

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 2008 Bonds is excludable from gross income of the owners thereof for federal income tax purposes. Interest on the Series 2008 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 2008 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.

\$40,000,000
SOUTH DAKOTA CONSERVANCY DISTRICT
State Revolving Fund Program Bonds
Series 2008

Dated: Date of delivery

The State Revolving Fund Program Bonds, Series 2008 (the "Series 2008 Bonds") offered hereby are being issued pursuant to Chapters 46A-1 and 46A-2, South Dakota Codified Laws, as amended (the "Act"), a Third Amended and Restated Master Trust Indenture dated as of March 1, 2008 (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"), a Series 2008 Supplemental Indenture dated as of March 1, 2008 (the "Supplemental Indenture" and together with the Master Indenture, the "Indenture Documents") by and between the District and the Trustee and a Series Resolution adopted by the South Dakota Board of Water and Natural Resources (the "Board").

The Series 2008 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 2008 Bonds. Prior to the Conversion Date (as herein defined), individual purchases may be made in book-entry form only, in the denomination of \$100,000 and integral multiples of \$5,000 in excess of \$100,000. Purchasers will not receive certificates representing their interest in the Series 2008 Bonds. See "DESCRIPTION OF THE SERIES 2008 BONDS - Book-Entry Only System" herein.

Payments of the principal of and interest on the Series 2008 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 2008 Bonds as described herein. Principal is payable at maturity or at an earlier redemption at the principal corporate trust office of the Trustee. Initially, the Series 2008 Bonds will bear interest in a Semiannual Mode Period (as defined herein) on each February 1 and August 1, commencing August 1, 2008. The interest rates to be borne by the Series 2008 Bonds will be determined and reset by Wachovia Bank, National Association as Remarketing Agent. The interest rate mode for the Series 2008 Bonds may be changed from time to time to a Daily Mode Period, a Weekly Mode Period, a Monthly Mode Period, a Semiannual Mode Period or an Adjustable Long Period, and under certain circumstances, the Series 2008 Bonds may be converted to bear interest at a Fixed Interest Rate until maturity. Generally, as described herein, the various interest rate modes and periods have different operating features. At any given time, the Series 2008 Bonds may operate in more than one interest rate mode or period. The Series 2008 Bonds will be subject to optional and mandatory redemption and optional and mandatory tender for purchase prior to maturity as more fully described herein. The purchase of tendered Series 2008 Bonds upon optional or mandatory tender will be supported by a Liquidity Facility provided by U.S. Bank National Association which is scheduled to terminate on March 6, 2013. While the Series 2008 Bonds are in the Semiannual Rate Mode, the Series 2008 Bonds are not subject to optional tender but are subject to mandatory tender upon a change in Modes. No change in Modes may occur prior to August 1, 2008. Initial Owners may not elect to retain their Series 2008 Bonds upon a mandatory tender.

\$40,000,000 Term Bond due August 1, 2029 CUSIP: 837545 FX5

Proceeds of the Series 2008 Bonds, together with other available funds, will be used by the District to make loans to certain political subdivisions of the State of South Dakota and other owners of public water supply systems through the purchase of certain obligations issued by such political subdivisions and other borrowers as described herein and pay issuance costs. The Master Indenture permits each of the District's Clean Water State Revolving Fund and Drinking Water State Revolving Fund to draw upon the resources of the other to the limited extent described herein. The Series 2008 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 2008 Bonds are special obligations of the District payable solely from specific revenues and funds pledged therefor under the Indenture Documents and a Series Resolution as described herein.

The Series 2008 Bonds are offered, subject to prior sale, when, as and if accepted by Wachovia Bank, National Association, the Underwriter, and subject to an opinion as to validity and tax exemption by Perkins Coie LLP, Chicago, Illinois, as Bond Counsel, the approval of certain legal matters by Faegre & Benson LLP, Minneapolis, Minnesota, as counsel to the Underwriter, and by the office of the South Dakota Attorney General, as counsel to the District, and certain other conditions. It is anticipated that the Series 2008 Bonds will be delivered to The Depository Trust Company in New York, New York on or about March 6, 2008.

Wachovia Bank, National Association

The date of this Official Statement is February 28, 2008.

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

This Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any sale of the Series 2008 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made thereafter shall, under any circumstances, create any implication that there has been no change in the affairs of the South Dakota Conservancy District since the date thereof.

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

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THE SERIES 2008 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

\$40,000,000
SOUTH DAKOTA CONSERVANCY DISTRICT
State Revolving Fund Program Bonds
Series 2008

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 2008 (the “Series 2008 Bonds”). The Series 2008 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 2008 BONDS” herein. The Series 2008 Bonds are issued pursuant to and secured by a Third Amended and Restated Master Trust Indenture dated as of March 1, 2008 (as 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”) as supplemented by the Series 2008 Supplemental Indenture dated as of March 1, 2008 by and between the District and the Trustee (the “Supplemental Indenture” and together with the Master Indenture, the “Indenture Documents”). All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Indenture Documents.

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

The Series 2008 Bonds are issued under the Master Indenture, the Supplemental Indenture and a Series Resolution adopted by the District. The proceeds of Series 2008 Bonds and certain available funds will be used to (i) provide funds for the State Match and other new Loans under the Clean Water Program, (ii) provide funds for the State Match and other new Loans under the Drinking Water Program and (iii) to fund certain issuance costs. The Master Indenture also secures certain other outstanding Bonds as described herein (the “Existing Bonds”). The Existing Bonds, Series 2008 Bonds and any Additional Bonds (as defined herein) issued from time to time and outstanding under the Master Indenture are collectively referred to herein as “Bonds”.

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

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

In the case of the Series 2008 Bonds, the portions of each payment of principal and interest are to be divided approximately as follows: Clean Water State Match Portion, 5.0%; Clean Water Leveraged Portion, 49.9%; Drinking Water State Match Portion, 12.3%; and Drinking Water Leveraged Portion, 32.8%. These percentages correspond to the application of Series 2008 Bond proceeds as described under "ESTIMATED SOURCES AND USES OF FUNDS" herein.

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

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

THE DISTRICT

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

Governor and the Legislature and constructs and provides financing to other public and private entities for the construction of water, wastewater and solid waste facilities.

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

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

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Bradley Johnson	Chairman	July 1, 2011
Gene Jones, Jr.	Vice Chairman	July 1, 2009
Don Rounds	Secretary	July 1, 2008
Donald Bollweg	Member	July 1, 2010
Kelly Wheeler	Member	July 1, 2011
Dale Kennedy	Member	July 1, 2011
John Loucks	Member	July 1, 2010

All members of the Board continue to serve until their successors are appointed, notwithstanding expiration of their terms. If a successor is not appointed within 120 days after the expiration of the member’s term, the board member is deemed reappointed for another term.

SOUTH DAKOTA STATE REVOLVING FUNDS

General

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

Water Act. The Safe Drinking Water Act and the Clean Water Act are referred to herein together as the “Federal Acts”.

Under the Programs, federal capitalization grants (the “Capitalization Grants”) received by the District under the Federal Acts are to be deposited in certain designated accounts under the Master Indenture and used, together with Bond proceeds and other available funds as described herein, to make Loans to Borrowers or to secure Bonds. The Bonds to be issued from time to time under the Master Indenture are to provide for the State Match requirements described herein under the Federal Acts, to provide funds for additional Loans under the Programs above the amount which could be made solely from the Capitalization Grants, the State Match and Loan repayments and to provide for reserves, capitalized interest and costs of issuance. The Loans will be effected through the purchase of Loan Obligations to be issued by the eligible Borrowers described herein. A description of Loan Obligations previously acquired by the District under the Programs and certain other Program information is set forth in Appendix B hereto. A description of Loan Obligations expected to be acquired by the District under the Programs is set forth in Appendix C hereto.

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

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

In 2004 the District entered into a revised Master Trust Indenture (the “2004 Master Indenture”) to amend and restate the Prior Indentures, to consolidate the two Programs under a single indenture, to create administrative flexibility and allow certain transfers of amounts between Programs and to provide a limited degree of “cross-collateralization” in the form of reciprocal subordinated lending arrangements between the Programs as described herein. See “SOURCE OF PAYMENT AND SECURITY—Relationship Between Monies Held in Clean Water SRF and Drinking Water SRF; Limited Cross-Collateralization”. At that time the District also issued \$38,460,000 principal amount of Series 2004 Bonds (the “Series 2004 Bonds”) under the 2004 Master Indenture to, among other purposes, refund the District’s then outstanding Series 1994 Bonds and Series 1995 Bonds and a portion of the Series 1996 Bonds. In 2005, the District issued \$50,000,000 principal amount of Series 2005 Bonds (the “Series 2005 Bonds”) to provide funds for the State Match and other new Loans under the Clean Water Program and the Drinking Water Program. The Existing Bonds are comprised of the outstanding Prior Clean Water Bonds, Prior Drinking Water Bonds, the Series 2004 Bonds and the Series 2005 Bonds.

The Drinking Water Program was created by the State of South Dakota in 1995 to implement provisions of the Safe Drinking Water Act. The Safe Drinking Water Act authorizes the United States Environmental Protection Agency (the “EPA”) to make Capitalization Grants to states for the purpose of establishing a state revolving fund to be used, among other matters, in financing the construction of

improvements to public water supply systems and certain other activities. The Drinking Water State Revolving Fund created under the Drinking Water Program satisfies the criteria of the Safe Drinking Water Act and entitles South Dakota to receive Capitalization Grants from the EPA for public water supply systems.

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

Loans

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

The Federal Acts mandate that Loans from the State Revolving Funds be made at or below market interest rates. The Clean Water Act mandates that Loans from the Clean Water SRF be fully amortized within thirty years 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. The Safe Drinking Water Act mandates that Loans from the Drinking Water SRF be fully amortized within twenty years (30 years in the case of loans to disadvantaged communities) 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. 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 sales tax collections for 12 consecutive months within the previous 15 months immediately preceding the issuance of the bonds must equal at least 120% of annual principal and interest on the Loan Obligations and any parity sales tax obligations of the political subdivision.

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 B include 13 loans to 8 Nonprofit Borrowers with an aggregate outstanding balance of \$27,699,614 as of September 30, 2007. The expected loans described in Appendix C do not include any loans to Nonprofit Borrowers.

The Board periodically adjusts the interest rates for new Loan Obligations. The rates and other Loan Obligation terms under the Clean Water Program and Drinking Water Program may differ. The rates are monitored by the Board on an on-going basis to ensure that the SRF rates are set at or below market rates.

Drinking Water Terms

For fiscal year 2008 the Drinking Water program continues to operate under the interest rates set in March 2004 for Drinking Water Loan Obligations, which are 2.50% for loans with a term of 10 years or less and 3.25% for loans with a term of up to 20 years. Borrowers are allowed to choose the term of each loan, provided that the proposed repayment source produces sufficient coverage and the term does not exceed the useful life of the project. The Board also retained the rate for loans intended for interim financing at 2.0%. The maximum allowable term for interim financing loans is three years. Loan rates for disadvantaged communities are 3.25%, 2.5% or 0.0% depending on the recipient's median household income as described below and may be extended to 30 years.

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

The Safe Drinking Water Act permits the District to provide additional subsidies to benefit communities which meet the definition of "disadvantaged". These subsidies are limited in amount to 30% of the Capitalization Grant for any year. Loans at rates as low as 0% are not considered subsidies for purposes of this limitation. Loans to disadvantaged communities may be for up to 30 years provided the term does not exceed the useful life of the project. 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) all other applicants whose median household income is below the state-wide median and the residential water rate is at least \$50 for 7000 gallons of usage. Although the Safe Drinking Water Act permits principal forgiveness and negative interest rate loans to disadvantaged communities, the Board's rules provide only for subsidies in the form of 30-year loans and up to a two percentage point reduction in interest rate, with zero percent loans being available for disadvantaged communities with a median household income less than 60% of the state-wide median. Of the existing loans described in Appendix B, an aggregate of \$34,733,592 (or approximately 32% of the principal amount of total outstanding Drinking Water Loan Obligations) involve loans to disadvantaged communities. \$618,000 of the expected loans described in Appendix C involve loans to disadvantaged communities.

Clean Water Terms

For fiscal year 2008 the interest rates for Clean Water Loan Obligations are 2.50% for loans with a term of 10 years or less, 3.25% for loans with a term of up to 20 years and 3.50% for loans with a term of up to 30 years. The ability to finance projects for up to 30 years is the result of recent ruling by EPA and

became available to all borrowers in April 2007. Borrowers are allowed to choose the term of each loan provided that the proposed repayment source produces sufficient coverage and the term does not exceed the useful life of the project. The interest rate includes an administrative surcharge of 0.5% for loans with a term of 10 years or less and 0.75% for longer term loans. The primary purpose of the surcharge is to provide a pool of funds to be used for administrative purposes after the state ceases to receive capitalization grants. The administrative surcharge is also available for other purposes, as determined eligible by EPA and at the discretion of the Board and Department. The Board retained the existing rate for loans intended for interim financing at 2.0%. The maximum allowable term for interim financing loans is three years. The administrative surcharge shall be waived for loans made for interim financing.

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

Selection of Borrowers; Credit Standard

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

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

The Capitalization Grants and Letters of Credit

The EPA Capitalization Grants for each Program are made to the District in the form of a letter of credit or other funding mechanism utilized by the United States (the "Letters of Credit"). The Letters of Credit provide the District with the ability to draw moneys periodically for purposes permitted under the Federal Acts as eligible costs of projects funded under the Programs are incurred. For each dollar of eligible costs incurred under a Program, approximately 83 cents may be drawn under the Letter of Credit, subject to the limits of the Capitalization Grant for the Program. Proceeds of draws on the Letters of Credit are required under the Master Indenture to be deposited into the Federally Capitalized Loan Account of the Loan 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 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 2007. 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, 2007, and the amounts drawn as of September 30, 2007, are as follows:

Drinking Water Capitalization Grants

<u>Year</u>	<u>Grant Amount</u>	<u>Total Set-Asides*</u>	<u>Net</u>	<u>Amount Drawn</u>	<u>Balance</u>
1997	\$12,558,800	\$606,652	\$11,952,148	\$11,952,148	\$-0-
1998	7,121,300	309,852	6,811,448	6,811,448	-0-
1999	7,463,800	423,552	7,040,248	7,040,248	-0-
2000	7,757,000	310,280	7,446,720	7,446,720	-0-
2001	7,789,100	382,770	7,406,330	7,406,330	-0-
2002**	14,563,300	483,150	14,080,150	14,080,150	-0-
2003**	14,471,900	420,164	14,051,736	14,051,736	-0-
2004	8,303,100	498,186	7,804,914	7,804,914	-0-
2005	8,285,500	497,130	7,788,370	4,797,063	2,991,307
2006	8,229,300	693,758	7,535,542	-0-	7,535,542
2007	8,229,000	493,740	7,735,260	-0-	7,735,260

*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.

The Federal Government has appropriated to the State a Capitalization Grant for the year ending September 30, 2008 in the amount of \$8,146,000. No appropriation has been made for such purposes by the Federal Government for any period beyond September 30, 2008 and no assurance may be given that any such appropriation will be made. A portion of the Series 2008 Bonds will provide the State Match necessary to draw down the anticipated 2008, 2009 and 2010 Drinking Water Capitalization Grants.

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Capitalization Grants awarded for the Clean Water Program for each of the years ended September 30, 1989 to 2007, and the amounts drawn as of September 30, 2007, are as follows:

Clean Water Capitalization Grants

<u>Year Ended</u> <u>September 30</u>	<u>Grant</u> <u>Amount</u>	<u>Total</u> <u>Set-Asides*</u>	<u>Net</u>	<u>Amount</u> <u>Drawn</u>	<u>Balance</u>
1989	\$4,577,200	\$152,573	\$4,424,627	\$4,424,627	\$-0-
1990	4,738,000	157,933	4,580,067	4,580,067	-0-
1991	10,074,800	335,827	9,738,973	9,738,973	-0-
1992	9,534,900	317,830	9,217,070	9,217,070	-0-
1993	9,431,000	314,367	9,116,633	9,116,633	-0-
1994	5,813,800	193,793	5,620,007	5,620,007	-0-
1995	6,007,800	200,260	5,807,540	5,807,540	-0-
1996	9,904,700	330,157	9,574,543	9,574,543	-0-
1997	2,990,500	99,683	2,890,817	2,890,817	-0-
1998	6,577,300	219,243	6,358,057	6,358,057	-0-
1999	6,577,900	219,263	6,358,637	6,358,637	-0-
2000	6,555,200	218,507	6,336,693	6,336,693	-0-
2001	6,496,100	216,537	6,279,563	6,279,563	-0-
2002	**	**	**	**	**
2003	**	**	**	**	**
2004	6,471,800	215,727	6,256,073	6,256,073	-0-
2005	5,243,500	174,780	5,068,720	5,068,720	-0-
2006	4,242,300	141,410	4,100,890	2,754,233	1,346,657
2007	5,207,200	173,570	5,033,630	-0-	5,033,630

*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.

The Federal Government has appropriated to the State a Capitalization Grant for the year ending September 30, 2008 in the amount of \$3,274,300. No appropriation has been made for such purposes by the Federal Government for any period beyond September 30, 2008 and no assurance may be given that any such appropriation will be made. A portion of the Series 2008 Bonds will provide the State Match necessary to draw down the anticipated 2008, 2009 and 2010 Clean Water Capitalization Grants.

Availability of Future Capitalization Grants

The Series 2008 Bonds are to provide the State Match for the Clean Water Capitalization Grants and the Drinking Water Capitalization Grants the District anticipates receiving through 2010. There is a risk that the 2009 and 2010 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 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.

Transfer of Funds

The Safe Drinking Water Act allows up to 33% of a state's annual Capitalization Grant for drinking water to be transferred at the direction of the Governor to a state's clean water revolving fund, or an equivalent dollar amount of a state's annual Capitalization Grant for clean water to be transferred to a state's drinking water revolving fund. The District made transfers from the Clean Water SRF to the Drinking Water SRF pursuant to this authority for the years 2002 and 2003 in an aggregate amount of \$15,574,320. This transferred amount included the entire 2002 and 2003 Clean Water Capitalization Grants and associated state match funds.

In 2006, the District transferred \$7,500,000 of Drinking Water Leveraged Funds to the Clean Water Program. With the 2008 Drinking Water Capitalization Grant, the ability exists to transfer up to \$17,460,000 from the Clean Water SRF Program to the Drinking Water SRF Program. Up to \$25,530,000 could be transferred from the Drinking Water Program to the Clean Water SRF Program.

New Loans

The District expects to make Loans under the Programs with the proceeds of the Series 2008 Bonds and other amounts available for the Programs. Loans presently projected to be made under the Programs are for the projects described in Appendix C. Based on the District's previous loan origination experience, the District expects actual Loans may differ from those projected in Appendix C or otherwise identified in the District's Intended Use Plans. The changes in actual Loans made are likely to occur as a result of various factors, including the ability of some potential borrowers to fund the projects from competing funding sources, timing and project scope modifications by Borrowers and the inability of some potential borrowers to meet Program eligibility criteria.

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

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

Sources of Funds for Loans

The Master Indenture establishes three accounts within the Loan Fund of each State Revolving Fund for making Loans to Borrowers: the State Match Loan Account, the Federally Capitalized Loan Account and the Leveraged Loan Account. Under applicable EPA regulations, the State of South Dakota is required to provide a match equal to 20% of the amount of the Capitalization Grant. The Federally

Capitalized Loan Account will be funded with proceeds of any draws under the Letter of Credit, 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. In addition, Loans may be funded from amounts on deposit in the Unrestricted Cumulative Excess Interest Repayments Subaccount and the Restricted Cumulative Excess Principal Repayments Subaccount of the Revenue Fund under the terms of the Master Indenture. For future Loans, the relative proportions in which Loans are made from Bond proceeds and Capitalization Grant proceeds will depend primarily on the availability of federal funds, the nature of the Borrowers and projects, the funding needs of the Program and the rate of interest at which the Loans are made.

Loan Agreements

Pursuant to each Loan Agreement, the District will agree to purchase specified Loan Obligations, and the Borrower will agree to pay certain amounts, including administrative fees, as long as the District is the owner of the Loan Obligations. The Loan Agreements set forth the terms and conditions under which Loan proceeds are to be disbursed to pay or reimburse eligible costs of the project being financed. The Loan Agreements include various representations and covenants as to the project to be financed and the authority of the Borrowers to issue the Loan Obligations. In the case of Borrowers which are political subdivisions, the Loan Agreements will include covenants pertaining to the tax exempt status of the Bonds and, in the case of Loan Obligations payable from utility revenues, a covenant to maintain either the net revenues of the utility or the net revenues of the facilities financed with Bond proceeds in each fiscal year at least equal to 110% of debt service on the Loan Obligations and any other parity lien debt. The coverage requirement for Loan Obligations payable from sales tax revenues is 120%. In the case of Nonprofit Borrowers, the coverage requirement is 110%. The District reserves the right to waive or modify the foregoing coverage requirements. The Master Indenture permits the District to waive Loan Obligation prepayment restrictions as long as the District provides the Trustee with a Coverage Certificate (as defined in the Master Indenture) demonstrating that Adjusted Projected Revenues (after giving effect to the prepayment) will be at least 120% of the Allocable Portion of debt service due each year on the State Match Portion and Leveraged Portion of all outstanding Bonds.

Account Balances

The unaudited fund balances for the Programs, the amount Loan Obligations held by the District and the principal amount of outstanding Bonds as of September 30, 2007 are as follows:

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Summary of Fund Balances, Loan Balances
and Outstanding Bonds
(as of September 30, 2007)

<u>Fund Assets</u>	<u>Clean Water</u>	<u>Drinking Water</u>
Reserve Fund:		
State Match Reserve Account	\$ 374,733 ⁽¹⁾	\$ 934,076 ⁽²⁾
Restricted Reserve Account	-0-	-0-
Unrestricted Reserve Account	-0-	-0-
Loan Fund:		
Federally Capitalized Loan Account	\$ -0-	\$ -0-
State Match Loan Account	887,908	4,789,412
Leveraged Loan Account	1,309,007	4,291,018
Transfer Match Loan Account	-0-	97,895
Revenue Fund:		
Unrestricted Interest Repayments Account	\$ 1,558,657	\$ 981,166
Restricted Principal Repayments Account	1,030,398	311,410
Unrestricted Cumulative Excess	\$ 13,884,373	\$ 8,480,765
Restricted Cumulative Excess	12,837,954	7,662,326
Arbitrage Rebate	581,251	385,929
Administration Fund:		
SRF Administration Account	\$ 91,421	\$ 5,139
State Administration Account	3,399,751	3,541,778
Bond Fund:		
State Match Bond Account	\$ 786,134	\$ 723,626
Leveraged Bond Account	1,730,155	1,148,437
Outstanding Loan Balances ⁽³⁾	\$147,821,519	\$ 99,072,936
Disbursed Portion of Other Closed Loans	<u>10,648,773</u>	<u>9,524,895</u>
Total Assets	\$196,942,036	\$141,950,808
	<u>Bonds Outstanding</u>	
Leveraged	\$ 40,969,059	\$ 27,255,000
State Match	<u>11,155,941</u>	<u>15,060,000</u>
Total Outstanding Bonds	\$ 52,125,000	\$ 42,315,000

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

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

⁽³⁾ 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. The Master Indenture authorizes investments in Investment Agreements which are permitted under South Dakota law and the agreement or issuer or guarantor of which is assigned the highest short-term rating or a long-term debt rating in the two highest categories by the rating agency or agencies rating the Bonds at the time the agreement is entered into. Existing fund balances are invested under Investment Agreements as follows:

<u>Bond Issue</u>	<u>Provider</u>	<u>Investment Agreement</u>		<u>Amount Invested</u>	<u>Termination Date</u>
		<u>Interest Rate</u>	<u>Cap on Investment</u>		
1994 ⁽¹⁾	FGIC Capital Market Services, Inc. (guaranteed by General Electric Capital Corporation)	5.40%	\$70,000,000	\$ 604,086	7/31/12
1995 ⁽¹⁾	Societe Generale (New York Branch)	6.85	15,000,000	5,813,844	8/1/15
1996 ⁽¹⁾	MBIA Inc.	6.22	15,000,000	8,861,783	8/1/17
1998 ⁽²⁾	CDC Funding Corp.	5.56	40,000,000	6,141,754	8/1/08
2001 & 2004 ⁽¹⁾⁽²⁾	AIG Matched Funding Corp. (guaranteed by American International Group, Inc.)	5.07	60,000,000 ⁽³⁾	19,972,206	8/1/25
2005 ⁽¹⁾⁽²⁾	AIG Matched Funding Corp. (guaranteed by American International Group, Inc.)	4.41	\$80,000,000 ⁽³⁾	\$14,658,182	8/1/26

⁽¹⁾ Clean Water.

⁽²⁾ Drinking Water.

⁽³⁾ Cap solely on Revenue Fund portion of total investment.

For purposes of preparing the Coverage Certificates for the Series 2008 Bonds for each Program and the tables contained elsewhere in the Official Statement under the caption "SOURCE OF PAYMENT AND SECURITY", the District has assumed that the Investment Agreements relating to the Series 1994, 1995, 1996 and 2001 Clean Water Bonds, the Series 1998 and 2001 Drinking Water Bonds and Series 2004 Bonds and Series 2005 Bonds and will remain in effect until the dates specified in the table above. However, the Investment Agreements which relate to proceeds from the Series 1996 Clean Water Bonds and the Series 1998 Drinking Water Bonds each provide that they will terminate earlier upon redemption, defeasance or refunding of all of the related Series 1996 Bonds or Series 1998 Bonds, respectively.

ESTIMATED SOURCES AND USES OF FUNDS

The following is a summary of the estimated sources and uses of Series 2008 Bond proceeds and related capitalization grants:

<u>Sources:</u>	<u>Clean Water</u>	<u>Drinking Water</u>	<u>Total</u>
Series 2008 Bonds	\$21,960,000	\$18,040,000	\$40,000,000
Anticipated 2008-2010 Capitalization Grants	<u>9,822,900</u>	<u>24,438,000</u>	<u>34,260,900</u>
Total Sources of Funds	<u>\$31,782,900</u>	<u>\$42,478,000</u>	<u>\$74,260,900</u>
<u>Uses:</u>			
Loans	\$ 31,142,231	\$ 40,859,320	\$ 72,001,551
Administrative Expenses	471,499	1,466,280	1,937,779
Underwriter's Discount and Cost of Issuance	<u>169,170</u>	<u>152,400</u>	<u>321,570</u>
Total Uses of Funds	<u>\$31,782,900</u>	<u>\$42,478,000</u>	<u>\$74,260,900</u>

SOURCE OF PAYMENT AND SECURITY

The Series 2008 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" below), the Drinking Water Portions and the Clean Water Portions, respectively, of the Existing Bonds, the Series 2008 Bonds and other Bonds to be issued under the Master Indenture will be payable from and secured by:

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

provided, however, that Loan Obligations and other assets pledged under the Master Indenture may be released from the lien of the Master Indenture (or other Loan Obligations may be substituted) in the event, among other things, the District provides to the Trustee a certificate of the District showing estimated coverage from repayments of the remaining or substituted Loan Obligations and certain investment earnings to be at least 120% of average annual debt service requirements for the State Match Portion and Leveraged Portion of the Bonds. See "APPENDIX A--SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE SUPPLEMENTAL 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 Documents, and if and to the extent these provisions conflict in any manner with any other express or implied provision of the Indenture Documents, 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 2008 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 2008 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.

Sources of Payment for Purchase Price of Tendered Bonds. The purchase price of the Series 2008 Bonds which are tendered for purchase will be paid first from proceeds under the terms of the Remarketing Agreement and second from proceeds under the Liquidity Support Facility. A Liquidity Support Facility must be maintained throughout any period during which the Series 2008 Bonds are in any Short Mode Period or Adjustable Long Mode Period which ends prior to the final maturity of the Series 2008 Bonds. While the Liquidity Support Facility is in place, the District has no obligation to make payments for the purchase of tendered Series 2008 Bonds. Holders of Series 2008 Bonds have no right to tender such bonds to the District for purchase during any period in which the Liquidity Support Facility is in place.

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 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 applicable Unrestricted Cumulative Excess Interest Repayments Subaccount for such SRF until applied as 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), or to finance additional loans to Borrowers to be evidenced by new Loan Obligations.

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

Coincident with the issuance of the Series 2008 Bonds, the District and the Trustee will enter into the Third Amendment to the Master Trust Indenture which will provide that, notwithstanding any other provision of the Master Trust Indenture, the District may direct the Trustee to transfer funds between Programs or within a Program and between Funds, Accounts or Subaccounts for any purpose, including, without limitation, for the purpose of establishing greater flexibility of use, freedom from or achieving compliance with federal or state tax, regulatory, contractual or other requirements, if, as a result of a series of such transfers, the net balance of funds in each affected Program, Fund, Account and/or Subaccount, as applicable, is not less than the balance in such Program, Fund, Account or Subaccount, as applicable, immediately prior to such series of transfers.

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

The following tables set forth the estimated revenues and debt service of the Programs as of the issuance of the Series 2008 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 anticipated to be received in 2008, 2009 and 2010), a change in the creditworthiness of the Borrowers, a default in any investment, investment losses, changes in investment income available upon reinvestment, or other factors.

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**Drinking Water State Revolving Fund
Projected Coverage**

	State Match Bonds				Leveraged Bonds						Total Bonds			
	Annualized Interest Revenues Available ⁽¹⁾	Annual State Match Debt Service ⁽²⁾	Surplus of Available Revenues After Debt Service	Coverage	Surplus of Unrestricted Revenues After State Match Debt Service	Loan Principal Repayments ⁽³⁾	Revenues Available for Leveraged Bonds ⁽²⁾	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	
8/1/2008	\$3,738,075	\$1,447,253	\$2,290,822	2.58x	\$2,290,822	\$ 7,632,790	\$ 9,923,612	\$2,296,874	4.32x	\$11,370,864	\$3,744,126	\$ 7,626,738	3.04x	
8/1/2009	3,977,712	1,448,008	2,529,704	2.75x	2,529,704	7,009,692	9,539,397	2,304,299	4.14x	10,987,404	3,752,306	7,235,098	2.93x	
8/1/2010	4,739,715	1,813,467	2,926,248	2.61x	2,926,248	8,993,015	11,919,264	3,264,520	3.65x	13,732,731	5,077,987	8,654,743	2.70x	
8/1/2011	5,178,033	1,813,589	3,364,444	2.86x	3,364,444	9,789,242	13,153,686	3,266,553	4.03x	14,967,275	5,080,142	9,887,133	2.95x	
8/1/2012	5,396,263	1,820,242	3,576,021	2.96x	3,576,021	10,343,163	13,919,184	3,278,497	4.25x	15,739,425	5,098,739	10,640,687	3.09x	
8/1/2013	5,526,781	1,818,160	3,708,621	3.04x	3,708,621	10,499,904	14,208,525	3,277,476	4.34x	16,026,685	5,095,636	10,931,049	3.15x	
8/1/2014	5,690,479	1,813,474	3,877,005	3.14x	3,877,005	10,430,273	14,307,278	3,278,179	4.36x	16,120,752	5,091,653	11,029,099	3.17x	
8/1/2015	5,861,203	1,816,304	4,044,899	3.23x	4,044,899	9,917,621	13,962,520	3,259,394	4.28x	15,778,824	5,075,697	10,703,127	3.11x	
8/1/2016	6,036,448	1,805,007	4,231,442	3.34x	4,231,442	10,096,022	14,327,464	3,256,171	4.40x	16,132,470	5,061,177	11,071,293	3.19x	
8/1/2017	6,216,082	1,811,463	4,404,620	3.43x	4,404,620	8,820,773	13,225,392	3,254,151	4.06x	15,036,855	5,065,614	9,971,241	2.97x	
8/1/2018	6,387,290	1,813,217	4,574,073	3.52x	4,574,073	9,041,426	13,615,499	3,256,435	4.18x	15,428,716	5,069,652	10,359,065	3.04x	
8/1/2019	6,566,924	1,811,845	4,755,079	3.62x	4,755,079	9,072,221	13,827,300	3,248,770	4.26x	15,639,145	5,060,615	10,578,530	3.09x	
8/1/2020	6,222,125	1,297,149	4,924,976	4.80x	4,924,976	7,419,655	12,344,631	3,251,186	3.80x	13,641,779	4,548,334	9,093,445	3.00x	
8/1/2021	6,354,096	1,299,996	5,054,100	4.89x	5,054,100	6,806,970	11,861,070	3,249,079	3.65x	13,161,065	4,549,074	8,611,991	2.89x	
8/1/2022	6,489,431	1,300,424	5,189,008	4.99x	5,189,008	6,959,424	12,148,432	3,241,559	3.75x	13,448,855	4,541,982	8,906,873	2.96x	
8/1/2023	6,218,552	878,433	5,340,119	7.08x	5,340,119	7,074,982	12,415,101	3,248,666	3.82x	13,293,534	4,127,099	9,166,435	3.22x	
8/1/2024	6,349,701	880,023	5,469,679	7.22x	5,469,679	6,701,932	12,171,611	3,244,442	3.75x	13,051,634	4,124,464	8,927,170	3.16x	
8/1/2025	6,480,679	880,549	5,600,130	7.36x	5,600,130	5,510,447	11,110,577	3,247,030	3.42x	11,991,126	4,127,578	7,863,548	2.91x	
8/1/2026	4,620,592	484,523	4,136,069	9.54x	4,136,069	5,168,039	9,304,108	1,483,483	6.27x	9,788,631	1,968,006	7,820,625	4.97x	
8/1/2027	4,191,153	361,506	3,829,647	11.59x	3,829,647	4,129,391	7,959,038	951,122	8.37x	8,320,544	1,312,628	7,007,916	6.34x	
8/1/2028	4,218,423	358,898	3,859,525	11.75x	3,859,525	3,717,675	7,577,199	947,829	7.99x	7,936,097	1,306,727	6,629,370	6.07x	

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

(2) Total interest paid for the Series 2008 Bonds is estimated to be 3.92%.

(3) Consists of loans in repayment, approved loans as of September 30, 2007 and projected loans to be made through December 31, 2008.

**Clean Water State Revolving Fund
Projected Coverage**

	State Match Bonds				Leveraged Bonds					Total Bonds			
	Annualized Interest Revenues Available ⁽¹⁾	Annual State Match Debt Service ⁽²⁾	Surplus of Available Revenues After Debt Service	Coverage	Surplus of Unrestricted Revenues After State Match Debt Service	Loan Principal Repayments ⁽³⁾	Revenues Available for Leveraged Bonds	Annual Leveraged Debt Service ⁽²⁾	Coverage	Total Revenue Available For Total Debt Service	Annual Total Debt Service	Surplus of Available Revenues After Debt Service	Total Coverage
8/1/2008	\$5,413,390	\$1,608,456	\$3,804,934	3.37x	\$3,804,934	\$11,041,222	\$14,846,156	\$3,824,483	3.88x	\$16,454,612	\$5,432,939	\$11,021,674	3.03x
8/1/2009	5,813,125	1,654,772	4,158,353	3.51x	4,158,353	12,777,197	16,935,550	4,246,248	3.99x	18,590,322	5,901,021	12,689,301	3.15x
8/1/2010	5,862,560	1,715,192	4,147,368	3.42x	4,147,368	13,972,044	18,119,412	4,929,722	3.68x	19,834,605	6,644,915	13,189,690	2.98x
8/1/2011	6,140,247	1,705,089	4,435,157	3.60x	4,435,157	14,940,557	19,375,714	4,933,853	3.93x	21,080,804	6,638,943	14,441,861	3.18x
8/1/2012	6,582,480	1,732,349	4,850,131	3.80x	4,850,131	15,304,768	20,154,899	4,933,264	4.09x	21,887,249	6,665,614	15,221,635	3.28x
8/1/2013	6,573,936	1,012,874	5,561,062	6.49x	5,561,062	14,774,560	20,335,622	4,932,554	4.12x	21,348,496	5,945,428	15,403,068	3.59x
8/1/2014	6,922,710	1,023,684	5,899,027	6.76x	5,899,027	15,123,035	21,022,062	4,923,898	4.27x	22,045,745	5,947,582	16,098,164	3.71x
8/1/2015	7,325,464	1,008,943	6,316,520	7.26x	6,316,520	15,215,981	21,532,501	4,923,951	4.37x	22,541,445	5,932,894	16,608,551	3.80x
8/1/2016	7,286,158	830,282	6,455,876	8.78x	6,455,876	15,353,824	21,809,700	4,587,805	4.75x	22,639,982	5,418,087	17,221,895	4.18x
8/1/2017	7,668,814	822,013	6,846,801	9.33x	6,846,801	14,330,440	21,177,241	4,590,318	4.61x	21,999,254	5,412,331	16,586,923	4.06x
8/1/2018	7,805,555	611,140	7,194,416	12.77x	7,194,416	10,535,010	17,729,426	4,579,772	3.87x	18,340,566	5,190,912	13,149,654	3.53x
8/1/2019	8,073,539	610,184	7,463,356	13.23x	7,463,356	9,856,487	17,319,843	4,588,959	3.77x	17,930,026	5,199,143	12,730,884	3.45x
8/1/2020	8,346,192	608,191	7,738,001	13.72x	7,738,001	9,016,979	16,754,980	4,589,332	3.65x	17,363,171	5,197,523	12,165,648	3.34x
8/1/2021	8,612,192	605,451	8,006,741	14.22x	8,006,741	8,268,406	16,275,148	4,583,451	3.55x	16,880,598	5,188,902	11,691,697	3.25x
8/1/2022	8,892,933	606,723	8,286,210	14.66x	8,286,210	7,900,218	16,186,428	4,586,244	3.53x	16,793,151	5,192,967	11,600,184	3.23x
8/1/2023	8,783,158	261,811	8,521,347	33.55x	8,521,347	7,213,213	15,734,560	4,581,999	3.43x	15,996,371	4,843,810	11,152,561	3.30x
8/1/2024	9,073,720	262,965	8,810,755	34.51x	8,810,755	6,654,446	15,465,202	4,575,715	3.38x	15,728,166	4,838,679	10,889,487	3.25x
8/1/2025	9,370,895	263,434	9,107,461	35.57x	9,107,461	6,353,059	15,460,520	4,570,665	3.38x	15,723,953	4,834,098	10,889,855	3.25x
8/1/2026	9,675,694	263,488	9,412,206	36.72x	9,412,206	6,125,867	15,538,073	4,577,634	3.39x	15,801,561	4,841,122	10,960,439	3.26x
8/1/2027	7,555,142	148,063	7,407,079	51.03x	7,407,079	5,268,279	12,675,357	1,444,903	8.77x	12,823,420	1,592,966	11,230,454	8.05x
8/1/2028	7,764,663	142,941	7,621,722	54.32x	7,621,722	2,875,650	10,497,373	1,439,274	7.29x	10,640,314	1,582,215	9,058,099	6.72x

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

(2) Total interest paid for the Series 2008 Bonds is estimated to be 3.92%.

(3) Consists of loans in repayment, approved loans as of September 30, 2007 and projected loans to be made through December 31, 2008.

Reserve Funds

The Series 2008 Bonds are not secured by a pledge of or lien on amounts on deposit in either Reserve Fund. However, the Existing Bonds (other than the Series 2004 Bonds and Series 2005 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 (other than the Series 2004 Bonds and Series 2005 Bonds). The amounts on deposit in the existing subaccounts of the Reserve Funds secure solely the debt service on such Existing Bonds and shall not secure debt service on any of the Series 2004 Bonds, Series 2005 Bonds and Series 2008 Bonds. See “APPENDIX A--SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE SUPPLEMENTAL INDENTURE –Funds and Accounts –Reserve Fund” herein.

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

For the Existing Bonds (other than the Series 2004 Bonds and the Series 2005 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 such 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 such 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 such 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 such 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. For this purpose, interest payable on any future Bond Payment Date with respect to (x) any Bonds or proposed Bonds to which a Qualified Interest Rate Agreement applies is to be calculated as provided under "Hedging Transactions" below and the applicable Series Resolution and (y) any Variable Rate Bonds shall be calculated as provided under "Hedging Transactions" and "Variable Rate Bonds" below and the related Series Resolution. 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 service on the Outstanding Bonds. A "Qualified Interest Rate Agreement" means any interest rate exchange agreement; contract providing for payment or receipt of funds based on levels of or changes in interest rates; contract 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 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.

Tender Option Bonds

The District may issue Bonds subject to tender at the option of the Holder if the payment of the purchase price of tendered Bonds is to be provided pursuant to a Liquidity Support Facility provided by a Liquidity Provider with obligations rated at the time of issuance of the Bonds in one of the three highest short-term rating categories assigned by any Rating Agency. Such Bonds may be made subject to the terms set forth in the Series Resolution authorizing the issuance of such Bonds.

Hedging Transactions

If the District enters into a Qualified Interest Rate Agreement with a counterparty requiring the District to pay either a fixed interest rate or a variable interest rate on a notional amount and the District has determined that the Qualified Interest Rate Agreement was entered into to provide substitute interest payments for Bonds in a principal amount equal to the notional amount of the Qualified Interest Rate Agreement, then during the term of the Qualified Interest Rate Agreement and so long as the Counterparty is not in default:

(i) for purposes of any calculation of interest with respect to the Bonds, the interest rate on the Bonds shall be determined as if such Bonds bore interest at the fixed interest rate or the variable interest rate, as the case may be, payable by the District under the Qualified Interest Rate Agreement;

(ii) for purposes of any calculation of interest with respect to proposed Bonds, the interest rate shall be determined as if such proposed Bonds are proposed to bear interest upon issuance at the fixed interest rate or the variable interest rate, as the case may be, payable by the District under the Qualified Interest Rate Agreement;

(iii) any net payments (other than Termination Payments) required to be made by the District to the Counterparty may be made in the same manner as and secured on a parity with interest payments on the related Bonds as provided in the Indenture Documents and any related Series Resolution;

(iv) any payments designated as “amounts due in the ordinary course” shall be treated as interest on a Loan and deposited to the credit of the appropriate Account within the Revenue Fund;

(v) any upfront payments received by the District from the Counterparty at the time of execution and delivery of the Qualified Interest Rate Agreement shall be treated as interest on a Loan and deposited to the credit of the appropriate Account within the Revenue Fund;

(vi) any Termination Payments due from the District shall be payable solely from Excess Clean Water Revenues, Excess Drinking Water Revenues and such other source, as shall be provided for in the applicable Series Resolution; and

(vii) any Termination Payments due from the counterparty shall be treated as interest on a Loan and deposited to the credit of the appropriate Account within the Revenue Fund.

If the District enters into an Interest Rate Agreement that does not satisfy the requirements for a Qualified Interest Rate Agreement (a) the interest rate adjustments or assumptions referred in clause (i) above shall not be made; (ii) any payments required to be made by the District to the Counterparty (including Termination Payments) pursuant to such Interest Rate Agreement must be made only from Excess Clean Water Revenues or Excess Drinking Water Revenues; and (iii) any payments received by

the District from the Counterparty pursuant to such hedge agreement shall be treated as interest on a Loan and deposited to the credit of the appropriate Account within the Revenue Fund.

Variable Interest Rates

For purposes of computing the interest payable on any Variable Rate Bonds, unless the applicable Series Resolution or Bond Order provides to the contrary, the rate of interest shall be assumed to be equal, as applicable, either (i) if such Variable Rate Bonds have been or are to be issued as obligations exempt from federal income taxation, the monthly average SIFMA Municipal Swap Index during the 5 years (i.e. most recent 60 complete months) preceding the date of such calculation or (ii) if such Variable Rate Bonds have been or are to be issued as obligations subject to federal income taxation, the monthly average LIBOR during the 5 years (60 complete months) preceding the date of such calculation, provided that no such rate shall at any time exceed the maximum rate then permitted by law for obligations of the District.

Liquidity Facilities

The District reserves the right to enter into Liquidity Support Facility arrangements with regard to Bond issues which give the owners of Bonds the right to require purchase thereof in order to secure payment of the purchase price of such Bonds. In connection with any such Liquidity Support Facility, the District may execute and deliver an agreement setting forth the conditions upon which drawings or advances may be made and the method by which the District will reimburse the Liquidity Provider. Any and all amounts payable by the District to reimburse the Liquidity Provider, other than Bond Fees, together with interest thereon, shall be deemed to constitute the payment of principal of, premium, if any, and interest on such Bonds. Before entering into or obtaining the benefit of any Liquidity Support Facility with respect to any Bonds, the District shall notify each Rating Agency and the Trustee in writing of its intention to execute and deliver such Liquidity Support Facility at least 15 days before the execution and delivery thereof.

Notwithstanding anything in the Indenture Documents to the contrary, (a) any Series Resolution authorizing the execution by the District of a Liquidity Support Facility may include provisions with respect to the application and use of all amounts to be paid thereunder; and (b) no amounts paid under a Liquidity Support Facility shall be part of the pledge and lien granted under the Indenture Documents and no Person shall have any rights with respect to any such amounts so paid except as specifically provided in such Series Resolution.

Absence of Acceleration Remedy

The remedies available to the holders of the Series 2008 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 2008 BONDS

Purpose and Authority

The Series 2008 Bonds are being issued pursuant to the Act, the Master Indenture, the Supplemental Indenture and the Series Resolution adopted by the Board of Water and Natural Resources of the State of South Dakota.

Proceeds of the Series 2008 Bonds will be used by the District to make Loans and pay issuance and certain administrative costs. See “ESTIMATED SOURCES AND USES OF FUNDS” herein.

Terms of the Bonds

The Series 2008 Bonds will be dated the date of delivery and will mature on August 1, 2029. Interest on the Series 2008 Bonds will be paid on each applicable Interest Payment Date. Principal is payable at maturity or at an earlier redemption at the principal corporate trust office of the Trustee. The Series 2008 Bonds will initially bear interest in the Semiannual Rate Mode as described in this Official Statement, pursuant to a state statutory requirement. The interest rate applicable during the first Semiannual Mode Period ending July 31, 2008 will be determined by the Remarketing Agent. The State recently adopted legislation, effective as of July 1, 2008, allowing the interest rate mode for the Series 2008 Bonds to be changed from time to time to a Daily Rate Mode, a Weekly Rate Mode, a Monthly Rate Mode or an Adjustable Long Rate Mode or back to a Semiannual Rate Mode.

Adjustment Periods (Modes of Operation)

Under the Supplemental Indenture, the Remarketing Agent (after consultation with the District) may divide the term of any of the Series 2008 Bonds into certain periods of time (“Adjustment Periods”), each to commence on an “Adjustment Date.” Each Adjustment Period may be either a Daily Mode Period, a Weekly Mode Period, a Monthly Mode Period, a Semiannual Mode Period or an Adjustable Long Period, as designated by the Remarketing Agent from time to time. “Mode,” with respect to a Daily Mode Period, a Weekly Mode Period, a Monthly Mode Period, a Semiannual Mode Period or an Adjustable Long Period, means the method of determining interest rates, Interest Payment Dates, Rate Determination Dates and Rate Change Dates within such Adjustment Period. In addition, the District may elect to convert the Series 2008 Bonds to a Fixed Interest Rate. Generally, the Modes have different operating features, including, but not limited to, different demand features, mandatory tender features, optional redemption provisions, Rate Determination Dates and Rate Change Dates and Interest Payment Dates. Each Adjustment Period must be at least 20 days long. Under the Supplemental Indenture, it is not necessary that all of the Series 2008 Bonds operate in the same Mode at the same time, or that Series 2008 Bonds in the same Mode at the same time have the same or similar Rate Periods, Interest Payment Dates, Rate Determination Dates or Rate Change Dates.

This description of the Series 2008 Bonds is limited to the terms of the Series 2008 Bonds during the Daily Mode Period, the Weekly Mode Period, the Monthly Mode Period, the Semiannual Mode Period and the Adjustable Long Period. This Official Statement does not provide information concerning the Series 2008 Bonds in the Fixed Rate Period. Potential purchasers of Series 2008 Bonds remarketed in the Fixed Rate Period should not rely on the information contained in this Official Statement, but instead should review the disclosure document available at the time of such remarketing for applicable interest rate modes and security provisions.

The Series 2008 Bonds initially will bear interest in a Semiannual Mode Period as described above pursuant to a statutory requirement. Thereafter, the Remarketing Agent (at the direction of the District) will designate Adjustment Periods and the Rate Determination Dates, Rate Change Dates and Interest Payment Dates for each Series 2008 Bond. If the Remarketing Agent does not make the designation of an Adjustment Period or an interest rate with respect to any Series 2008 Bond in the manner and within the time periods described below, or if the Favorable Opinion of Bond Counsel and written statements from each Rating Agency then rating the Series 2008 Bonds required for certain changes to an Adjustable Long Period or to a Fixed Rate Period, as described in the Supplemental Indenture, is not delivered or is withdrawn, the next Adjustment Period with respect to the Series 2008 Bonds in the Adjustment Period then ending shall be the Adjustment Period then in effect (unless the

Adjustment Period was an Adjustable Long Period of longer than one year, in which case the next Adjustment Period will be an Adjustable Long Period of one year and one day). Series 2008 Bonds that revert to operation (or remain) in such Modes in this manner will remain in such Modes until the designation, if any, of a Substitute Adjustment Date by the Remarketing Agent.

Each Adjustment Date for Series 2008 Bonds in a particular Adjustment Period (unless the immediately preceding Adjustment Period and the current Adjustment Period are both Daily Mode Periods, Weekly Mode Periods or Monthly Mode Periods) will be a Mandatory Tender Date for such Series 2008 Bonds. Series 2008 Bonds in such Adjustment Period are required to be tendered for purchase on such Mandatory Tender Date at the Tender Price therefore. See “DESCRIPTION OF THE SERIES 2008 BONDS – Mandatory Tender.”

Under the Supplemental Indenture, certain written notices described below are required to be sent to the Holders of Series 2008 Bonds (except Liquidity Provider Bonds) by first-class mail, and certain Immediate Notices are required to be sent by telephone or electronic transmission. Failure by the Trustee to give such notice, or any defect therein, shall not extend the period for making elections or in any way change the rights, if any, of the Holders of the Series 2008 Bonds to elect to have their Series 2008 Bonds purchased on any Optional Tender Date. Any notice so mailed, or, if Immediate Notice, sent by telephone or electronic transmission, shall be conclusively presumed to have been given, whether or not the Holder receives the notice.

Interest

General. During any Daily Mode Period, Weekly Mode Period, Monthly Mode Period or Semiannual Mode Period, interest on the Series 2008 Bonds in such Mode will be payable in arrears on each Interest Payment Date and at maturity. In addition, interest also will be payable on each redemption date, Adjustment Date and Mandatory Tender Date, and will be payable as part of the Tender Price on each Optional Tender Date. Interest on the Series 2008 Bonds will accrue from and including the date of the first authentication and delivery of the Series 2008 Bonds until the principal thereof shall have been paid. During any Daily Mode Period, Weekly Mode Period, Monthly Mode Period, Semiannual Mode Period or Adjustable Long Period with Rate Change Dates occurring less than one year apart, the interest on the Series 2008 Bonds in that Mode for that period will be computed on the basis of a year of 365 or 366 days, as appropriate, for the actual number of days elapsed. Otherwise, interest is computed on the basis of a 360-day year consisting of twelve 30-day months.

From and after the date upon which any Series 2008 Bond is to be purchased as described below under the subcaptions “Purchase of Series 2008 Bonds on Demand of a Bondholder” or “Mandatory Tender,” or redeemed as described below under the subcaption “Redemption,” no interest shall accrue on such Series 2008 Bond if sufficient moneys are on deposit with the Tender Agent or the Trustee to pay the applicable purchase or redemption price thereof (including accrued interest, if any).

While the Liquidity Support Facility is in effect, the Series 2008 Bonds (other than the Liquidity Provider Bonds) shall not bear interest at any time at a rate per annum in excess of the rate of interest specified in the Liquidity Support Facility for determining interest coverage.

Daily Mode Period. During each Rate Period during any Daily Mode Period, the Series 2008 Bonds in such Mode shall bear interest at a rate determined in the following manner: for the initial Rate Period, the Series 2008 Bonds in a Daily Mode Period shall bear interest at a rate established by the Remarketing Agent on or prior to the first day of the Daily Mode Period, in its sole judgment having due regard for prevailing financial market conditions, which is the lowest rate of interest which will permit such Series 2008 Bond to be remarketed at 100% of the principal amount thereof (without regard to

interest thereon) on the first day of the Daily Mode Period. For each succeeding Rate Period during a Daily Mode Period, the Series 2008 Bonds in such Mode shall bear interest at a rate which shall be the lowest rate of interest which will, in the sole judgment of the Remarketing Agent having due regard for prevailing financial market conditions, permit such Bond to be remarketed at par, if any, on the first day of such Rate Period.

With respect to Daily Mode Period, Rate Determination Dates and Rate Change Dates shall occur on each Business Day.

If for any reason the interest rate cannot be determined or become effective in the manner specified above for any Bond in the Daily Mode Period, the interest rate on Bonds in the Daily Mode Period shall be the rate in effect for the immediately preceding Rate Period during such Daily Mode Period.

By 10:00 a.m., New York time, on the first day of each Rate Period during a Daily Mode Period, the Remarketing Agent shall determine the rate applicable for such Rate Period. By 4:00 p.m., New York time, on the same day, the Remarketing Agent shall furnish to the Trustee by Immediate Notice, and the Trustee shall furnish to the District, the Liquidity Provider and the Tender Agent by Immediate Notice, the rates applicable to such Series 2008 Bonds for each Rate Period during the Daily Mode Period. Should any Bondholder or Beneficial Owner request in writing the rate applicable to such Series 2008 Bonds for any particular Rate Period during a Daily Mode Period, the Trustee (if such Bonds are not held in a Book-Entry System) or the Remarketing Agent (if such Bonds are held in a Book-Entry System) shall furnish Immediate Notice of the rate for such Rate Period to such requesting Bondholder or Beneficial Owner, respectively.

Weekly Mode Period, Monthly Mode Period or Semiannual Mode Period. During each Rate Period during a Weekly Mode Period, a Monthly Mode Period or a Semiannual Mode Period, the Series 2008 Bonds in such Mode will bear interest at a rate determined in the following manner: on the Rate Determination Date for such Rate Period, the Remarketing Agent, having due regard for pertinent rate indices, comparable issues and prevailing market conditions, will determine the interest rate that, if borne by such Series 2008 Bonds during such Rate Period, would be the interest rate, but would not exceed the interest rate, that would result in the market value of such Series 2008 Bonds on the Rate Change Date being 100% of the principal amount thereof (without regard to accrued interest thereon), and the interest rate so determined will be the interest rate on such Series 2008 Bonds for the Rate Period beginning on the next Rate Change Date.

Notwithstanding the foregoing, if, during any Monthly Mode Period, any Series 2008 Bonds shall have been tendered for purchase on a Tender Date that is not a Rate Change Date and if the Remarketing Agent provides notification to the District, the Tender Agent, the Liquidity Provider and the Trustee in writing or by telephone promptly confirmed in writing that in its determination the Series 2008 Bonds bearing interest at the Monthly Rate then in effect will not have a market value of 100% of the principal amount thereof (without regard to accrued interest thereon) on such Tender Date, the Remarketing Agent shall determine, and notify the District, the Tender Agent, the Liquidity Provider and the Trustee of, a new interest rate for such Series 2008 Bonds effective for all Series 2008 Bonds in such Mode for such Rate Period on such Tender Date for the remainder of the Rate Period in which such determination is made (unless subsequently redetermined pursuant to this sentence). Promptly upon receipt of such notice, the Trustee shall notify each Holder whose Series 2008 Bonds are affected by such change of such change in writing.

With respect to each Weekly Mode Period, Rate Determination Dates shall occur weekly, initially on Wednesday of each week (unless such day is not a Business Day, in which case the Rate

Determination Date shall be the immediately preceding Business Day), and Rate Change Dates shall occur weekly, initially on Wednesday of each week.

With respect to each Monthly Mode Period, Rate Determination Dates shall occur monthly, initially on the first Business Day of each month, and Rate Change Dates shall occur monthly, initially on the first Business Day of each month.

If for any reason an interest rate cannot be determined or become effective in the manner specified above, the interest rate on the Series 2008 Bonds in the Weekly Mode will be equal to 60% of the Base Rate on such Rate Determination Date; provided that Series 2008 Bonds may not be sold pursuant to the Remarketing Agreement or otherwise for a price less than 100% of the principal amount thereof.

With respect to each Semiannual Mode Period, Rate Determination Dates shall occur semiannually, initially on the last Business Day of the month preceding the initial such Rate Period, and Rate Change Dates shall occur semiannually thereafter.

If for any reason the Remarketing Agent does not set a Semiannual Rate on any Rate Determination Date or a court holds that the rate set for any Semiannual Mode Period is invalid, illegal or unenforceable, the Semiannual Rate for the Series 2008 Bonds for that Semiannual Mode Period shall be 80% of the yield shown for six-month United States Treasury Notes or Series 2008 Bonds, as published in *The Wall Street Journal* in the last issue published on or before the Business Day immediately preceding the commencement of such Semiannual Mode Period; and if that issue does not contain such a yield, the Semiannual Rate shall be determined by linear interpolation between the yields shown in that issue for United States Treasury Notes and Series 2008 Bonds having the next shorter and next longer number of months to maturity.

During a Weekly Mode Period, a Monthly Mode Period or a Semiannual Mode Period, the Trustee shall give any Holder of Series 2008 Bonds, upon the request of such Holder, information in writing regarding the Adjustment Period or Periods and interest rate or rates applicable to such Series 2008 Bonds.

If at any time the Remarketing Agent determines that, in its judgment, such weekly, monthly or semiannual Rate Determination Dates or Rate Change Dates then in effect have become inappropriate, taking into account general market practice with respect to periodic adjustment of rates on instruments comparable to the Series 2008 Bonds, whether based upon the time of compilation or reporting of any interest rate or financial index or indicator or otherwise, the Remarketing Agent (upon notice as hereinafter provided) may designate a new schedule of Rate Determination Dates and/or Rate Change Dates to remain in effect until another redetermination of scheduled Rate Determination Dates or Rate Change Dates. The Remarketing Agent shall give written notice of any change in scheduled Rate Determination Dates or Rate Change Dates to the District, the Trustee, the Tender Agent, and the Liquidity Provider, and such change will become effective on the first scheduled Rate Determination Date or Rate Change Date, as the case may be, so designated occurring not less than 14 days following the giving of such notice. Promptly upon receipt of such notice, the Trustee shall notify each Holder whose Series 2008 Bonds are affected by such change of such change in writing.

Adjustable Long Period. For each Rate Period during an Adjustable Long Period, the Series 2008 Bonds in such Mode shall bear interest at a rate determined in the following manner. The Rate Determination Date and Rate Change Date for each Rate Period shall be a Business Day designated by the Remarketing Agent, who, having due regard for pertinent rate indices, comparable issues and prevailing market conditions, will determine the interest rate which, if borne by such Series 2008 Bonds

during such Rate Period, would be the interest rate, but would not exceed the interest rate, which would result in the market value of such Series 2008 Bonds on the Rate Change Date being 100% of the principal amount thereof (without regard to accrued interest thereon); and the interest rate so determined shall be the interest rate on such Series 2008 Bonds for such Rate Period.

With respect to the Adjustable Long Period, the Remarketing Agent shall designate a schedule of Rate Determination Dates and Rate Change Dates in accordance with the Supplemental Indenture. For the Adjustment Date which is the first day of an Adjustable Long Period, and for each Rate Change Date thereafter within such Adjustable Long Period, the Remarketing Agent will give Immediate Notice to the District, the Tender Agent, and the Trustee on each related Rate Determination Date of the interest rate which will be effective commencing on the next Rate Change Date for such Rate Period. Upon receipt of such Immediate Notice, the Trustee shall promptly notify the Holders of such Series 2008 Bonds in writing of the interest rate for such Rate Period.

If for any reason the interest rate cannot be determined or become effective in the manner specified above, the interest rate for such Rate Period shall be 95%, 90%, 80%, 75%, 65% or 60% of the 11-Bond Index for the most recent period (as published in the Bond Buyer or any successor publication, or if none are published and available, the published and generally available interest rate index that is, in the judgment of the Remarketing Agent, most comparable to such index) if the length of such Rate Period equals or exceeds fifteen, nine, six, two or one years or is less than one year, respectively; provided, however, that Series 2008 Bonds may not be sold pursuant to the Remarketing Agreement or otherwise for a price of less than 100% of the principal amount thereof. If for any reason the interest rate cannot be determined or become effective in the manner specified above, the interest on Series 2008 Bonds in such Mode for such Rate Period shall be 90%, 75%, 65% or 60% of the Base Rate on the first Business Day of such Rate Period if the length of such Rate Period equals or exceeds ten years, three years or one year, or is less than one year, respectively; provided, further, that Series 2008 Bonds may not be sold pursuant to the Remarketing Agreement or otherwise for a price of less than 100% of the principal amount thereof. Upon the alternative computation of the interest rate for any Rate Period as described in this paragraph, the Trustee shall give Immediate Notice to each Holder of Series 2008 Bonds in the Adjustable Long Period for which such interest rate computation is then being made, of the interest rate which will apply to such Bonds during such Rate Period.

Purchase of Series 2008 Bonds on Demand of a Bondholder

Each Holder of Series 2008 Bonds (other than Liquidity Provider Bonds) in a Daily Mode Period, Weekly Mode Period or Monthly Mode Period will have the right to have such Series 2008 Holder's Bonds purchased on any Optional Tender Date in the manner described below. **Holders of Bonds in a Semiannual Mode Period or an Adjustable Long Period and Holders of Liquidity Provider Bonds will have no right to demand to have their Series 2008 Bonds purchased.**

During a Daily Mode Period when a Book-entry System is in effect, any Series 2008 Bond (other than a Liquidity Provider Bond) in such Mode will be purchased on the demand of the Beneficial Owner thereof through its direct Participant in the Securities Depository at the Tender price therefore (equal to 100 percent of the principal amount thereof, plus accrued interest to but not including the tender date) on any business Day upon delivery to the Remarketing Agent at its principal Office, by 10:00 a.m., New York time, on any Business Day of a written irrevocable notice which will be effective upon receipt, which states (a) the name and address of the Beneficial Owner, (b) the principal amount of such beneficial interest (and the portion thereof to be tendered, if less than the full principal amount thereof is to be tendered), and (c) the date on which such beneficial interest shall be so purchased, which date shall be a Business Day (and which date may be the date of the delivery of such notice to the Remarketing Agent). During any Daily Mode Period when a Book-Entry System is not in effect, any Series 2008

Bond (other than a Liquidity Provider Bond) in such Mode will be purchased on the demand of a Holder of a Series 2008 Bond at the Tender Price therefore (equal to 100 percent of the principal amount thereof, plus accrued interest to but not including the tender date) on any Business Day upon delivery to the Tender Agent, at the address of the Tender Agent filed with the Trustee, by 10:00 a.m., New York time, on any Business Day, of the following:

(a) a written irrevocable notice, which will be effective upon receipt, which states (i) the name and address of the registered owner, (ii) the principal amount of such Series 2008 Bond (and the portion thereof to be tendered, if less than the full principal amount thereof is to be tendered) and the Series 2008 Bond number, (iii) the date on which such Series 2008 Bond shall be so purchased, which date shall be a Business Day (and which date may be the date of the delivery of such notice to the Tender Agent), and (iv) if the Series 2008 Bond is not delivered with such notice as permitted in paragraph (b) below, that the registered owner agrees to deliver the Series 2008 Bond (with all necessary endorsements and guarantees of signature) as specified in paragraph (b) below; and

(b) such Series 2008 Bond (with all necessary endorsements and guarantees of signature) attached to the aforesaid notice; provided, however, that such Series 2008 Bond shall be so purchased only if the Series 2008 Bond delivered to the Tender Agent shall conform in all respects to the description thereof in the aforesaid notice; and provided, further, that if the registered owner of the tendered Series 2008 Bond is an open-ended diversified management investment company (registered under the Investment Company Act of 1940, as amended), the delivery required under this paragraph (b) need not be made until 11:00 a.m., New York time, on the date such Series 2008 Bond is to be purchased from such registered owner.

During any Weekly Mode Period or Monthly Mode Period when a Book-Entry System is in effect, any Series 2008 Bond (other than a Liquidity Provider Bond) in such Mode shall be purchased, on the demand of the Beneficial Owner thereof (through its direct Participant in the Securities Depository) at the Tender Price therefor (equal to 100% of the principal amount thereof, plus accrued interest to but not including the Tender Date) on any Optional Tender Date upon irrevocable written notice or irrevocable telephonic notice (subsequently confirmed in writing) to the Tender Agent and the Trustee at their Principal Offices, which notice must be received by the Tender Agent and the Trustee not later than 2:00 P.M., New York time, on any Business Day in order to be effective on that day. Any such notice shall state (i) the principal amount and number of such Series 2008 Bond, the name and the address of such Beneficial Owner and the taxpayer identification number, if any, of such Beneficial Owner and (ii) that such Series 2008 Bond is to be purchased on a specified Optional Tender Date. During any Weekly Mode Period or Monthly Mode Period or on the Adjustment Date immediately succeeding such Weekly Mode Period or Monthly Mode Period (if the Adjustment Period then commencing is a Weekly Mode Period or a Monthly Mode Period, as the case may be), the Optional Tender Date shall be the first Business Day occurring on or after the seventh calendar day after the effective date of the receipt of such written or telephonic notice by the Tender Agent. Any Beneficial Owner of Series 2008 Bonds who has so demanded purchase of such Beneficial Owner's Series 2008 Bonds shall effect delivery of such Series 2008 Bonds by causing such direct Participant to transfer its interest in the Series 2008 Bonds tendered for purchase equal to such Beneficial Owner's interest therein on the records of the Securities Depository to the participant account of the Tender Agent with the Securities Depository prior to 10:00 A.M., New York time, on the Optional Tender Date specified in the notice. During any Weekly Mode Period or Monthly Mode Period when a Book-Entry System is not in effect, a Holder of a Series 2008 Bond may tender the Series 2008 Bond or portion of Series 2008 Bond by delivering the notice described above in the manner described above, by the time set forth above (which shall include the certificate number of the Series 2008 Bond as well as the name, address and taxpayer identification number of the Holder), and shall also deliver the Series 2008 Bond to the Tender Agent on the Optional Tender Date (with an

appropriate transfer of registration form executed in blank) prior to 10:00 A.M., New York time, on the Optional Tender Date specified in the notice.

Any telephonic notice received by the Tender Agent or Remarketing Agent pursuant to the preceding two paragraphs from any person reasonably believed by the Tender Agent or Remarketing Agent to be the Holder or Beneficial Owner of a Series 2008 Bond may be conclusively relied upon by the Tender Agent and Remarketing Agent as a true, irrevocable notice of demand with respect to such Series 2008 Bond. Notwithstanding the foregoing, the Holder or Beneficial Owner of a Series 2008 Bond shall not be entitled to demand purchase of such Holder's or such Beneficial Owner's Series 2008 Bonds as described above if no Liquidity Support Facility is in effect for the Series 2008 Bonds on the Optional Tender Date.

Payment of the Tender Price of any Series 2008 Bond optionally tendered for purchase will be made by check or, upon submission of a written request and instructions to the Tender Agent, by wire transfer, but only upon delivery and surrender of the Series 2008 Bond to the Tender Agent on the Optional Tender Date as described above. When the Series 2008 Bonds are held in the Book-Entry System, payment of the purchase price will be made by the Trustee or the Remarketing Agent in accordance with the rules and procedures of the Securities Depository.

Mandatory Tender

General. As more fully described below, when a Book-Entry System is not in effect, the Holders of the Series 2008 Bonds (other than Liquidity Provider Bonds) in a Daily Mode Period, a Weekly Mode Period, a Monthly Mode Period or a Semiannual Mode Period are required to tender their Series 2008 Bonds to the Tender Agent (if the Series 2008 Bonds are not held in the book-entry system) for purchase by 10:00 A.M., New York time, on the following Mandatory Tender Dates: (a) on the Business Day prior to each Termination Tender Date (defined below), (b) the Conversion Date (but only such Bonds subject to such conversion shall be subject to mandatory tender on such Conversion Date), (c) each Adjustment Date unless the immediately preceding Adjustment Period and the current Adjustment Period are both Daily Mode Periods, Weekly Mode Periods, Monthly Mode Periods or Semiannual Mode Periods, (d) each Rate Change Date within an Adjustable Long Period, and (e) while the Liquidity Support Facility is in effect, the date specified by the Trustee for a mandatory tender of Series 2008 Bonds upon the occurrence of a Notice Termination Event under the Liquidity Support Facility and receipt by the Trustee from the Liquidity Provider of a Notice of Mandatory Tender pursuant to the Liquidity Support Facility, which mandatory tender shall be not more than 15 days after the receipt of such notice and in no event later than the Business Day preceding the termination of the Liquidity Support Facility. "Termination Tender Date" is defined in the Supplemental Indenture as the date on which the Liquidity Support Facility then in effect (including any extensions thereof) with respect to the Series 2008 Bonds shall (a) be canceled or allowed to terminate or expire and be replaced by an Alternate Liquidity Support Facility with respect to the Series 2008 Bonds, unless the Trustee shall have received, not less than 30 days prior to the cancellation, termination or expiration date of the Liquidity Support Facility then in effect which is being replaced, a written statement from each Rating Agency then rating the Series 2008 Bonds to the effect that such replacement of the Liquidity Support Facility then in effect shall not result in the rating or ratings by such Rating Agency of the Series 2008 Bonds being lowered or withdrawn, or (b) be canceled or allowed to terminate or expire without being replaced by any Alternate Liquidity Support Facility with respect to the Series 2008 Bonds, or be reduced in available bond purchase commitment amount so as to no longer secure the Series 2008 Bonds. The date of any declaration of an "event of default" under the Indenture Documents shall not be a Termination Tender Date. On any such Mandatory Tender Date, the Holders of Series 2008 Bonds who duly tender their Series 2008 Bonds for purchase will be paid a Tender Price equal to 100% of the principal amount thereof, plus accrued interest, if any, to but not including the Mandatory Tender Date. When a Book-

Entry System is in effect, the requirement for physical delivery of the Series 2008 Bonds under this paragraph shall be deemed satisfied when ownership rights in the Series 2008 Bonds (to the extent of the principal amount tendered for purchase) are transferred by Direct Participants on the records of the Securities Depository.

Termination Tender Date. In anticipation of the occurrence of an Termination Tender Date, the Trustee shall give written notice thereof (and to the extent circumstances permit, such notice shall be given not less than 15 days prior thereto) to all Holders of the affected Series 2008 Bonds (except Liquidity Provider Bonds), by first class mail, postage prepaid, and to the Remarketing Agent, the Trustee, the Tender Agent and if the Book-Entry System is in effect, the Securities Depository, such notice stating the Termination Tender Date and that all such Outstanding Series 2008 Bonds (except Liquidity Provider Bonds) will be purchased on the Termination Tender Date by payment of the Tender Price therefor.

Tender Price. The Tender Price for any Series 2008 Bond tendered or required to be tendered on an Optional Tender Date or a Mandatory Tender Date shall be 100% of the principal amount thereof plus accrued interest thereon to but not including the Optional Tender Date or Mandatory Tender Date, except as provided in the next sentence with respect to the tender on a Termination Tender Date of any Series 2008 Bonds in an Adjustable Long Period.

At any time for Series 2008 Bonds in a Fixed Rate Period or Adjustable Long Period, the Tender Price on a Termination Tender Date shall be the purchase price (expressed as percentages of the principal amount of Series 2008 Bonds subject to Mandatory Tender for purchase) determined in accordance with the following table plus accrued interest to but not including such Termination Tender Date:

Length of Adjustable Long Period or Period from Currently Occurring Termination Tender Date Until End of Adjustable Long Period	Tender Price (Periods Measured from and including First Day of Such Period)
Greater than 10 years	(i) after first year and for next 4 years – 105% (ii) for next 2 years – 103%; and (iii) after 7 years – 102.5% declining 0.5% per 12 months to 100%
Less than or equal to 10 years and greater than 7 years	(i) after first year and for next 4 years – 103%; and (ii) after 5 years – 101.5% declining 0.5% per 12 months to 100%
Less than or equal to 7 years and greater than 4 years	(i) after first year and for next 2 years – 102.5%; and (ii) after 3 years – 101% declining 0.5% per 12 months to 100%
Less than or equal to 4 years	after first year and prior to maturity – 102.5%

The Tender Price shall be calculated in accordance with the above table. The determination of the length of the period and the corresponding Tender Price shall be made by counting from the currently occurring Termination Tender Date or the first day of Adjustable Long Period to the end of such period.

Conversion of the Series 2008 Bonds. Subject to the satisfaction of certain conditions and procedures set forth in the Supplemental Indenture, the interest rate on any Series 2008 Bonds may be converted to a Fixed Interest Rate on any Rate Change Date for such Series 2008 Bonds and the interest rate on any Liquidity Provider Bonds may be converted to a Fixed Interest Rate at any time (provided the conversion of a Liquidity Provider Bond to a Fixed Interest Rate shall not be effective unless such Liquidity Provider Bond is actually purchased as provided in the underwriting or purchase contract, and the other conditions precedent are satisfied, as provided in the second succeeding paragraph below).. Such conversion shall occur upon receipt by the Trustee of a direction from the District not less than 15 days prior to the Conversion Date specified in such direction, provided that in the case of (i) the failure of the Liquidity Provider to purchase any Series 2008 Bonds tendered, (ii) expiration or termination of the Liquidity Support Facility without substitution thereof with an Alternate Liquidity Support Facility, or (iii) if Series 2008 Bonds are Liquidity Provider Bonds for a period of 45 days or more in any calendar year.

Upon conversion to a Fixed Interest Rate, such Series 2008 Bonds shall be subject to mandatory tender for purchase on such Conversion Date. The Trustee shall promptly give Immediate Notice of such election by the District to the Remarketing Agent, the Liquidity Provider and the Holders of all Series 2008 Bonds to be converted that such Series 2008 Bonds will be purchased on the Conversion Date by payment of the Tender Price therefor.

If any condition precedent to the conversion of the interest rate on any Series 2008 Bonds to a Fixed Interest Rate (as provided in the Supplemental Indenture) shall not occur, such conversion shall not occur and such Series 2008 Bonds shall continue to operate in the Mode that was effective immediately prior to the date on which the Trustee received the direction for conversion from the District.

Adjustment Date. In the case of a mandatory tender occurring on an Adjustment Date, the Trustee is required to give written notice as described above under the subcaption “Adjustment Periods (Modes of Operation).”

Redemption

Optional Redemption in a Short Mode Period. During any Short Mode Period, the Series 2008 Bonds (i) in the Daily Rate Mode, Weekly Rate Mode and Monthly Rate Mode are subject to redemption in whole or in part at any time at the direction of the District during such Short Mode Period and (ii) Series 2008 Bonds in the Semiannual Rate Mode are subject to redemption in whole or in part on any Interest Payment Date at the direction of the District, in each case at a redemption price equal to 100 percent of the principal amount thereof plus accrued interest, if any, to the redemption date upon receipt by the Trustee not less than 35 days prior to such redemption date of a Written Request from the District stating that it intends to exercise its option to effect redemption of such Series 2008 Bonds; provided that Liquidity Provider Bonds shall be redeemed first before any other Series 2008 Bonds are redeemed

Optional Redemption in an Adjustable Long Period. Subject to the limitations set forth below, after the Conversion Date and during any Adjustable Long Period, the related Series 2008 Bonds are subject to redemption at the direction of the District in whole at any time or in part, on any Rate Change Date during an Adjustable Long Period (except for any initial Adjustable Long Period) or on any Interest Payment Date following such Conversion Date, at the redemption prices (expressed as percentages of the principal amount) set forth in the table below plus accrued interest to the redemption date upon receipt by the Trustee not less than 45 days prior to such redemption date of the written request from the District stating that it intends to exercise its option to effect redemption of such Series 2008 Bonds and, if the Liquidity Support Facility permits draws to pay redemption premium on such Series 2008 Bonds, upon

receipt by the Trustee not less than 30 days prior to such redemption date of funds sufficient to pay any applicable redemption premium, as follows:

**OPTIONAL REDEMPTION SCHEDULE
APPLICABLE TO FUTURE ADJUSTABLE LONG PERIODS**

<u>Length of Adjustable Long Period</u>	<u>Redemption Price (Periods Measured From and Including First Day of Such Period)</u>
Greater than 15 years	after 8 years – 102.5% declining 0.5% per 12 months to 100%
Less than or equal to 15 years and greater than 10 years	after 7 years – 102% declining 0.5% per 12 months to 100%
Less than or equal to 10 years and greater than 7 years	after 5 years – 101.5% declining 0.5% per 12 months to 100%
Less than or equal to 7 years and greater than 4 years	after 3 years – 101% declining 0.5% per 12 months to 100%
Less than or equal to 4 years	NOT SUBJECT TO OPTIONAL REDEMPTION

Notwithstanding the foregoing, if, due to the expiration, termination, cancellation or reduction in the available bond purchase commitment amount of the Liquidity Support Facility which results in the establishment of a different Termination Tender Date for the Series 2008 Bonds, then after such Termination Tender Date such Series 2008 Bonds shall be subject to optional redemption in accordance with the Optional Redemption Schedule set forth above but with reference to such Termination Tender Date for purposes of determining length of Rate Period and optional redemption prices as indicated in the above table.

Optional Redemption on Adjustment Dates and Conversion Dates. The Series 2008 Bonds also will be subject to redemption on the Conversion Date therefor and on any Adjustment Date therefor in whole or in part at a redemption price equal to 100% of the principal amount thereof plus accrued interest, if any, to the redemption date, upon the receipt by the Trustee of a written request from the District that it intends to exercise its option to effect redemption of such Series 2008 Bonds. The Trustee must receive such notice not less than 35 days prior to such redemption date (unless the Adjustment Period immediately preceding an Adjustment Date has a duration of less than 45 days, in which case such receipt by the Trustee shall be not later than the first Business Day of such Adjustment Period).

Mandatory Sinking Fund Redemption. The Series 2008 Bonds are subject to mandatory sinking fund redemption on the Interest Payment Date occurring in each August 1 at a redemption price equal to 100% of the principal amount thereof and accrued interest to the redemption date, as follows:

Interest Payment Date In August	Principal Amount	Interest Payment Date In August	Principal Amount
2010	\$1,375,000	2020	\$1,990,000
2011	1,435,000	2021	2,065,000
2012	1,485,000	2022	2,145,000
2013	1,535,000	2023	2,225,000
2014	1,600,000	2024	2,310,000
2015	1,655,000	2025	2,400,000
2016	1,720,000	2026	2,490,000
2017	1,785,000	2027	2,580,000
2018	1,845,000	2028	2,670,000
2019	1,920,000	2029*	2,770,000

*Maturity

So long as Series 2008 Bonds are in a Short Mode Period, such mandatory sinking fund redemption will occur on the first Business Day of August; otherwise, such mandatory sinking fund redemption will occur on the first calendar day of August.

Notice of Redemption. Notice of the call for any redemption of Series 2008 Bonds (other than Liquidity Provider Bonds) or any portion thereof (which shall be in Authorized Denominations) pursuant to the Supplemental Indenture identifying the Series 2008 Bonds or portions thereof to be redeemed, specifying the redemption date, the redemption price and the place and manner of payment, shall be given by the Trustee by mailing a copy of the redemption notice by first-class mail at least 15 days and not more than 60 days prior to the date fixed for redemption to the Liquidity Provider and the Holder of each Series 2008 Bond to be redeemed in whole or in part at the address shown on the registration books.

Any redemption notice mailed as described in the prior paragraph will be conclusively presumed to have been duly given, whether or not the Holder receives the notice.

Except for a mandatory sinking fund redemption, prior to the date that the redemption notice is first mailed as aforesaid, funds shall be placed with the Trustee to pay the principal of such Series 2008 Bonds, the accrued and unpaid interest thereon to the redemption date and the premium, if any, thereon or such notice of redemption shall state that any redemption is conditional on such funds being deposited with the Trustee on the redemption date and that failure to make such a deposit shall not constitute an Event of Default under the Supplemental Indenture. If such moneys shall not have been so received, the notice shall be of no force and effect, the Series 2008 Bonds shall not be redeemed and the Trustee shall give notice, in the same manner in which such notice of redemption was given, that such funds were not received. Upon the happening of the above conditions and the deposit of funds as aforesaid, the Series 2008 Bonds, or portions thereof, thus called for redemption shall not bear interest after the applicable redemption date, shall no longer be protected by the Supplemental Indenture and shall not be deemed to be outstanding under the provisions of the Supplemental Indenture.

Selection of Series 2008 Bonds for Redemption. If less than all of the Series 2008 Bonds are called for redemption, the Trustee will select the Series 2008 Bonds or portions thereof to be redeemed from the Series 2008 Bonds Outstanding and not previously called for redemption, in the following order: (i) Liquidity Provider Bonds then Outstanding, (ii) in the case of a mandatory redemption of Series 2008 Bonds under the Supplemental Indenture, from the Series 2008 Bonds previously selected for

redemption pursuant to the Supplemental Indenture, and (iii) any Series 2008 Bonds then eligible for redemption as the District deems appropriate and fair, provided that if no designation is made by the District pursuant to this clause (iii), the Series 2008 Bonds or portions thereof to be redeemed will be selected in such manner as in the Trustee's discretion it deems appropriate and fair; provided, further, that Liquidity Provider Bonds shall be redeemed first before any other Series 2008 Bonds are redeemed. So long as DTC or its nominee is the Holder of the Series 2008 Bonds, if less than all of the Series 2008 Bonds are called for redemption, the particular Series 2008 Bonds will be selected by lot by DTC in such manner as DTC may determine.

Bondholder's Failure to Deliver Series 2008 Bonds

If any Holder of Series 2008 Bonds fails to deliver or present at the time and place required in the Supplemental Indenture (i) Series 2008 Bonds subject to a demand for purchase or mandatory tender or (ii) Series 2008 Bonds with respect to which principal thereof, premium, if any, and interest thereon shall have become due, whether at maturity, on a Mandatory Tender Date or on a date fixed for redemption or otherwise, if sufficient moneys are on deposit with the Tender Agent or the Trustee to pay the applicable Tender Price or principal, premium, if any, and interest, if any, thereon, such Series 2008 Bonds will constitute Undelivered Bonds. From and after such date, all liability of the District to the Holders of such Undelivered Bonds shall cease, determine and be completely discharged and it shall be the duty of the Trustee to hold moneys on deposit for the benefit of the Holders of such Undelivered Bonds in a separate segregated fund. Moneys in such fund will not be invested and will be held without liability for interest thereon for the benefit of the Holders of such Undelivered Bonds. Any moneys so deposited and held by the Trustee not applied to the payment of such Undelivered Bonds within two years after the date on which such Undelivered Bonds became due shall be paid by the Trustee to the District upon the written direction of the District. Thereafter, Holders of such Undelivered Bonds shall be entitled to look only to the District for payment, and then only to the extent of the amount so repaid, and the District shall not be liable for any interest thereon and shall not be regarded as a Trustee of such money.

Substitute Adjustment Dates

The Remarketing Agent may designate a Substitute Adjustment Date for any Series 2008 Bonds during any Daily Mode Period, Weekly Mode Period, Monthly Mode Period or Semiannual Mode Period, in lieu of the next scheduled Adjustment Date for Series 2008 Bonds in such Period, which Substitute Adjustment Date for such Series 2008 Bonds shall be considered the next succeeding Adjustment Date for such Series 2008 Bonds for all purposes of the Supplemental Indenture unless a Termination Tender Date occurs before such Substitute Adjustment Date. Such designations must comply with the limitations set forth in the Supplemental Indenture. The Remarketing Agent will evidence each such designation as provided in the Supplemental Indenture. Upon receipt of notice from the Remarketing Agent as required by the Supplemental Indenture, the Trustee, at least ten days prior to such Substitute Adjustment Date, shall notify each Holder of Series 2008 Bonds (other than Liquidity Provider Bonds) affected thereby of the Substitute Adjustment Date in accordance with the Supplemental Indenture.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York will act as securities depository for the Series 2008 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.

THE LIQUIDITY SUPPORT FACILITY

The Liquidity Support Facility will be executed and delivered by and between the District and U.S. Bank National Association, a national banking association (the "Bank" or "Initial Liquidity Provider"). Pursuant to the Supplemental Indenture, the District may replace the Initial Liquidity Provider with an Alternate Liquidity Provider. Pursuant to the Liquidity Support Facility, the Bank will agree to purchase Tendered Bonds on each Optional Tender Date and each Mandatory Tender Date, subject to the terms and conditions of the Standby Bond Purchase Agreement between the Bank and the District (the "Standby Bond Purchase Agreement"). The Standby Bond Purchase Agreement shall initially be in the aggregate amount of \$42,038,357, which amount consists of \$40,000,000 for the principal and \$2,038,357 for up to 186 days' interest (at an assumed rate of 10% per annum computed on the basis of a 365/366-day year) of the purchase price of the Tendered Bonds. If the Series 2008 Bonds are adjusted to a Daily Rate Period, a Weekly Rate Period or a Monthly Rate Period, the interest commitment will be reduced to 36 days' of interest on the Series 2008 Bonds (at an assumed rate of 10% per annum computed on the basis of a 365/366-day year).

The Liquidity Support Facility shall be permanently and automatically reduced proportionately as Series 2008 Bonds are paid, redeemed or discharged in full.

The Bank's obligation to purchase Bonds pursuant to the Liquidity Support Facility is subject to the satisfaction of the following conditions precedent:

- (a) The Bank shall have timely received by no later than 11:00 a.m. on a Business Day a Notice of Purchase; provided, that if a Notice of Purchase is not received until after 11:00 a.m. on a Business Day, the Bank will be obligated to purchase Eligible Bonds on the following Business Day, and provided, further, that if a Notice of Bank Purchase is received before the end of the Purchase Period, the end of the Purchase Period shall not, in and of itself, relieve the Bank of its obligation to purchase Bonds; and

(b) No Event of Termination shall have occurred and be continuing. An Event of Termination occurs when any principal or interest due on the Bonds is not paid when due according to the terms of the Master Indenture. Upon an Event of Termination, the Available Commitment and Purchase Period and the obligation of the Bank to purchase the Bonds shall immediately terminate without notice or demand, and thereafter the Bank shall be under no obligation to purchase Bonds.

The Liquidity Support Facility contains various representations, warranties and covenants of the District which have been made to and for the benefit of the Bank. No Bondholder is entitled or permitted to rely upon such warranties or representations or enforce any such covenants of the District.

In addition, the Liquidity Support Facility contains various Events of Termination which permit the Bank, at its option, to exercise certain rights and remedies with respect to the District, including termination of the Available Commitment and Purchase Period by the Bank through 30 days' written notice to the Trustee, the District and the Remarketing Agent of such termination.

The District may terminate the Liquidity Support Facility for any reason by providing at least 30 days' written notice of such termination to the Bank.

The Liquidity Support Facility expires on the later of the last day of the Purchase Period, as such may be extended, or the payment in full of the principal of and interest on all Bonds purchased by the Bank under the Standby Bond Purchase Agreement. The initial Liquidity Support Facility has a stated expiration date of five years from its dated date which may be extended pursuant to the terms of the Standby Bond Purchase Agreement.

LIQUIDITY SUPPORT FACILITY PROVIDER

The Bank is a national banking association organized under the laws of the United States and is the largest subsidiary of U.S. Bancorp. At December 31, 2007, the Bank reported total assets of \$233 billion, total deposits of \$139 billion and total shareholders' equity of \$21 billion. The foregoing financial information regarding the Bank has been derived from and is qualified in its entirety by the unaudited financial information contained in the Federal Financial Institutions Examination Council report Form 031, Consolidated Report of Condition and Income for a Bank with Domestic and Foreign Offices ("Call Report"), for the quarter ended December 31, 2007. The publicly available portions of the quarterly Call Reports with respect to the Bank are on file with, and available upon request from, the FDIC, 550 17th Street, NW, Washington, D.C. 20429 or by calling the FDIC at (877) 275-3342. The FDIC also maintains an Internet website at www.fdic.gov that contains reports and certain other information regarding depository institutions such as the Bank. Reports and other information about the Bank are available to the public at the offices of the Comptroller of the Currency at One Financial Place, Suite 2700, 440 South LaSalle Street, Chicago, IL 60605.

U.S. Bancorp is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and, in accordance therewith, files reports and other information with the Securities and Exchange Commission (the "SEC"). U.S. Bancorp is not guaranteeing the obligations of the Bank and is not otherwise liable for the obligations of the Bank.

Except for the contents of this section, the Bank and U.S. Bancorp assume no responsibility for the nature, contents, accuracy or completeness of the information set forth in this Official Statement.

THE REMARKETING AGREEMENT

As described herein, purchase of the Series 2008 Bonds may be required under certain circumstances prior to the scheduled maturity of the Series 2008 Bonds. In order to facilitate such purchase, the District and the Remarketing Agent will enter into the Remarketing Agreement.

Pursuant to the Remarketing Agreement, the Remarketing Agent will agree to use its best efforts to remarket Series 2008 Bonds (i) if a Bondholder has tendered Series 2008 Bonds for purchase on an Optional Tender Date pursuant to the demand feature described under the caption “DESCRIPTION OF THE SERIES 2008 BONDS – Purchase of Series 2008 Bonds on Demand of a Bondholder,” (ii) if any Series 2008 Bonds are subject to any mandatory tender as described under the caption “DESCRIPTION OF THE SERIES 2008 BONDS – Mandatory Tender” and (iii) if the Series 2008 Bonds become Liquidity Provider Bonds pursuant to the Supplemental Indenture. The Remarketing Agent’s responsibilities and obligations will be subject to various conditions and terms set forth in the Remarketing Agreement. Under the terms of the Remarketing Agreement, the Remarketing Agent may be removed or replaced by the District upon 30 days’ written notice to the Remarketing Agent, the Tender Agent and the Liquidity Provider and the Remarketing Agent may resign upon 60 days’ written notice to the District, the Liquidity Provider, the Tender Agent, any other Remarketing Agent and all Holders of the Series 2008 Bonds. The Remarketing Agent will receive compensation based upon the outstanding principal amount of the Series 2008 Bonds.

The Remarketing Agent at all times shall be construed to be acting as an agent for and on behalf of the District. The Remarketing Agent shall not act as an underwriter for, and is in no way obligated to advance its own funds to purchase, any tendered Series 2008 Bonds. It is the express intention of the District and the Remarketing Agent that no purchase, sale or transfer of any Series 2008 Bonds, pursuant to the Remarketing Agreement, shall constitute or be construed to be the extinguishment of any Series 2008 Bonds or the indebtedness represented thereby or the reissuance of any Series 2008 Bonds or the refunding of any indebtedness represented thereby. The Remarketing Agent, in its individual capacity, either as principal, agent or through any affiliate, may in good faith buy, sell, own, hold and deal in any of the Series 2008 Bonds, and may join in any action that any Bondholder may be entitled to take with like effect as if it did not act in any capacity under the Remarketing Agreement. The Remarketing Agent, in its individual capacity, either as principal, agent, or through any affiliate, may also engage in or be interested in financial and other transactions with the District.

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 2008 Bonds from and after the date of issuance of the Series 2008 Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of Series 2008 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 2008 Bonds and the Loan Obligations to be excludable from gross income. Failure to comply with certain of such covenants could cause interest on the Series 2008 Bonds to become includable in gross income retroactive to the date of issuance of the Series 2008 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 2008 Bonds are not "private activity bonds" under the Code, and interest on the Series 2008 Bonds is excludable from gross income of the owners thereof for federal income tax purposes. Interest on the Series 2008 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 2008 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 2008 Bonds, the application of the proceeds of the Series 2008 Bonds and certain other matters pertinent to the tax exemption of the Series 2008 Bonds.

Ownership of the Series 2008 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 2008 Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

If a Series 2008 Bond is purchased at any time for a price that is less than the Series 2008 Bond's stated redemption price at maturity, the purchaser may be treated as having purchased a Series 2008 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 2008 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 2008 Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Series 2008 Bonds.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Series 2008 Bonds may affect the tax status of interest on the Series 2008 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 2008 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.

Not Qualified Tax-Exempt Obligations

The Series 2008 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 2008 Bonds offered hereby are being purchased from the District by Wachovia Bank, National Association (the “Underwriter”) at a price of \$39,903,430.00, which purchase price reflects an Underwriter’s discount of \$96,570.00. The Bond Purchase Agreement provides that the Underwriter shall purchase all of the Series 2008 Bonds offered hereby if any are purchased, and that the obligation to make such purchase is subject to the approval of certain legal matters by Bond Counsel and certain other conditions. The initial public offering price may be changed from time to time by the Underwriter.

CONTINUING DISCLOSURE

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

The “obligated persons” are considered to be the District and each Borrower for which the unpaid principal amount of Loan Obligations plus the principal amount of undisbursed funds exceeds 20% of the unpaid principal amount of outstanding Loan Obligations under the Clean Water Program or Drinking Water Program. At present and after origination of the expected loans described in Appendix C, there are no obligated persons other than the District and the City of Sioux Falls. Certain information relating to the City of Sioux Falls is set forth or referenced in Appendix D. The form of Continuing Disclosure Agreement is set forth in Appendix F. Reference is made to Appendix F for a description of the information to be provided, the rights of the beneficial owners of Series 2008 Bonds and the conditions for amendment of the Agreement.

RATINGS

Moody’s Investors Service, Inc. and Standard & Poor’s Public Finance Ratings have assigned long-term ratings of “Aaa” and “AAA”, respectively, to the Series 2008 Bonds and short-term ratings of VMIG 1 and A-1+. The short-term ratings are based upon the Liquidity Support Facility provided by the Liquidity Provider. 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 ratings of the Series 2008 Bonds represent a judgment as to the likelihood of timely payment of the Series 2008 Bonds according to their terms, but do not address the likelihood of redemption or acceleration prior to maturity.

There is no assurance that such ratings will remain in effect for any given period of time or that such ratings 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 a rating may have an adverse effect on the market price and marketability of the Series 2008 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 2008 Bonds, or prohibiting the District from making Loans to Borrowers or purchasing Loan Obligations with the proceeds of the Series 2008 Bonds, or in any way contesting or affecting the validity of any Series 2008 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 2008 Bonds or the existence or necessary powers of the District.

LEGAL MATTERS

The Series 2008 Bonds offered hereby are subject to the approving legal opinion of Perkins Coie LLP, Chicago, Illinois, as Bond Counsel. The opinion of Bond Counsel will be in substantially the form attached to this Official Statement as Appendix E. Bond Counsel will also pass upon certain additional matters by separate opinion addressed to the Underwriter. The Underwriter has been represented in connection with the purchase and sale of the Series 2008 Bonds by Faegre & Benson LLP, Minneapolis, Minnesota. The District and the Board have been represented in connection with the Series 2008 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 2008 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 2008 Bonds.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District or the Underwriter and purchasers or holders of any of the Series 2008 Bonds.

SOUTH DAKOTA CONSERVANCY DISTRICT

By: /s/ Bradley Johnson, Chairman

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**SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE
SUPPLEMENTAL INDENTURE**

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

Selected Definitions

The following words and terms as used in this Official Statement shall have the following meanings unless the context or use indicates another or different meaning or intent:

“Adjustable Long Period” means any Adjustment Period other than a Short Mode Period.

“Adjustment Date” means with respect to each Series 2008 Bond, (i) the date or dates specified in Schedule I to the Supplemental Indenture (including initially, the final maturity date of the Series 2008 Bonds), (ii) each Termination Tender Date and (iii) any other date so designated by the Remarketing Agent in the manner set forth in the Supplemental Indenture including any Substitute Adjustment Date. Each Adjustment Date is also a Rate Change Date.

“Adjustment Period” means with respect to each Series 2008 Bond, the period beginning on the date of the initial authentication and delivery of such Series 2008 Bond and ending at 12:00 Midnight, New York time, on the applicable date specified in Schedule I to the Supplemental Indenture (unless the interest rate on such Series 2008 Bond has been converted to the Fixed Interest Rate or a Substitute Adjustment Date has occurred) and, thereafter, each period beginning on an Adjustment Date for such Series 2008 Bond and ending on the day before the next Adjustment Date for such Series 2008 Bond. No Adjustment Period shall have a duration of less than 20 days. Unless the Remarketing Agent affirmatively designates a different Adjustment Period and all other conditions relating to such designation are satisfied as specified in the Supplemental Indenture, if the preceding Adjustment Period for such Series 2008 Bond was a Daily Mode Period, a Weekly Mode Period, a Monthly Mode Period, Semiannual Mode Period or an Adjustable Long Period, such period shall remain in effect.

“Alternate Liquidity Support Facility” means any irrevocable direct-pay letter of credit, line of credit or similar facility issued by, or bond purchase agreement entered into by, any financial or similar institution and obtained by or on behalf of the District pursuant to the Supplemental Indenture, which Alternate Liquidity Support Facility is in effect to provide Liquidity Support for any Outstanding Variable Rate Series 2008 Bonds; provided that any extension of a Liquidity Support Facility then in effect shall not constitute an Alternate Liquidity Support Facility.

“Authorized Denominations” means (i) prior to the Conversion Date for any Series 2008 Bond, \$100,000 and any integral multiple of \$5,000 in excess of \$100,000 and (ii) on and after the Conversion Date for such Series 2008 Bond, \$5,000 and any integral multiple thereof. Series 2008 Bonds may be redeemed in denominations of \$5,000 or any integral multiple thereof, provided that prior to its

Conversion Date the principal amount of the portion of any Series 2008 Bond not being redeemed shall be in a denomination of at least \$100,000.

“*Base Rate*” means the corporate base rate or prime rate of interest, as announced from time to time by the Trustee, said rate to change when and as such corporate base rate or prime rate changes.

“*Bond Fees*” means all fees and charges incurred by the District relating to the issuance, tender or remarketing of Variable Rate Bonds or the provision of liquidity in connection with Variable Rate Bonds, including, without limitation, the fees, costs, expenses, premiums and charges (but excluding costs of issuance) of any Rating Agency, remarketing agent, tender agent, liquidity provider or other party in connection with Variable Rate Bonds.

“*Bond Order*” means either (a) a Supplemental Indenture or (b) a certificate authorized by a Series Resolution to be executed and delivered by two authorized representatives of the District for the purposes of determining final terms, conditions or other details with respect to a Series of Bonds and related matters. An executed counterpart of any Bond Order shall be filed in the official records of the District.

“*Business Day*” means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York; Sioux Falls, South Dakota; or the city or cities in which are located the Principal Office of the Trustee and the office of the Liquidity Provider or other location at which demands for payment under the Liquidity Support Facility are to be presented, are authorized by law or executive order to close or (iii) a day on which the New York Stock Exchange is closed.

“*Conversion Date*” means the date upon which any Series 2008 Bond begins to bear interest at the Fixed Interest Rate as provided in the Supplemental Indenture.

“*Coverage Certificate*” means a projection prepared by or on behalf of the District showing schedules of the Projected Revenue and of the principal and interest payments on the Bonds at the time Outstanding and to be issued. Such Coverage Certificate may be prepared by or on behalf of the District, signed by an authorized representative and filed with the Trustee.

“*Daily Mode Period*” means any Adjustment Period during which interest on any Series 2008 Bonds is determined each Business Day as set forth in the Supplemental Indenture.

“*Excess Clean Water Revenues*” means Excess Clean Water Restricted Revenues and Excess Clean Water Unrestricted Revenues.

“*Excess Clean Water Restricted Revenues*” means any amount from time to time on deposit in the Restricted Cumulative Excess Principal Repayments Subaccount of the Restricted Principal Repayments Account of the Clean Water Revenue Fund.

“*Excess Clean Water Unrestricted Revenues*” means any amount from time to time on deposit in the Unrestricted Cumulative Excess Interest Repayments Subaccount of the Unrestricted Interest Repayments Account of the Clean Water Revenue Fund, together with any investment income earned on amounts on deposit in the various Clean Water Funds and Accounts under the Master Indenture which are not required to be maintained therein or otherwise transferred pursuant to the terms of the Master Indenture.

“*Excess Drinking Water Revenues*” means Excess Drinking Water Restricted Revenues and Excess Drinking Water Unrestricted Revenues.

“*Excess Drinking Water Restricted Revenues*” means any amount from time to time on deposit in the Restricted Cumulative Excess Principal Repayments Subaccount of the Restricted Principal Repayments Account.

“*Excess Drinking Water Unrestricted Revenues*” means any amount from time to time on deposit in the Unrestricted Cumulative Excess Interest Repayments Subaccount of the Unrestricted Interest Repayments Account of the Drinking Water Revenue Fund, together with any investment income earned on amounts on deposit in the various Drinking Water Funds and Accounts under the Master Indenture which are not required to be maintained therein or otherwise transferred pursuant to the terms of the Master Indenture.

“*Expiration Date*” means, as of any date, the date upon which any Liquidity Support Facility is then scheduled to expire in accordance with its terms.

“*Favorable Opinion of Tax Counsel*” means an Opinion of Tax Counsel, addressed to the District and the Trustee, to the effect that the action proposed to be taken is not prohibited by the laws of the State of South Dakota and the Supplemental Indenture and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2008 Bonds.

“*Fixed Interest Rate*” means the fixed annual interest rate on any Series 2008 Bond established in accordance with the Supplemental Indenture.

“*Fixed Rate Period*” means the remaining term to maturity or earlier mandatory redemption of any Series 2008 Bond after conversion of the interest rate on such Series 2008 Bond to the Fixed Interest Rate, as established pursuant to the Supplemental Indenture.

“*Immediate Notice*” means notice by telephone or electronic transmission to such address as the addressee shall have directed in writing, promptly followed by written notice by first class mail postage prepaid.

“*Independent Counsel*” means a firm or firms of attorneys duly admitted to practice law before the highest court in any state of the United States of America and, without limitation, may include independent legal counsel for any of the Trustee or the District who are not employees thereof.

“*Initial Liquidity Provider*” means U.S. Bank National Association, and its successors and assigns.

“*Initial Liquidity Support Facility*” means the Standby Bond Purchase Agreement, dated as of March 1, 2008, among the District, the Trustee and the Initial Liquidity Provider, as amended and supplemented from time to time in accordance with its terms, or any replacement thereof.

“*Interest Payment Date*,” with respect to any Series 2008 Bond, means (i) each Adjustment Date; (ii) each Mandatory Tender Date; (iii) for Series 2008 Bonds in a Daily Mode Period, Weekly Mode Period or Monthly Mode Period, the first Business Day of each calendar month; (iv) for Series 2008 Bonds in the Semiannual Mode, August 1, 2008, and each February 1 and August 1 thereafter; (v) for Series 2008 Bonds in an Adjustable Long Period, each Rate Change Date and each February 1 and August 1; (v) after the Conversion Date for any Series 2008 Bond, each February 1 and August 1 with respect to such Series 2008 Bond; or (vi) any other date on which principal is payable on the Series 2008 Bonds.

“Interest Rate Agreements” means any contract that the District determines necessary or appropriate to manage payment or interest rate risk for bonds issued under the Act, the investment of proceeds, or other funds of the District, including 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.

“LIBOR” means the offered rate, as determined by the Trustee, for United States dollar deposits for a one-month period which appears on Telerate Page 3750, as reported by Bloomberg Financial Markets Commodities News (or such other page as may replace Telerate Page 3750 for the purpose of displaying comparable rates) as of approximately 11:00 a.m., London time, on the date of determination; *provided*, that if on any date of determination, no rate appears on Telerate Page 3750 as specified above, the Trustee shall determine the arithmetic mean of the offered quotations for four major banks in the London interbank market, for deposits in U.S. dollars for a one-month period for the banks in the London interbank market as of approximately 11:00 a.m., London time, on such date of determination and in a principal amount of not less than \$1,000,000 that is representative of a single transaction in such market and at such time, unless fewer than two such quotations are provided, in which case, *“LIBOR”* shall mean the arithmetic mean of the offered quotations that leading banks in New York City selected by the Trustee are quoting on the determination date for loans in U.S. dollars to leading European banks in a principal amount of not less than \$1,000,000 that is representative of a single transaction in such market at such time. All percentages resulting from such calculations shall be rounded upwards, if necessary, to the nearest one hundredth of one percent.

“Liquidity Agreement” means with respect to the Initial Liquidity Support Facility and any Alternate Liquidity Support Facility, the agreement or instrument between the District and the issuer or issuers of such Alternate Liquidity Support Facility which governs the rights, duties and obligations of such parties, in each case as each such agreement may be amended or supplemented.

“Liquidity Facility Effective Date” means the effective date of any Liquidity Support Facility.

“Liquidity Provider” means (a) initially, the Initial Liquidity Provider and (b) with respect to any Alternate Liquidity Support Facility, the obligor with respect to such Liquidity Support Facility.

“Liquidity Provider Bond” means any Series 2008 Bond purchased upon an optional or mandatory tender for purchase with funds provided by a Liquidity Provider under a Liquidity Support Facility and registered in the name of the Liquidity Provider as the owner thereof or, if the Book-Entry System is in effect, registered in the name of the Liquidity Provider, or such agent or nominee as the Liquidity Provider shall direct, or as collateral security in favor of the Liquidity Provider pursuant to the Liquidity Agreement, until such time as such Series 2008 Bond is remarketed pursuant to the Remarketing Agreement, or the Liquidity Provider is reimbursed by the District for such draw on the Liquidity Support Facility pursuant to the Liquidity Agreement or such Series 2008 Bond is paid in full.

“Liquidity Purchase Account” means the account so designated which is created and established in the Purchase Fund pursuant to the Supplemental Indenture.

“Liquidity Support” means, as to any Liquidity Support Facility, the obligation of the Liquidity Provider to provide for the payment of the purchase price of any Series 2008 Bonds tendered or deemed tendered in accordance with any provision of Article II of the Supplemental Indenture.

“Liquidity Support Facility” means (a) the Initial Liquidity Support Facility; or (b) in the event of delivery of any Alternate Liquidity Support Facility, the Alternate Liquidity Support Facility then in effect.

“*Mandatory Tender Date*” means each date on which Holders and Beneficial Holders are required to tender their Series 2008 Bonds for purchase pursuant to the Supplemental Indenture.

“*Maximum Rate*” means (a) so long as a Liquidity Support Facility is applicable to a Series 2008 Bond and such Series 2008 Bond is not a Liquidity Provider Bond, the rate of interest specified in the Liquidity Support Facility for determining interest coverage, (b) at all times such Series 2008 Bond is a Liquidity Provider Bond, the rate of interest specified in the then applicable Liquidity Agreement, and (c) at all other times, the lower of (1) the rate of interest specified in the applicable clause or provision and (2) if no such rate is specified, the maximum rate of interest permitted by applicable law.

“*Mode*” means the method of determining interest rates, Interest Payment Dates, Rate Determination Dates and Rate Change Dates during any Daily Mode Period, Weekly Mode Period, Monthly Mode Period, Semiannual Mode Period or Adjustable Long Period.

“*Monthly Mode Period*” means any Adjustment Period during which the interest rate on any Series 2008 Bonds is determined on a monthly basis as set forth in the Supplemental Indenture.

“*Opinion of Tax Counsel*” means a written opinion of independent counsel who is, and the form and substance which is, acceptable to the District and the Trustee and who is of recognized standing in matters relating to the tax exemption of interest on obligations issued by states and their political subdivisions.

“*Optional Tender Date*” means each date on which Holders or Beneficial Holders are required to tender their Series 2008 Bonds for purchase pursuant to a notice of optional tender given in accordance with the provisions of the Supplemental Indenture.

“*Participant*” means one of the entities which is a member of the Securities Depository and deposits securities, directly or indirectly, in the Book-Entry System.

“*Projected Clean Water Revenue*” as of the date of a Coverage Certificate means (i) the scheduled principal and interest payments on all Clean Water Loans held by the Trustee or required to be delivered to the Trustee pursuant to a Loan Agreement, except payments of principal and interest on Clean Water Loans 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 Clean Water Loans were acquired and, if a revenue obligation payable from net revenues of a Borrower, also failed to meet the coverage requirement of the applicable Credit Standard during both of the last two complete fiscal years, and (ii) all other amounts (excluding the required balances in the Reserve Funds) which an Authorized Representative of the District estimates will be received on Loan Obligations and investments of amounts then held or expected to be deposited in any Clean Water Fund or Account under the Master Indenture, including amounts which are reasonably expected to be drawn under the Clean Water Letter of Credit.

“*Projected Drinking Water Revenue*” as of the date of a Coverage Certificate means (i) the scheduled principal and interest payments on all Drinking Water Loans held by the Trustee or required to be delivered to the Trustee pursuant to a Loan Agreement, except payments of principal and interest on Drinking Water Loans 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 Drinking Water Loans were acquired and, if a revenue obligation payable from net revenues of a Borrower, also failed to meet the coverage requirement of the applicable Credit Standard during both of the last two complete fiscal years, and (ii) all other amounts (excluding the required balances in the Reserve Funds) which an Authorized Representative of the District estimates will be received on Loan Obligations and investments of amounts

then held or expected to be deposited in any Drinking Water Fund or Account under the Master Indenture, including amounts which are reasonably expected to be drawn under the Drinking Water Letter of Credit.

“*Projected Revenue*” means, as the context may require, Projected Clean Water Revenue or Projected Drinking Water Revenue.

“*Purchase Fund*” means the Purchase Fund which is established by the Trustee with the Tender Agent pursuant to the Supplemental Indenture.

“*Rate Change Date*” means for each Adjustment Period, the date the interest rate on a Series 2008 Bond changes, specifically (i) during any Daily Mode Period, the first day of the Daily Mode Period in accordance with the applicable provisions of the Supplemental Indenture; (ii) during any Weekly Mode Period, the day of the week (initially, Wednesday) designated by the Remarketing Agent in accordance with the applicable provisions of the Supplemental Indenture; (iii) during any Monthly Mode Period, the day of the month (initially, the first Business Day of the month) designated by the Remarketing Agent in accordance with the applicable provisions of the Supplemental Indenture; (iv) during any Semiannual Mode Period, the February 1 or August 1 immediately following the Rate Determination Date for such Semiannual Mode Period; (v) a Optional Tender Date during a Monthly Mode Period on which any Series 2008 Bonds are actually delivered in accordance with the requirements of the Supplemental Indenture; (vi) during any Adjustable Long Period, the date(s) specified in the notice delivered to the Trustee in accordance with the Supplemental Indenture; and (vii) each Adjustment Date.

“*Rate Determination Date*” means for each Adjustment Period, the date the interest rate on a Series 2008 Bond is determined, specifically (i) during any Daily Rate Period, the first day of any Daily Mode Period in accordance with the applicable provisions of the Supplemental Indenture; (ii) during any Weekly Mode Period, the day of the week (initially, Wednesday) designated by the Remarketing Agent in accordance with the applicable provisions of the Supplemental Indenture; (iii) during any Monthly Mode Period, (A) the day of the month (initially, the first Business Day of the month) designated by the Remarketing Agent in accordance with the applicable provisions of the Supplemental Indenture, (B) a Optional Tender Date during a Monthly Mode Period on which any Series 2008 Bonds are actually delivered in accordance with the requirements of the Supplemental Indenture, and (C) on any other Business Day as set forth in the Supplemental Indenture; (iv) during any Semiannual Mode Period, (A) the Business Day before the Rate Change Date preceding an initial Semiannual Mode Period, (B) the last Business Day of each six calendar period thereafter so long as such Series 2008 Bond continues to bear interest at a Semiannual Rate and (C) any other Business Day as set forth in the Supplemental Indenture; and (v) during any Adjustable Long Period, the date(s) specified in the notice delivered to the Trustee in accordance with the Supplemental Indenture. If any Rate Determination Date during a Short Mode Period is not a Business Day, the Rate Determination Date shall be the immediately preceding Business Day.

“*Rate Period*” means each period specified by the Remarketing Agent in the manner set forth in the Supplemental Indenture commencing on a Rate Change Date to and including the day before the next Rate Change Date.

“*Qualified Interest Rate Agreement*” shall mean any Interest Rate Agreement between the District and a Swap Provider (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 Swap Provider an amount calculated at an agreed-upon rate or index based upon a notional amount and the Swap Provider 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 Swap Provider, or the person who guarantees the obligation of the Swap Provider 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 Swap Provider or such other person who guarantees such obligation, but only if any such Rating Agency is then rating (1) bonds secured by such agreements of the Swap Provider or (2) the Series of Bonds to which such agreement may be related.

“*Rating Agency*” means Moody's Investors Service, Inc., Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. or any other nationally recognized rating agency, but only to the extent such entity has been requested in writing to issue a rating on the most recently issued series of Outstanding Bonds.

“*Remarketing Account*” means the account so designated which is created and established in the Purchase Fund pursuant to the Supplemental Indenture.

“*Semiannual Rate*” means the interest rate borne by the Series 2008 Bonds when they are in the Semiannual Rate Mode as provided in accordance with the Supplemental Indenture.

“*Semiannual Rate Index*” means the average of 180-day yield evaluations at par of at least five component issues of securities that have been issued or that the Remarketing Agent reasonably expects to be issued, selected by the Remarketing Agent, the interest on which is excluded from gross income for federal income taxation purposes, the redemption and tender provisions of which are comparable to the then-applicable redemption and tender provisions of the Series 2008 Bonds, and the other characteristics of which that are relevant to the determination of the market price of such securities are, in the reasonable judgment of the Remarketing Agent, similar to the characteristics of the Series 2008 Bonds, which average is computed by the Remarketing Agent as of the Rate Determination Date; provided that so long as the Series 2008 Bonds are rated by any Rating Agency in either of its two highest long-term debt rating categories, each component issue must be rated by such Rating Agency in its highest note or commercial paper rating category or in either of its two highest long-term debt rating categories; and provided further, that if the Series 2008 Bonds are rated by any Rating Agency in a rating category that is lower than its two highest long-term debt rating categories, each component issue must be rated by such Rating Agency in either (a) its note or commercial paper rating category correlative, in the Remarketing Agent's judgment, to the long-term debt rating category in which such Rating Agency has rated the Series 2008 Bonds or (b) the same long-term debt rating category as the Series 2008 Bonds are rated by such Rating Agency; and provided further, that the component issuers may be changed from time to time by the Remarketing Agent in its discretion, subject to the foregoing requirements.

“*Semiannual Rate Mode*” means the Mode during which the Series 2008 Bonds bear interest at a Semiannual Rate.

“*Semiannual Mode Period*” means, with respect to Series 2008 Bonds in the Semiannual Rate Mode, (a) the period from and including the Rate Change Date of any change to the Semiannual Rate Mode, to and including the last day of the six calendar month period beginning on such Rate Change Date, and (b) each six-calendar-month period thereafter, as set forth in the Supplemental Indenture, so long as the Series 2008 Bonds continue to bear interest at a Semiannual Rate.

“*Series Resolution*” means a resolution adopted by the Board of Water and Natural Resources pursuant to the Act and the Master Indenture authorizing the issuance of a Series of Bonds, and any Bond Order related thereto.

“*Short Mode Period*” means a Daily Mode Period, a Weekly Mode Period, a Monthly Mode Period or the Semiannual Mode Period.

“*SIFMA Municipal Index*” means the SIFMA Municipal Swap Index™ (such index previously known as the “BMA Municipal Swap Index”™) announced by Municipal Market Data and based upon the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specified criteria established by the Securities Industry and Financial Markets Association. The SIFMA Municipal Swap Index shall be based upon current yields of high-quality weekly adjustable variable rate demand bonds which are subject to tender upon seven days notice, the interest on which under the Code, is excludable from gross income for federal income tax purposes. The SIFMA Municipal Swap Index shall not include any bonds the interest on which is subject to any personal “alternative minimum tax” or similar tax unless all tax exempt bonds are subject to such tax; provided, however, that if such index is no longer produced by Municipal Market Data, Inc. or its successor, then “SIFMA Municipal Index” means such other reasonably comparable index selected by the District.

“*Substantial Change*” is defined as described in the definition of “Substantially Different.”

“*Substantially Different*” means (i) for purposes of comparing two consecutive Adjustment Periods (a) if both are 35 days or less, that their length differs by more than four days, and (b) in all other cases, that their length differs by more than five percent (5%) of the length of the shorter Adjustment Period, or that one length was one year or less and one length was more than one year; and (ii) for purposes of comparing the difference in intervals between Interest Payment Dates in two consecutive Adjustment Periods, (a) if the intervals between Rate Change Dates or between Interest Payment Dates, as the case may be, are 35 days or less, that the length of the intervals differs by more than four days, and (b) in all other cases, that the length of the intervals differs by more than five percent (5%) of the length of the shorter interval. The terms “*Substantial Change*” and “*Substantially Equal*” shall have the meaning consistent with the foregoing.

“*Substantially Equal*” is defined as described in the definition of “Substantially Different”.

“*Substitute Adjustment Date*” means any date designated by the Remarketing Agent in accordance with the Supplemental Indenture.

“*Swap Provider*” shall mean the counterparty with whom the District enters into a Qualified Interest Rate Agreement.

“*Tender Agent*” means the Trustee acting as tender agent under the Supplemental Indenture, and its permitted successors and assigns.

“*Tender Date*” means an Optional Tender Date or a Mandatory Tender Date.

“*Tender Price*” means the applicable purchase price for the Series 2008 Bonds on a Tender Date (including any premium payable upon tender) determined in accordance with the Supplemental Indenture.

“*Termination Date*” means, with respect to the Liquidity Support Facility, the date specified in a notice of termination given by the Liquidity Provider to the Trustee specifying the date on which the Liquidity Provider will no longer be obligated to purchase Series 2008 Bonds (or otherwise advance funds for the purchase of tendered Series 2008 Bonds) pursuant to the Liquidity Support Facility.

“*Termination Tender Date*” means the date on which the Liquidity Support Facility then in effect (including any extensions thereof) with respect to the Series 2008 Bonds shall (a) be canceled or allowed to terminate or expire and be replaced by an Alternate Liquidity Support Facility with respect to the Series 2008 Bonds, unless the Trustee shall have received, not less than 30 days prior to the cancellation, termination or expiration date of the Liquidity Support Facility then in effect which is being replaced, a written statement from each Rating Agency then rating the Series 2008 Bonds to the effect that such replacement of the Liquidity Support Facility then in effect shall not result in the rating or ratings by such Rating Agency of the Series 2008 Bonds being lowered or withdrawn or (b) be canceled or allowed to terminate or expire without being replaced by any Alternate Liquidity Support Facility with respect to the Series 2008 Bonds, or be reduced in available bond purchase commitment amount so as to no longer secure the Series 2008 Bonds. The date of any declaration of an “event of default” under the Master Trust Indenture shall not be Termination Tender Date.

“*Termination Payment*” means any payment payable by the District or a Counterparty under an Interest Rate Agreement as a result of a termination thereof prior to the scheduled expiration thereof.

“*The Bond Buyer*” means the publication so entitled and published in New York, New York, including any successor thereto.

“*Undelivered Bonds*” means (i) Series 2008 Bonds the Holders of which have demanded purchase thereof pursuant to the applicable provisions of the Supplemental Indenture or any Series 2008 Bonds which are required to be tendered to the Tender Agent for purchase pursuant to the applicable provisions of the Supplemental Indenture for which sufficient moneys are on deposit with the Trustee or the Tender Agent to pay the applicable Tender Price thereof, as provided in the Supplemental Indenture, but which Series 2008 Bonds have not been presented to the Tender Agent on the related Optional Tender Date or Mandatory Tender Date as required and (ii) Series 2008 Bonds (other than Series 2008 Bonds described in (i) above) which are not presented to the Trustee for payment when the principal thereof and premium, if any, and interest thereon shall have become due, either at maturity or on the date fixed for redemption or otherwise, and for which sufficient moneys are on deposit with the Trustee to pay such principal, premium, if any, and interest thereon in accordance with the Supplemental Indenture.

“*Variable Rate Bond*” means any Bond the interest rate on which is not fixed but varies on a periodic basis as specified in the Series Resolution providing for the issuance thereof.

“*Variable Rate Series 2008 Bonds*” means bonds in a Short Mode Period or an Adjustable Long Mode Period.

“*Weekly Mode Period*” means any Adjustment Period during which the interest rate on any Series 2008 Bonds is determined on a weekly basis as set forth in the Supplemental Indenture.

Master Indenture

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 and moneys transferred from the Restricted Reserve Account of the Reserve Fund. The Loan Fund is to be used to make loans to Borrowers through the purchase of Loan Obligations as provided in the 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 and other uses authorized under the Federal Acts. The SRF Administration Account will be funded from that portion of each draw on the Letter of Credit and that portion, if any, of the proceeds of the State Match Portion of a Series of Bonds which have been designated by the District for payment of administrative costs of the Program and which are permitted to be applied for that purpose under the Federal Acts.

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

- (a) Amounts received as principal of a Loan Obligation for such Program shall be deposited in the related Restricted Principal Repayments Account; and
- (b) Amounts received as interest on a Loan Obligation for such Program shall be deposited in the related Unrestricted Interest Repayments Account.

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

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

- (a) First, from the Unrestricted Cumulative Excess Interest Repayments Subaccount of the Unrestricted Interest Repayments Account of the Revenue Fund for such Program;

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

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

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

If any Series of Bonds or portion thereof is to be secured by amounts on deposit in the Reserve Fund or any Account or Subaccount thereof, then Bond proceeds or other amounts may be deposited in the Restricted Reserve Account and the State Match Reserve Account as provided in a Series Resolution and revenues may be applied to replenish amounts required to be deposited therein up to the applicable reserve

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

As described elsewhere herein, the District may determine on a case by case basis whether any Series of Bonds, or the Leveraged Portion or State Match Portion thereof, shall be entitled to the benefit of the security of the Reserve Fund or any account or subaccount therein. The Series 2008 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 2008 Bonds, except that the District may elect, on a case by case basis, whether or not such Additional Bonds shall be secured by amounts on deposit in the related Reserve Fund and the amount of any such reserve requirement applicable thereto.

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

Default and Remedies

The following are Events of Default under the Master Indenture:

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

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

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

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

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

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

Actions taken by the Trustee are subject to the rights of the Holders of a majority in principal amount of the outstanding Bonds to direct the method and place of conducting all proceedings under the Master Indenture or to waive any Default (other than Default in the payment of the principal of any Bond at the date of maturity), upon compliance with the terms and conditions of the Master Indenture. The Master Indenture provides that a Series Resolution may confer certain rights to providers of credit enhancement in connection with the exercise of remedies, including the power and authority to provide consents and waivers on behalf of the Holders of the Series 2008 Bonds.

Certain Conditions Relating to Acceptance of Prepayment of Loan Obligations

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

Covenants and Miscellaneous

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

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

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

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

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

Supplemental Indenture

Purchase Fund. The Supplemental Indenture establishes with the Tender Agent as agent for the Trustee a trust fund designated the “Purchase Fund”, which includes three separate accounts designated the “Remarketing Account”, the “Liquidity Purchase Account” and the “District Account”. The Trustee will be the initial Tender Agent.

The Tender Agent shall deposit into the Remarketing Account of the Purchase Fund any amounts received by the Tender Agent pursuant to the terms of the Remarketing Agreement.

At or before 10:30 a.m., New York time, on each Tender Date, the Tender Agent shall give Immediate Notice to the Trustee, the Liquidity Provider and the District stating whether or not the deposit of remarketing proceeds has been made, and the amounts, if any, which are then on deposit in the Remarketing Account of the Purchase Fund. Such notice shall indicate whether there are sufficient moneys on deposit with the Tender Agent to provide for the purchase of all Series 2008 Bonds required to be purchased on such Tender Date and if there is a deficiency in such moneys, the amount of such deficiency (the “Deficit Amount”). The Trustee shall direct the Liquidity Provider to deliver or cause to be delivered such Deficit Amount to the Tender Agent not later than 3:00 p.m., New York time, on such Tender Date, for deposit into the Liquidity Purchase Account of the Purchase Fund, in immediately available funds so that the Tender Agent will have an amount sufficient to pay the Tender Price of all Series 2008 Bonds required to be purchased on such Tender Date.

If the Tender Agent fails to receive the full amount of the Deficit Amount by 3:00 p.m., New York time, on such Tender Date from moneys realized under the Liquidity Support Facility the District may, but shall not be obligated to, deliver or cause to be delivered to the Tender Agent, moneys in an amount equal to the portion of the Deficit Amount not delivered to the Tender Agent.

The Trustee shall require the Liquidity Provider under the Liquidity Support Facility if then in effect to purchase Series 2008 Bonds and provide funds necessary to make timely payments of the Tender Price of Series 2008 Bonds tendered or required to be tendered for purchase by depositing in the Liquidity Purchase Account the moneys required for that purpose. Amounts received from the Liquidity Provider for deposit in the Purchase Fund shall only be invested in certain authorized investments which are rated AAA/A-1+.

It is understood and agreed by the District and the Trustee that no advance or use of any funds to effectuate any purchase described above shall be deemed to be a payment or redemption of any Series 2008 Bond and such Series 2008 Bond shall be deemed to remain Outstanding.

Notwithstanding anything to the contrary contained in the Supplemental Indenture, so long as a Liquidity Support Facility is in effect with respect to the Series 2008 Bonds, the failure of the District to provide amounts described above to pay the Tender Price of Series 2008 Bonds for which remarketing proceeds or proceeds of a draw on the Liquidity Support Facility, if any, are insufficient shall not constitute a default or an Event of Default.

Mandatory Tenders for Purchase of Series 2008 Bonds. Except with respect to Liquidity Provider Bonds, the Holders of Series 2008 Bonds are required to tender their Series 2008 Bonds to the

Tender Agent for purchase at the applicable Tender Price therefor on the following Mandatory Tender Dates: (a) on the Business Day prior to each Termination Tender Date; (b) the Conversion Date (but only such Series 2008 Bonds subject to such conversion shall be subject to mandatory tender on such Conversion Date); (c) each Adjustment Date unless the immediately preceding Adjustment Period and the current Adjustment Period are both Daily Mode Periods, Weekly Mode Periods, Monthly Mode Periods or Semiannual Mode Periods; (d) each Rate Change Date within an Adjustable Long Period; and (e) while the Liquidity Support Facility is in effect, the date specified by the Trustee for a mandatory tender of Series 2008 Bonds upon the occurrence of a Notice Termination Event under the Liquidity Support Facility and receipt by the Trustee from the Liquidity Provider of a notice of Mandatory Tender under the applicable provision of the Liquidity Support Facility, which mandatory tender shall be not more than 15 days after the receipt of such notice and in no event later than the Business Day preceding the termination of the Liquidity Support Facility. The Trustee shall give the Remarketing Agent, the Liquidity Provider and the Tender Agent and if the Book-Entry System is in effect, the Securities Depository, written notice of each Mandatory Tender Date referred to in clause (b), (c), (d) or (e) above at the same time that notice is sent to the Holders of such Series 2008 Bonds. With respect to each Mandatory Tender Date referred to in clause (a) above, the Trustee shall give the required written notice. The Trustee shall give immediate written notice to the Holders of the Series 2008 Bonds with respect to the Mandatory Tender Date referred to in clause (e) above, and interest shall cease to accrue on such Series 2008 Bonds upon the declaration by the Trustee of such Mandatory Tender Date. When a Book-Entry System is in effect, the requirement for physical delivery of the Series 2008 Bonds under this paragraph shall be deemed satisfied when the ownership rights in the Series 2008 Bonds (to the extent of the principal amount tendered for purchase) are transferred by direct Participants on the records of the Securities Depository.

Remarketing Agent. Wachovia Bank, National Association, has been appointed by the District to act as Remarketing Agent for the purposes herein contemplated, and the Trustee has reviewed the terms and conditions of the Remarketing Agreement. The Trustee shall not be required to deal with any Remarketing Agent other than Wachovia Bank, National Association, unless such other Remarketing Agent meets the qualifications set forth in the Supplemental Indenture.

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EXISTING LOAN OBLIGATIONS

**STATE OF SOUTH DAKOTA
STATE REVOLVING FUND LOAN PROGRAM
Drinking Water Loans in Repayment
(as of September 30, 2007)**

<u>Loan</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>	<u>Final Payment Date</u>	<u>Security</u>
Aberdeen #1A	\$ 9,042,008	3.500%	4/15/2026	Water Rev.
Aberdeen #1B	6,734,367	3.500%	4/15/2026	Water Rev.
Baltic	217,816	3.500%	1/15/2024	Water Rev.
BDM Rural Water (N)	242,385	3.500%	1/15/2024	Water Rev.
Big Stone City #1	407,265	5.250%	10/1/2019	GO & Water
Big Stone City #2	129,950	3.500%	7/1/2025	GO & Water
Black Hawk WUD	362,823	5.250%	1/1/2020	Water Rev.
Brandon	1,103,190	4.750%	1/1/2015	Water Rev.
Britton	259,321	4.500%	7/1/2022	Water Rev.
Brookings Dueul RWS #1 (N)(D)	997,500	3.250%	4/15/2037	Water Rev.
Bryant (D)	124,162	3.000%	1/1/2032	Water Rev.
Burke (D)	114,297	2.500%	1/15/2037	Water Rev.
Canton	450,362	3.500%	12/1/2024	Water Rev.
Centerville (D)	820,880	3.250%	1/1/2035	Water Rev.
Chancellor (D)	204,928	3.250%	7/15/2037	Project Fee
Clay RWS #1 (N)(D)	4,327,303	3.250%	7/15/2037	Water Rev.
Clear Lake (D)	453,204	3.000%	10/1/2030	Water Rev.
Colonial Pine Hills	521,574	3.500%	1/1/2023	Water Rev.
Colton (D)	590,251	3.500%	7/1/2034	Water Rev.
Crooks	132,925	3.250%	7/15/2025	Water Rev.
Custer	694,503	3.500%	2/15/2024	Water Rev.
Dakota Dunes	342,715	3.500%	4/1/2024	Water Rev.
Dell Rapids #1	562,396	3.500%	1/15/2025	Water Rev.
Dell Rapids #2	159,355	3.250%	1/15/2027	Water Rev.
Elk Point #1	182,931	3.500%	1/15/2023	Water Rev.
Elk Point #2	550,207	3.250%	7/15/2026	Water Rev.
Eureka (D)	133,681	0.000%	7/15/2017	Project Fee
Fall River #1 (D)	660,974	3.000%	10/1/2031	Water Rev.
Fall River #2 (D)	234,739	2.500%	4/1/2033	Water Rev.
Garretson (D)	1,028,817	3.500%	7/1/2034	Water Rev.
Gettysburg	472,542	4.500%	10/1/2022	Water Rev.
Gregory (D)	308,431	2.500%	1/1/2033	Water Rev.
Groton #1	400,251	3.500%	1/15/2025	Sales Tax
Groton #2	296,092	3.250%	4/15/2026	Sales Tax
Harrisburg #1	422,541	5.000%	1/1/2022	Water Rev.
Hartford #1	149,042	5.000%	1/1/2022	Water Rev.
Hartford #2	720,055	3.500%	1/15/2024	Water Rev.
Hartford #3	1,103,595	3.250%	4/15/2027	Water Rev.
Hermosa	220,516	5.000%	1/1/2020	Water Rev.
Huron #3	3,593,242	3.500%	4/1/2024	Water Rev.
Keystone	602,438	3.250%	4/15/2026	Sales Tax
Kingbrook #1 (N)(D)	388,432	0.000%	4/1/2032	Water Rev.
Kingbrook #2 (N)(D)	2,028,790	3.250%	10/1/2035	Water Rev.
Kingbrook #3 (N)	3,080,469	3.250%	4/1/2027	Water Rev.
Lead #1	111,893	4.500%	1/1/2013	Water Rev.
Lead #2 (D)	184,700	3.250%	10/1/2035	Water Rev.
Lennox (D)	1,990,096	3.250%	4/15/2037	Water Rev.

<u>Loan</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>	<u>Final Payment Date</u>	<u>Security</u>
Lincoln Co RWS (N)	981,680	3.500%	1/15/2025	Water Rev.
Martin (D)	878,715	2.500%	10/15/2035	Water Rev.
McLaughlin (D)	340,041	2.500%	4/15/2036	Water Rev.
Mina Lake San & Water Dist	192,807	5.000%	10/1/2020	Water Rev.
Minnehaha CWC (N)	5,360,128	3.500%	7/15/2024	Water Rev.
Mitchell	2,527,066	4.000%	4/1/2024	Water Rev.
Nisland (D)	306,250	0.000%	1/1/2034	Project Fee
Parker #1	717,304	3.250%	1/15/2027	Water Rev.
Pierre #1	726,778	3.500%	1/1/2018	Water Rev.
Pierre #2	1,640,210	3.500%	10/1/2020	Water Rev.
Platte	253,683	2.500%	1/15/2016	Water Rev.
Redfield	63,751	4.500%	10/1/2020	Water Rev.
Salem #1	87,206	3.500%	7/15/2014	Water Rev.
Salem #2	326,030	3.250%	4/15/2027	Water Rev.
Scotland (D)	222,975	2.500%	4/15/2035	Sales Tax
Sioux Falls #1	2,268,117	4.500%	7/1/2010	Water Rev.
Sioux Falls #2	1,420,027	4.500%	1/1/2013	Water Rev.
Sioux Falls #3	5,619,651	3.500%	4/1/2014	Water Rev.
Sioux Falls #4	218,278	3.500%	1/1/2015	Water Rev.
Sioux Falls #5	8,711,339	2.500%	7/1/2016	Sales Tax
South Lincoln RWS (N)	1,893,533	3.500%	1/15/2025	Water Rev.
Tripp (D)	202,984	2.500%	4/15/2033	Water Rev.
Tripp County WUD #1 (D)	3,262,420	2.500%	10/15/2034	Water Rev.
Tripp County WUD #2 (D)	119,418	0.000%	10/15/2034	Water Rev.
Tyndall #1 (D)	129,035	2.500%	10/1/2011	Water Rev.
Tyndall #2 (D)	816,597	2.500%	10/1/2035	Water Rev.
Vermillion #1	592,614	5.000%	7/1/2020	Water Rev.
Vermillion #2	1,326,807	3.500%	7/1/2024	Water Rev.
Webster	271,495	3.500%	7/1/2023	Water Rev.
WR/LJ #1 (N)(D)	303,715	2.500%	1/15/2033	Water Rev.
WR/LJ #2 (N)(D)	5,943,023	3.250%	1/15/2024	Water Rev.
Wolsey	227,950	3.250%	7/15/2027	Sales Tax
Worthing	264,691	3.500%	4/1/2025	Water Rev.
Yankton	<u>2,996,663</u>	3.500%	10/1/2023	Water Rev.
	<u>\$99,072,936</u>			

(N) Nonprofit Borrower
(D) Disadvantaged Community

Drinking Water Loans Closed

<u>Loan</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>First Payment Date</u>	<u>Loan Term</u>	<u>Security</u>
Brookings-Deuel #2 (N)(D)	\$ 1,750,000	3.25%	4/15/2008	30 years	Water Rev.
Elk Point #3	218,000	3.25%	10/15/2008	20 years	Water Rev.
Harrisburg #2	1,714,327	3.25%	1/15/2009	20 years	Water Rev.
Humboldt	520,000	3.25%	10/15/2009	20 years	Project Fee
Kingbrook RWS #4 (N)	2,350,000	3.25%	1/1/2009	20 years	Water Rev.
Milbank (D)	4,741,000	2.50%	10/15/2008	30 years	Project Fee
Mobridge #3 (D)	213,500	2.50%	4/15/2008	30 years	Water Rev.
Mobridge #4 (D)	90,000	2.50%	4/15/2009	30 years	Water Rev.
Parker #2	300,000	3.25%	1/15/2009	20 years	Project Fee
Rapid City	3,500,000	3.50%	1/15/2008	19 years	Water Rev.
Redfield #2 (D)	342,755	2.50%	1/1/2010	30 years	Water Rev.
Salem #3 (D)	1,345,000	3.25%	10/15/2009	30 years	Project Fee
Tea	2,263,723	3.25%	10/15/2009	20 years	Water Rev.
Vermillion #3 (D)	3,772,500	2.50%	4/1/2008	20 years	Project Fee
Wagner #1 (D)	750,000	0.00%	7/15/2009	30 years	Water Rev.
Wagner #2 (D)	175,000	0.00%	10/15/2009	30 years	Water Rev.
Waubay (D)	750,000	2.50%	10/15/2009	30 years	Project Fee
Yankton #2	<u>1,100,000</u>	3.25%	10/15/2009	20 years	Water Rev.
	<u>\$25,895,805</u>				

Drinking Water Loans Approved, But Not Closed

<u>Loan</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Loan Term</u>	<u>Security</u>
Black Hawk WUD #2	\$ 1,142,000	3.25%	20 years	Water Rev.
Miller	255,200	2.50%	10 years	Water Rev.
Sioux Falls #6	17,848,000	2.50%	10 years	Water Rev.
Sioux Falls #7	2,200,000	2.50%	10 years	Water Rev.
Sioux Falls #8	2,705,600	2.50%	10 years	Water Rev.
Wolsey #2	<u>162,300</u>	3.25%	20 years	Sales Tax
	<u>\$24,313,100</u>			

(N) Nonprofit Borrower
(D) Disadvantaged Community

**Clean Water Loans in Repayment
(as of September 30, 2007)**

<u>Loan</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>	<u>Final Payment Date</u>	<u>Security</u>
Aberdeen #1	\$ 9,335,227	2.25%	10/15/2027	Project Fee
Aberdeen NPS #1	27,221	2.25%	10/15/2027	Project Fee
Aurora	253,632	5.00%	1/1/2022	Sewer Rev.
Baltic	353,437	3.50%	1/15/2024	Sewer Rev.
Belle Fourche #1	81,700	3.00%	1/1/2013	Sewer Rev.
Black Hawk San. District	443,594	3.50%	10/15/2025	Sewer Rev.
Box Elder	126,972	3.00%	10/1/2010	GO
Bridgewater	61,908	5.25%	1/1/2019	Sales & Sewer
Bridgewater #2	315,837	3.25%	1/15/2027	Sewer Rev.
Britton #1	135,829	4.50%	1/1/2010	Sewer Rev.
Britton #2	259,965	3.50%	10/1/2024	Sewer Rev.
Canton #1	44,762	4.00%	9/1/2008	Sewer Rev.
Canton #2	540,377	3.50%	12/1/2024	Sewer Rev.
Castlewood	183,817	3.50%	7/15/2023	Sewer Rev.
Castlewood #2	157,133	3.25%	1/15/2027	Sewer Rev.
Centerville	435,633	3.50%	4/1/2024	Sewer Rev.
Chamberlain #4	313,420	5.25%	4/1/2019	Sales Tax
Clark	362,132	3.50%	1/15/2025	Sewer Rev.
Clear Lake #2	656,062	3.25%	7/15/2026	Sewer Rev.
Colton	172,408	3.25%	10/15/2027	Sewer Rev.
Custer City #1	133,420	3.00%	9/15/2012	S.A. & Sewer
Dell Rapids #2	556,724	3.25%	4/15/2027	Sewer Rev.
Elk Point #1	105,625	4.00%	4/1/2010	Sewer Rev.
Elk Point #2	369,005	3.50%	4/15/2023	Sewer Rev.
Elk Point #3	319,794	3.50%	7/15/2025	Sales Tax
Fort Pierre #2	348,204	3.50%	4/1/2018	Sewer Rev.
Fort Pierre #3	422,325	3.50%	6/1/2026	Sewer Rev.
Freeman	259,625	2.50%	4/15/2016	Sewer Rev.
Gayville	155,062	3.25%	10/15/2017	Sales & Sewer
Groton #3	330,088	5.25%	1/1/2019	Sewer Rev.
Groton #4	112,797	3.50%	7/15/2024	Sales Tax
Groton #5	400,251	3.50%	1/15/2025	Sewer Rev.
Harrisburg	368,447	5.00%	4/1/2020	Sewer Rev.
Hartford #1	410,904	5.00%	4/1/2022	Sewer Rev.
Hartford #2	563,869	5.00%	4/1/2022	Sales Tax
Hartford #3	243,331	3.50%	10/1/2022	Sewer Rev.
Hartford #4	483,944	3.50%	1/15/2024	Sewer Rev.
Highmore	225,960	3.50%	1/1/2024	Sales & Sewer
Hot Springs NPS #1	484,804	5.00%	10/1/2015	Solid W. & Sales
Huron #3	1,122,694	5.25%	3/10/2017	Sewer Rev.
Jefferson	152,640	3.50%	4/15/2025	Sewer Rev.
Lake Cochrane San. Dist. #1	13,942	3.00%	6/1/2010	GO & Sewer
Lake Cochrane San. Dist. #2	142,233	3.50%	1/15/2025	Sewer Rev.
Lake Madison San. Dist. #2	557,910	3.50%	1/1/2025	Sewer Rev.
Lead #1	44,870	3.00%	8/1/2011	Sewer Rev.

<u>Loan</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>	<u>Final Payment Date</u>	<u>Security</u>
Lead #4	138,822	4.50%	1/1/2013	Sewer Rev.
Lead #5	203,868	3.25%	10/1/2025	Sewer Rev.
Lennox #1	210,413	5.25%	1/1/2017	Sewer Rev.
Lennox #2	403,750	5.25%	1/1/2019	Sewer Rev.
McCook Lake San. Dist.	274,427	5.00%	12/1/2013	Sewer Rev.
Mitchell #2	1,240,791	3.50%	10/1/2025	Solid Waste
Mobridge #1	383,202	3.00%	10/1/2011	Sewer Rev.
Mobridge #3	716,542	4.50%	4/1/2012	Sales Tax
Montrose	9,893	2.50%	10/15/2017	Sewer Rev.
Nisland	166,373	3.25%	1/1/2027	Project Fee
North Sioux City #2	246,347	5.00%	1/1/2012	Sp. Assessment
Parker #1	402,477	3.25%	10/15/2025	Sewer Rev.
Philip #1	144,100	5.00%	6/1/2011	Sales Tax
Philip #2	219,049	5.25%	12/1/2018	Sales & Sewer
Philip #3	303,991	3.25%	1/1/2022	Sales Tax
Pickerel Lake #1	229,907	5.25%	1/1/2018	Sewer Rev.
Pickerel Lake #2	206,903	5.25%	1/1/2019	Sewer Rev.
Pierre #2	3,097,310	5.25%	1/1/2019	Sales Tax
Pierre #3	4,130,690	5.00%	1/1/2021	Sewer Rev.
Pierre #4	1,080,075	3.50%	1/1/2025	Sales Tax
Rapid City #1	217,460	4.00%	7/1/2008	S.A. & Sewer
Rapid City #2	189,705	4.00%	10/1/2009	S.A. & Sewer
Rapid City #3	156,236	4.00%	4/1/2010	S.A. & Sewer
Rapid City #4	256,959	4.00%	1/1/2010	Storm Sewer Rev.
Rapid City #5	11,788,889	4.50%	10/15/2022	Sewer Rev.
Rapid Valley San. Dist. #2	97,570	4.00%	11/1/2010	Sewer Rev.
Rapid Valley San. Dist. #3	413,069	5.25%	1/1/2018	Sewer Rev.
Salem #1	461,378	3.50%	7/15/2024	Sewer Rev.
Salem #2	373,942	3.25%	7/15/2026	Sewer Rev.
Scotland	229,764	3.50%	4/15/2025	Sales Tax
Sioux Falls #1	848,485	3.00%	7/15/2012	Sales Tax
Sioux Falls #13	214,786	4.50%	6/15/2008	Sewer Rev.
Sioux Falls #14	2,596,872	4.50%	6/15/2012	Sewer Rev.
Sioux Falls #15	1,091,219	3.50%	10/15/2014	Sewer Rev.
Sioux Falls #16	1,935,883	3.50%	1/15/2015	Sewer Rev.
Sioux Falls #17	430,259	3.50%	1/15/2015	Storm Sewer
Sioux Falls #18	3,469,950	2.50%	7/1/2016	Sewer Rev.
Sioux Falls #19	378,373	2.50%	7/1/2016	Storm Sewer
Sioux Falls #20A	15,628,502	1.50%	4/15/2017	Storm Sewer
Sioux Falls #20B	8,497,998	1.50%	4/15/2017	Storm Sewer
Sioux Falls #20 NPS	1,220,341	1.50%	4/15/2017	Storm Sewer
Sioux Falls #21A	12,375,847	2.25%	4/15/2027	Sewer Rev.
Sioux Falls #21B	16,764,653	2.25%	4/15/2027	Sewer Rev.
Sioux Falls #21 NPS	337,789	2.25%	4/15/2027	Sewer Rev.
Sioux Falls #22	10,550,000	2.50%	10/15/2017	Sales Tax
Southern Missouri WMD	180,325	5.00%	10/1/2017	Solid Waste
Spearfish	265,945	4.00%	5/1/2009	Sewer Rev.
Tea #1	138,373	4.00%	4/1/2010	GO
Tea #2	160,948	4.00%	10/1/2010	Storm Sewer Rev.

<u>Loan</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>	<u>Final Payment Date</u>	<u>Security</u>
Tea #3	133,960	5.25%	1/1/2018	Sales Tax
Tea #4	196,550	5.00%	1/1/2014	Sewer Rev.
Tea #5	436,522	3.50%	4/1/2024	Sewer Rev.
Valley Springs #1	300,196	5.25%	10/1/2019	Sewer Rev.
Valley Springs #2	330,762	3.25%	1/1/2026	Sales Tax
Vermillion #1	42,110	3.00%	3/1/2013	Sewer Rev.
Vermillion #2	99,993	4.00%	12/1/2010	Storm Sewer Rev.
Vermillion #3	244,002	3.50%	9/1/2024	Sewer Rev.
Vermillion #4	3,189,603	3.25%	7/1/2026	Sewer Rev.
Wall Lake San. District	150,863	3.50%	10/1/2023	Sewer Rev.
Watertown #1	130,841	4.00%	4/1/2008	Sales & Sewer
Watertown #2	522,503	4.00%	1/1/2009	Sewer Rev.
Watertown #3	1,533,701	5.25%	10/1/2016	Sewer Rev.
Watertown #5	1,016,204	3.50%	1/1/2025	Project Fee
Webster #2	687,572	3.50%	7/1/2023	Sewer Rev.
Whitewood #1	15,693	4.00%	9/1/2008	GO & Sewer
Whitewood #2	148,061	5.00%	7/1/2021	Sewer Rev.
Willow Lake	90,966	3.50%	1/15/2025	Sewer Rev.
Worthing	140,885	5.25%	7/1/2017	GO & Sewer
Yankton #1	1,978,760	5.25%	10/1/2020	Sewer Rev.
Yankton #2	3,560,014	6.00%	4/1/2021	Sewer Rev.
Yankton #3	<u>5,201,779</u>	3.50%	10/1/2023	Sewer Rev.
	<u>\$147,821,519</u>			

Clean Water Loans Closed

<u>Loan</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>First Payment Date</u>	<u>Loan Term</u>	<u>Security</u>
Burke	\$ 155,000	3.25%	7/1/2008	20 years	Sewer Rev.
Dell Rapids #3	1,062,000	3.25%	10/1/2009	20 years	Sewer Rev.
Elk Point #4	100,000	3.25%	7/1/2009	20 years	Sewer Rev.
Fort Pierre #4	374,620	3.25%	9/1/2009	20 years	Sales Tax
Hartford #5	883,818	3.25%	10/15/2008	20 years	Sewer Rev.
Lake Poinsett San. Dist.	590,000	3.25%	7/1/2008	20 years	Sewer Rev.
Lead #6	240,000	3.25%	1/1/2009	20 years	Sewer Rev.
Parker #2	620,000	3.25%	1/15/2009	20 years	Sewer Rev.
Sioux Falls #23	10,323,000	2.50%	1/15/2008	10 years	Sales Tax
Sioux Falls #24	500,000	2.50%	1/15/2009	10 years	Solid Waste
Tea #6	858,000	3.25%	1/1/2009	20 years	Sewer Rev.
Tyndall	795,000	3.25%	7/15/2008	20 years	Project Fee
Watertown #6	1,189,145	2.25%	7/1/2008	20 years	Sales Tax
Watertown #6 NPS	113,985	2.25%	7/1/2008	20 years	Sales Tax
Weston Heights	638,300	3.25%	7/1/2008	20 years	Sewer Rev.
Winner	<u>925,000</u>	3.25%	1/1/2009	20 years	Sewer Rev.
	<u>\$19,367,868</u>				

Clean Water Loans Approved, But Not Closed

<u>Loan</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Loan Term</u>	<u>Security</u>
Aberdeen #2	\$ 6,000,000	3.25%	20 years	Project Fee
Groton #6	150,000	3.25%	20 years	Sales Tax
Madison #2	5,343,256	3.25%	20 years	Sewer Rev.
Sioux Falls #25	5,657,000	2.50%	10 years	Sewer Rev.
Spearfish #2	5,900,000	3.25%	20 years	Sewer Rev.
Watertown #7	847,170	2.25%	20 years	Project Fee
Watertown #7 NPS	81,205	2.25%	20 years	Project Fee
Watertown #8	612,877	2.25%	20 years	Sales Tax
Watertown #8 NPS	58,747	2.25%	20 years	Sales Tax
Wolsey	162,300	3.25%	20 years	Sewer Rev.
Worthing	<u>580,000</u>	3.50%	30 years	Project Fee
	<u>\$25,392,555</u>			

ANTICIPATED LOAN OBLIGATIONS

LIST OF POTENTIAL LOANS
Clean Water Projects

<u>Borrower</u>	<u>Expected Loan Amount</u>
Aurora	\$ 600,000
Crooks	557,000
Dell Rapids	716,000
Elk Point	150,000
Freeman	576,000
Garretson	325,000
Gregory	257,000
Highmore	850,000
Lennox	1,000,000
Martin	144,750
Mitchell	1,500,000
Parkston	650,000
Sioux Falls #26	3,700,000
Sioux Falls #27	2,621,000
Summerset	2,625,000
Tyndall	500,000
Vermillion	<u>3,950,000</u>
	<u>\$20,721,750</u>

Drinking Water Projects

<u>Borrower</u>	<u>Expected Loan Amount</u>
Watertown	\$23,760,000
Chamberlain	400,000
Clark RWS	1,000,000
Copper Oaks Water Association	100,000
De Smet	258,000
Elk Point	300,000
Hartford	200,000
Hurley	100,000
Mellette	110,000
Viborg	250,000
Woonsocket	<u>390,000</u>
	<u>\$26,868,000</u>

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APPENDIX D

OBLIGATED PERSONS

The City of Sioux Falls is the Borrower under the Drinking Water Program with the largest amount of outstanding Loan Obligations. Sioux Falls, with 151,300 residents, is the largest city in South Dakota, accounting for more than 18% of the State’s population.

The City of Sioux Falls has entered into five separate Loan Obligations with the District to finance improvements to its water system. The outstanding unpaid principal amount of such Loan Obligations as of September 30, 2007 was \$18,237,412.28 and the amount of undisbursed funds authorized to be drawn under such Loan Obligations was an additional \$3,373,951.00. There are no other Borrowers for which the sum of its outstanding Loan Obligations under the Drinking Water Program and the undisbursed amount of such Loan obligations exceeds 20% of the principal amount of all outstanding Loan Obligations under the Drinking Water Program.

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

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

Fiscal Year	Operating Revenue	Other Qualifying Revenue*	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements				
					Principal		Interest	Total	Coverage
					Certificates of Participation	State Revolving Fund			
2000	\$13,396,317	\$	\$8,009,241	\$5,387,076	\$1,240,000	\$ 100,856	\$726,373	\$2,067,229	2.61
2001	13,819,851		8,969,044	4,850,807	1,325,000	509,943	713,696	2,548,639	1.90
2002	13,831,965		8,947,477	4,884,488	1,400,000	594,943	654,179	2,649,122	1.84
2003	13,843,494		8,752,262	5,091,232	1,470,000	726,135	696,482	2,892,617	1.76
2004	13,857,261		8,762,605	5,094,656	1,540,000	1,181,626	699,247	3,420,873	1.49
2005	14,057,551	530,680	9,029,121	5,559,110	1,615,000	1,545,631	722,314	3,882,945	1.43
2006	15,910,153	435,825	9,358,592	6,987,386	1,695,000	1,769,474	702,419	4,166,893	1.68

* Pursuant to statutory changes, qualifying revenues were changed in 2005 to include investment revenue and cost recoveries.

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

The current water rates for the major categories of retail customers effective as of January 1, 2008 are as follows:

Retail Water Rates

As of 1/1/08

Residential

Monthly Basic Charge	
5/8"	\$1.71
3/4"	2.31
1"	4.24
Volume charge-single family	
0-7 ccf	\$1.96
8-50 ccf	2.10
51 to 150 ccf	3.92
Over 150 ccf	5.87
Volume charge-multi-family	
Less than 2.5 monthly avg.	\$1.96
2.5 or more times monthly avg.	3.92

Commercial

Monthly Basic Charge	
5/8"	\$6.79
3/4"	7.40
1"	8.18
2"	13.10
Volume charge	
Less than 2.5 monthly avg.	\$1.69
2.5 or more times monthly avg.	3.37

Industrial

Monthly Basic Charge	\$812.20
Volume charge	
0-90.000 ccf	\$1.13
90-001-100.000 ccf	1.18
Over 100,000 ccf	1.21

The City of Sioux Falls has entered into 24 separate Loan Obligations with the District to finance improvements to its storm drainage and sanitary sewer systems and non-point source pollution projects. The outstanding unpaid principal amount of such Loan Obligations as of September 30, 2007 was \$85,028,715.86 and the amount of undisbursed funds authorized to be drawn under such Loan Obligations was an additional \$8,395,281. There are no other Borrowers for which the sum of its outstanding Loan Obligations under the Clean Water Program and the undisbursed amount of such Loan obligations exceeds 20% of the principal amount of all outstanding Loan Obligations under the Clean Water Program.

The City's thirteen presently outstanding Clean Water Loan Obligations are revenue bonds payable from sanitary sewer, storm sewer, solid waste and sales tax revenues. The purposes of these Loan Obligations include construction of a flow equalization basin, new interceptor lines and lift

stations, rehabilitation of the existing sanitary sewer system and treatment facility, purchase of sludge handling equipment, improvements to the storm water drainage system and closure activities at the solid waste landfill. Of these thirteen loans, six of the loans with an outstanding balance of \$38,786,818.60 and \$6,260,221 of undisbursed loan funds are payable from net revenues of wastewater facilities; three of the loans with an outstanding balance of \$19,897,748.83 and \$1,823,736 of undisbursed loan funds are payable from sales tax revenues; three of the loans with an outstanding balance of \$26,155,472.43 are payable from storm drainage fee revenue; and one loan with an outstanding balance of \$188,676 and \$311,324 of undisbursed loan funds is payable from solid waste revenue.

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

Fiscal Year	Operating Revenue	Other Qualifying Revenue*	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements				
					Principal		Interest	Total	Coverage
					Revenue Bonds	State Revolving Fund			
2000	\$8,005,748	\$	\$4,747,127	\$3,258,621	-	\$1,521,735	\$357,196	\$1,878,931	1.73
2001	8,188,065		5,205,390	2,982,675	-	1,602,127	398,727	2,000,854	1.49
2002	8,552,198		5,575,546	2,976,652	-	1,863,691	451,478	2,315,169	1.29
2003	8,650,354		5,350,667	3,299,687	-	2,083,633	410,162	2,493,795	1.32
2004	8,586,610		5,337,657	3,248,953	-	1,962,571	387,777	2,350,348	1.38
2005	8,667,074	1,358,219	5,507,659	5,507,659	-	1,998,155	450,515	2,448,670	1.84
2006	8,837,777	1,416,969	5,998,521	5,998,521	-	1,705,350	630,950	2,336,300	1.82

* Pursuant to statutory changes, qualifying revenues were changed in 2005 to include investment revenue and cost recoveries.

The current basic sewer rates are as follows:

Sewer Rates: As of January 1, 2008

Monthly Residential Customers

Basic Charge \$1.90

Volume Charge \$1.79 per 100 cubic foot

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

Monthly Commercial Domestic Customers

Basic Charge \$7.29

Volume Charge \$1.89 per cubic foot

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

Monthly Commercial Customers

Basic Charge	\$7.29
Volume Charge	\$1.89 per cubic foot

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

Monthly Commercial Wholesale Customers

Basic Charge	\$7.29
Volume Charge	\$1.89 per cubic foot

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

Monthly Industrial Customers

Basic Charge	\$7.29
Flow per 1,000 gallons	\$0.74
BOD, per pound	0.1274
TSS, per pound	0.1274
TKN, per pound	0.4673
Grease, per pound (exceeding 100 mg/l)	0.4248

For industries discharging only nonprocessed domestic strength wastewater, the rate is \$2.53 per 1,000 gallons.

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

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

Fiscal Year	Operating Revenue	Other Qualifying Revenue*	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			
					Principal	Interest	Total	Coverage
2000	\$2,251,525	\$	\$1,439,369	\$812,156	\$323,381	\$42,270	\$365,651	2.22
2001	2,281,432		2,040,215	241,217	337,113	32,420	369,533	0.65
2002	3,073,679		836,767	2,236,912	343,424	22,270	365,694	6.12
2003	3,331,129		583,008	2,748,121	229,924	14,014	243,938	11.27
2004	3,905,414		769,407	3,136,007	137,652	27,505	165,157	18.99
2005	3,995,736	58,168	793,332	3,260,572	185,520	57,896	243,416	13.40
2006	4,561,891	134,886	872,451	3,824,326	119,188	18,919	138,107	27.69

* Pursuant to statutory changes, qualifying revenues were changed in 2005 to include investment revenue and cost recoveries.

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

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FORM OF BOND COUNSEL OPINION

[To be dated the date of original issuance of the Series 2008 Bonds]

March __, 2008

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

\$40,000,000
South Dakota Conservancy District
State Revolving Fund Program Bonds
Series 2008

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 \$40,000,000 aggregate principal amount of its State Revolving Fund Program Bonds, Series 2008 (the "Series 2008 Bonds"). The Series 2008 Bonds are authorized by a Series Resolution of the District adopted on February 8, 2008 (the "Series Resolution") and are issued under and pursuant to (i) the provisions of that certain Third Amended and Restated Master Trust Indenture dated as of March 1, 2008 as heretofore amended and supplemented (the "Master Indenture") and (ii) the Series 2008 Supplemental Indenture dated as of March 1, 2008 (the "Supplemental Indenture"), each by and between the District and The First National Bank in Sioux Falls, South Dakota, as trustee (the "Trustee"). The Master Indenture provides for the financing and administration of the District's Clean Water State Revolving Fund Program (the "Clean Water Program") and the District's Drinking Water State Revolving Fund Program (the "Drinking Water Program" and, together with the Clean Water Program, the "Programs"). The capitalized terms used herein which are not otherwise defined herein shall have the meanings assigned to them in the Master Indenture, as supplemented by the Series Resolution and the Supplemental Indenture (collectively, the "Indenture").

The Series 2008 Bonds are issuable as fully registered bonds in the denomination of \$100,000 or any integral multiple of \$5,000. The Series 2008 Bonds mature on the dates and bear interest at variable rates as established by the Indenture and are subject to optional and mandatory redemption and optional and mandatory tender 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 2008 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 2008 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 2008 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 2008 Bonds are being issued by the District in order to raise certain moneys for the purpose of making loans to certain Political Subdivisions and other borrowers.

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

In connection with the issuance of the Series 2008 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 2008 Bonds pursuant to and under the provisions of Chapters 46A-1 and 46A-2 of the Codified Laws of South Dakota, as amended (the “Act”);
- (b) An executed counterpart of the Master Indenture, as amended and supplemented;
- (c) An executed counterpart of the Supplemental Indenture;
- (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 2008 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 2008 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 2008 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 2008 Bonds.

2. The Series 2008 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 2008 Bonds are not “private activity bonds” under the Internal Revenue Code of 1986, as amended (the “Code”), and interest on the Series 2008 Bonds is excludable from gross income of the owners thereof for federal income tax purposes. Interest on the Series 2008 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 2008 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 2008 Bonds to be included in gross income retroactive to the date of issuance of the Series 2008 Bonds. Ownership of the Series 2008 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 2008 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 2008 Bonds, the application of the proceeds of the Series 2008 Bonds and certain other matters pertinent to the tax-exempt status of the Series 2008 Bonds.

The obligations of the District and the security provided therefor, as contained in the Series 2008 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,

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**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 \$40,000,000 South Dakota Conservancy District State Revolving Fund Program Bonds, Series 2008 (the “Series 2008 Bonds”). The Series 2008 Bonds are being executed and delivered pursuant to a Third Amended and Restated Master Trust Indenture dated as of March 1, 2008 (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”), a Series 2008 Supplemental Indenture between the District and the Trustee (the “Supplemental Indenture”) 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, the Supplemental Indenture and Series Resolution are collectively referred to as the “Indenture.”

In consideration of the issuance of the Series 2008 Bonds by the District and the purchase of such Series 2008 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 2008 Bonds and to assist the Underwriter 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 Master Indenture and the Supplemental 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.

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 Underwriter advises 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@dpccdata.com

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

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

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

Obligated Person means for each District fiscal year, each Borrower (as defined in the Final Official Statement) which, as of the most recent calendar year for which such information is available to the District: (i) has executed and delivered one or more Loan Agreements (as defined in the Final Official Statement); and (ii) is obligated to the District for repayment of a sum which exceeds 20% of the principal amount of the unpaid principal the outstanding Loan Obligations under the Clean Water Program or the Drinking Water Program (as such terms are defined in the Official Statement). The amount that a Borrower is obligated to repay to the District as described in clause (ii) of the preceding sentence shall be calculated as the sum of (A) the unpaid principal amount of all outstanding Loan Obligations of such Borrower (as defined in the Official Statement) issued under any Loan Agreements

or in connection therewith, plus (B) the principal amount of funds authorized but not yet disbursed to such Borrower under any such Loan Agreement.

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.

Official Statement means the Official Statement relating to the Series 2008 Bonds dated February 28, 2008.

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.

Underwriter means each broker, dealer or municipal securities dealer acting as an Underwriter in the primary offering of the Series 2008 Bonds.

Section 3. CUSIP NUMBER. The CUSIP Numbers of the Series 2008 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. Any filing under this Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004, if the MAC is then in operation. 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 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 2008 Bonds or defeasance of any Series 2008 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 2008 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 2008 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 Underwriter in complying with the Rule; however, this Agreement shall inure solely to the benefit of the District and the beneficial owners of the Series 2008 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: March 1, 2008

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 Official Statement under the following captions:

The table and Capitalization Grant data under the caption "SOUTH DAKOTA STATE REVOLVING FUNDS- The Capitalization Grants and Letters of Credit" and the table under the caption "SOUTH DAKOTA STATE REVOLVING FUNDS – Account Balances,"

- (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 federal government's fiscal year, which is currently September 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 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 federal government's fiscal year, which is currently September 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 federal government's fiscal year, which is currently September 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 2008 Bonds;
7. modifications to rights of bondholders;
8. bond calls;
9. defeasances;
10. release, substitution or sale of property securing repayment of the Series 2008 Bonds; and
11. rating changes.

EXHIBIT III
CUSIP NUMBER

YEAR OF
MATURITY

CUSIP NUMBER

2029

837545 FX5