,604	5.25%	1.31%	1/1/2018	Sales Tax
Tea #4	273,432	5.00%	1.25%	1/1/2014	Sewer Rev.
Tea #5	495,490	3.50%	1.00%	4/1/2024	Sewer Rev.
Valley Springs	361,500	5.25%	1.31%	10/1/2019	Sewer Rev.
Vermillion #1	65,520	3.00%	0.75%	3/1/2013	Sewer Rev.
Vermillion #2	194,153	4.00%	1.00%	12/1/2010	Storm Sewer Rev.
Vermillion NPS	94,153	4.50%	1.13%	6/1/2006	Solid Waste
Wall	408,002	5.00%	1.00%	4/1/2012	Sales Tax
Wall Lake	173,605	3.50%	1.00%	10/1/2023	Sewer Rev.
Watertown #1	692,347	4.00%	1.00%	4/1/2008	Sales & Sewer
Watertown #2	1,626,933	4.00%	1.00%	1/1/2009	Sewer Rev.
Watertown #3	1,946,423	5.25%	1.31%	10/1/2016	Sewer Rev.
Webster #1	121,731	4.50%	1.13%	1/1/2007	Sewer Rev.
Webster #2	746,342	3.50%	1.00%	7/1/2023	Sewer Rev.
Whitewood #1	65,950	4.00%	1.00%	9/1/2008	GO & Sewer
Whitewood #2	172,172	5.00%	1.00%	7/1/2021	Sewer Rev.
Worthing	176,349	5.25%	1.31%	7/1/2017	GO & Sewer
Yankton #1	2,319,130	5.25%	1.31%	10/1/2020	Sewer Rev.
Yankton #3	4,863,407	3.50%	1.00%	10/1/2023	Sewer Rev.
Yankton #2	<u>4,102,629</u>	6.00%	0.00%	4/1/2021	Sewer Rev.
<b>Total</b>	<b><u>\$73,024,156</u></b>				

### Clean Water Loans Closed

Borrower	Loan Amount	Interest Rate	Admin Rate	Repayment Begins	Loan Term	Security
Britton	\$ 322,500	3.50%	1.00%	10/01/2004	20	Sewer Rev.
Canton	600,000	3.50%	1.00%	12/01/2004	20	Sewer Rev.
Clarkn	400,000	3.50%	1.00%	01/01/2005	20	Sewer Rev.
Elk Point	345,000	3.50%	1.00%	07/15/2005	20	Sales Tax
Groton	163,775	3.50%	1.00%	07/15/2004	20	Sales Tax
Groton	440,000	3.50%	1.00%	07/15/2004	20	Sewer Rev.
Hartford	550,035	3.50%	1.00%	01/15/2005	20	Sewer Rev.
Jefferson	320,000	3.50%	1.00%	04/01/2005	20	Sewer Rev.
Lake Cochrane San Dist	160,000	3.50%	1.00%	01/15/2005	20	Sewer Rev.
Lake Madison San Dist	875,000	3.50%	1.00%	01/01/2005	20	Sewer Rev.
Mitchell	1,320,000	3.50%	1.00%	10/01/2005	20	S Assessment
Pierre	1,378,404	3.50%	1.00%	04/01/2005	20	Sales Tax
Salem	592,307	3.50%	1.00%	10/15/2004	20	Sewer Rev.
Scotland	250,000	3.50%	1.00%	04/15/2005	20	Sales Tax
Sioux Falls	1,724,000	3.50%	1.00%	04/15/2004	10	Sewer Rev.
Sioux Falls	2,479,500	3.50%	1.00%	01/15/2005	10	Sewer Rev.
Sioux Falls	932,000	3.50%	1.00%	01/15/2005	10	Storm Sewer
Vermillion	456,000	3.50%	1.00%	12/01/2004	20	Sewer Rev.
Watertown	2,055,000	3.50%	1.00%	01/01/2005	20	S Assessment
Willow Lake	<u>100,000</u>	3.50%	1.00%	07/15/2005	20	Sewer Rev.
<b>Total</b>	<b><u>\$15,463,521</u></b>					

### Clean Water Loans Approved, But Not Closed

Borrower	Loan Amount	Expected Funding Date	Loan Term	Proposed Security
Black Hawk San. Dist.	\$ 589,600	June 2004	20	Sewer Rev.
Fort Pierre	<u>450,000</u>	June 2004	20	Sewer Rev.
<b>Total</b>	<b><u>\$1,039,600</u></b>			

[THIS PAGE INTENTIONALLY LEFT BLANK]

## LIST OF POTENTIAL LOANS

## Clean Water Projects

	<b>Borrower</b>	<b>Expected Loan Amount</b>
2004		
	Clear Lake	\$ 910,000
	Gayville	275,000
	Huron	6,500,000
	Lake Poinsett San. Dist.	320,000
	Lead	100,000
	Parker	416,000
	Sioux Falls	801,000
	Sioux Falls	3,951,000
	Vermillion	3,560,000
2005-06		
	Aberdeen	10,000,000
	Milbank	4,650,000
	Sioux Falls	<u>24,300,000</u>
	<b>Total</b>	<u><b>\$55,783,000</b></u>

## Drinking Water Projects

<b>Borrower</b>	<b>Expected Loan Amount</b>
2004	
Crooks	\$ 300,000
Elk Point	570,000
Groton	365,900
Lead	100,000
Lead-Deadwod San. Dist.	330,000
Lennox	2,000,000
McLaughlin	250,000
Miller	100,000
Parker	298,000
Platte	400,000
Sioux Falls	12,749,000
Waubay	650,000
2005-06	
Brookings	12,000,000
Hartford	1,200,000
Lead-Deadwod San. Dist.	1,500,000
Rapid City	5,000,000
Rapid Valley San. Dist.	2,200,000
Sioux Falls	<u>2,000,000</u>
<b>Total</b>	<u><u>\$42,012,9000</u></u>

DRAFT APPROVING OPINION OF BOND COUNSEL

[To be dated the date of original issuance of the Series 2004 Bonds]

[THIS PAGE INTENTIONALLY LEFT BLANK]

July \_\_, 2004

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

\$38,460,000  
South Dakota Conservancy District  
State Revolving Fund Program Bonds  
Series 2004

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 \$38,460,000 aggregate principal amount of its State Revolving Fund Program Bonds, Series 2004 (the “**Series 2004 Bonds**”). The Series 2004 Bonds are authorized by a Series Resolution of the District adopted on June 25, 2004 (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 (the “**Master Indenture**”) between the District and The First National Bank in Sioux Falls, South Dakota, as trustee (the “**Trustee**”). The Master Indenture consolidates that certain Master Trust Indenture dated as of January 1, 1994, as heretofore amended and supplemented, between the District and the Trustee relating to the District's Clean Water State Revolving Fund Program (the “**Clean Water Program**”), and that certain Master Trust Indenture dated as of July 1, 1998, as heretofore amended and supplemented, between the District and the Trustee relating to 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 Indenture, as supplemented by the Series Resolution and a Bond Order dated as of July \_\_, 2004 (the “**Bond Order**”).

The Series 2004 Bonds are issuable as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof. The Series 2004 Bonds mature on the dates and bear interest at the rates established by the 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 2004 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 2004 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 2004 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 2004 Bonds are being issued by the District in order to (i) raise certain moneys for the purpose of making loans to certain Political Subdivisions and (ii) refund and defease certain Existing Bonds.

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 2004 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 2004 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;
- (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 2004 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 2004 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 2004 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 2004 Bonds.

2. The Series 2004 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 2004 Bonds are not “private activity bonds” under the Internal Revenue Code of 1986, as amended (the “*Code*”), and interest on the Series 2004 Bonds is excludable from gross income of the owners thereof for federal income tax purposes. Interest on the Series 2004 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 2004 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 2004 Bonds to be included in gross income retroactive to the date of issuance of the Series 2004 Bonds. Ownership of the Series 2004 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 2004 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 2004 Bonds, the application of the proceeds of the Series 2004 Bonds and certain other matters pertinent to the tax-exempt status of the Series 2004 Bonds. Additionally, in rendering our opinion on tax exemption, we have relied on the mathematical computation of the yield on the Series 2004 Bonds and on certain obligations acquired with the proceeds thereof by Berens–Tate consulting Group.

The obligations of the District and the security provided therefor, as contained in the Series 2004 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 \$38,460,000 South Dakota Conservancy District State Revolving Fund Program Bonds, Series 2004 (the “Series 2004 Bonds”). The Series 2004 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 2004 Bonds by the District and the purchase of such Series 2004 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 2004 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 2004 Bonds dated July 7, 2004.

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  
45<sup>th</sup> 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  
10<sup>th</sup> 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 Program. (as 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 2004 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 2004 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 2004 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 2004 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 2004 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 2004 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 2004 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: \_\_\_\_\_, 2004

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 2004 Bonds;
7. modifications to rights of bondholders;
8. bond calls;
9. defeasances;
10. release, substitution or sale of property securing repayment of the Series 2004 Bonds; and
11. rating changes.

EXHIBIT III  
CUSIP NUMBERS

YEAR OF  
MATURITY

CUSIP NUMBER

[THIS PAGE INTENTIONALLY LEFT BLANK]





Recycled Paper - Printed by  
IMAGEMASTER 800.452.5152