

PRELIMINARY OFFICIAL STATEMENT DATED APRIL 20, 2012

NEW ISSUE – BOOK ENTRY ONLY

RATINGS: Application Pending

Interest on the Series 2012A Bonds is not excluded from the gross income of the holders thereof for federal income tax purposes.

In the opinion of Perkins Coie LLP, Bond Counsel to the District, subject to compliance with certain covenants made by the District to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended (the “Code”), under present law, interest on the Series 2012B Bonds is excluded from the gross income of the owners thereof for federal income tax purposes. Interest on the Series 2012B Bonds will not be treated as an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations but will be taken into account in computing the corporate alternative minimum tax for certain corporations. See the caption “TAX MATTERS” herein regarding a description of other tax considerations.

\$126,020,000*

SOUTH DAKOTA CONSERVANCY DISTRICT

State Revolving Fund Program Bonds

Series 2012

\$69,995,000* Taxable Revenue Bonds,

Series 2012A

(the “Series 2012A Bonds”)

\$56,065,000* Revenue Bonds,

Series 2012B

(the “Series 2012B Bonds”)

Dated: Date of delivery

Due: August 1, as shown on the Inside Front Cover

The State Revolving Fund Program Bonds, Series 2012 (the “Series 2012 Bonds”) offered hereby are being issued pursuant to Chapters 46A-1 and 46A-2, South Dakota Codified Laws, as amended (the “Act”), the Master Indenture (as defined herein) by and between the South Dakota Conservancy District (the “District”) and The First National Bank in Sioux Falls, as Trustee (the “Trustee”) and a Series Resolution adopted by the South Dakota Board of Water and Natural Resources (the “Board”).

The Series 2012 Bonds shall be issued as fully registered Bonds in denominations of \$5,000 or any integral multiple thereof and, when issued, will be registered in the name of Cede & Co. as registered owner and nominee for Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Series 2012 Bonds. Purchases of beneficial interests in the Series 2012 Bonds will be made in book-entry form only. Purchasers of a beneficial interest in the Series 2012 Bonds (“Beneficial Owners”) will not receive certificates representing their interests in the Series 2012 Bonds. Interest on the Series 2012 Bonds is payable on each February 1 and August 1 beginning August 1, 2012.

Interest on the Series 2012 Bonds, together with the principal of and premium, if any, will be paid by the Trustee directly to DTC, so long as DTC or its nominee is the registered owner of the Series 2012 Bonds. The final disbursements of such payments to the Beneficial Owners will be the responsibility of the DTC participants or the indirect participants. See “Book-Entry System” for more information.

The Series 2012 Bonds are subject to optional and mandatory redemption prior to maturity as described hereinafter.

Proceeds of the Series 2012 Bonds, together with other available funds, will be used by the District (a) to make loans (herein, “Loans”) to certain political subdivisions of the State of South Dakota through the purchase of obligations issued by such political subdivisions as described herein, (b) to refund the District’s outstanding \$65,820,000 principal amount of Bonds previously issued by the District in 2001, 2004 and 2005 (as further defined herein, the “Refunded Bonds”) and (c) to pay costs of issuance. The Refunded Bonds were issued to finance the making of Loans to certain political subdivisions of the State of South Dakota and other owners of public water supply systems (herein “Borrowers”) through the purchase of certain obligations issued by such 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 2012 Bonds are special obligations of the District payable solely from specific revenues and funds pledged therefor under the Master Indenture and Series Resolution as described herein. The Series 2012 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 2012 Bonds are offered, when, as and if issued by the District subject to an opinion as to validity and tax exemption by Perkins Coie LLP, Chicago, Illinois, as Bond Counsel, and by the office of the South Dakota Attorney General, as counsel to the District, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Faegre Baker Daniels LLP, Minneapolis, Minnesota. It is anticipated that the Series 2012 Bonds will be delivered to DTC in New York, New York on or about May ___, 2012.

WELLS FARGO SECURITIES

J.P. MORGAN

PIPER JAFFRAY & CO.

* Preliminary; subject to change.

This Preliminary Official Statement and the information contained in this Preliminary Official Statement are subject to completion or amendment or other change without any notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

MATURITIES, AMOUNTS, INTEREST RATES, YIELDS, PRICES AND CUSIP NUMBERS

\$126,020,000*

State Revolving Program Bonds, Series 2012

consisting of:

\$69,995,000*

Taxable Revenue Bonds, Series 2012A

Maturity (August 1)	Par Amount	Coupon	Price	CUSIP* (837545)
2012	\$1,145,000			
2013	5,355,000			
2014	5,370,000			
2015	5,070,000			
2016	4,930,000			
2017	4,880,000			
2018	4,855,000			
2019	4,950,000			
2020	5,055,000			
2021	5,185,000			
2022	5,310,000			
2023	5,465,000			
2024	5,640,000			
2025	3,830,000			
2026	2,915,000			

\$56,065,000*

Revenue Bonds, Series 2012B

Maturity (August 1)	Par Amount	Coupon	Yield	Price	CUSIP* (837545)
2012	\$ 555,000				
2013	2,290,000				
2014	2,365,000				
2015	2,460,000				
2016	2,555,000				
2017	2,660,000				
2018	2,760,000				
2019	2,815,000				
2020	2,240,000				
2021	2,330,000				
2022	2,615,000				
2023	2,540,000				
2024	2,665,000				
2025	2,800,000				
2026	2,940,000				
2027	3,035,000				
2028	3,110,000				
2029	3,170,000				
2030	3,245,000				
2031	3,375,000				
2032	3,540,000				

No dealer, broker, salesperson or other person has been authorized by the South Dakota Conservancy District 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.

* Preliminary; subject to change.

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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 2012 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 2012 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

\$126,020,000*

SOUTH DAKOTA CONSERVANCY DISTRICT State Revolving Fund Program Bonds Series 2012

**\$69,995,000* Taxable Revenue Bonds,
Series 2012A**

**\$56,065,000* Revenue Bonds,
Series 2012B**

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 2012 (the “Series 2012 Bonds”) consisting of \$69,995,000* principal amount of Taxable Revenue Bonds, Series 2012A (the “Series 2012A Bonds”) and \$56,065,000* principal amount Revenue Bonds, Series 2012B (the “Series 2012B Bonds”). The Series 2012 Bonds mature on the dates and in the principal amounts as set forth on the inside cover of this Official Statement. See “**DESCRIPTION OF THE SERIES 2012 BONDS**” herein. The Series 2012 Bonds are issued pursuant to and secured by a Fifth Amended and Restated Master Trust Indenture dated as of September 1, 2010 (as now or hereafter amended or 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”). All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Master Indenture.

The Master Indenture implements two programs (the “Clean Water Program” and the “Drinking Water Program” and together the “State Revolving Fund Programs” or “Programs”) which provide for revolving loan funds (the “Clean Water SRF” and the “Drinking Water SRF”) to make loans (herein, the “Loans”) to certain political subdivisions of the State of South Dakota and owners of public water supply systems (herein, “Borrowers”) 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 2012 Bonds are issued under the Master Indenture and a Series Resolution adopted by the District for the purpose of providing funds sufficient (a) to provide funds for new Loans to Borrowers under the Clean Water Program, (b) to refund four series of Bonds defined below as the “Refunded Bonds” and (c) to pay costs of issuance. The Refunded Bonds consist of the following four series of Bonds:

- (i) \$2,890,000 Outstanding principal amount of the District’s Clean Water State Revolving Fund Program Bonds, Series 2001 (the “Refunded 2001 Clean Water Bonds”),
- (ii) \$3,470,000 Outstanding principal amount of the District’s Drinking Water State Revolving Fund Program Bonds, Series 2001 (the “Refunded 2001 Drinking Water Bonds” and together with the Refunded 2001 Clean Water Bonds, the “Refunded 2001 Bonds”),
- (iii) \$18,705,000 Outstanding principal amount of the District’s State Revolving Fund Program Bonds, Series 2004 (the “Refunded 2004 Bonds”), and

* Preliminary; subject to change.

(iv) \$32,580,000 Outstanding principal amount of the District's State Revolving Fund Program Bonds, Series 2005 (the "Refunded 2005 Bonds" and together with the Refunded 2001 Bonds and the Refunded 2004 Bonds, the "Refunded Bonds").

The Refunded Bonds were issued to finance or refinance the making of Loans to various Borrowers through the purchase of certain obligations issued by such Borrowers as described herein and to pay associated costs of issuance.

The proceeds of the Series 2012A Bonds will be applied exclusively to advance refund \$61,405,000 principal amount of the Refunded 2004 Bonds and the Refunded 2005 Bonds, as well as to pay certain related costs of issuance in connection with the Series 2012A Bonds. The proceeds of the Series 2012B Bonds will be applied (i) to refund the Refunded 2001 Bonds on a current basis, (ii) to provide approximately \$56,700,000 of funds for additional Loans to Borrowers under the Clean Water Program and (iii) to pay certain related costs of issuance in connection with the Series 2012B Bonds.

The Master Indenture authorizes the District to issue Bonds and Notes (defined below) to finance loans and other Program costs. The Master Indenture also secures certain other Outstanding Bonds as described herein and such Bonds, together with any additional Bonds issued from time to time and outstanding under the Master Indenture, are collectively referred to herein as "Bonds." Bonds, including any additional Bonds issued and Outstanding under the Master Indenture from time to time, are secured by a first lien on and pledge of the moneys and investments in the Revenue Fund, Bond Fund and, to the extent provided in the Master Indenture, the Loan Fund and Reserve Fund which the District has created and maintains under the Master Indenture, all as provided with more specificity therein. The Master Indenture provides that Revenues shall be deposited into the Revenue Fund and set aside periodically to provide for the payment of principal and interest with respect to Outstanding Bonds and certain obligations of the District with respect to providers of credit enhancement or liquidity. The Master Indenture also provides that Revenues from either Program shall be used to cross-collateralize Outstanding Bonds of the other Program pursuant to a subordinate loan if and as needed (provided, however, such subordinate loan would have priority over any lien securing any Outstanding Notes with respect to any Excess Revenues on deposit in the Revenue Fund or any account or subaccount therein for either Program).

Following the application of Revenues for such purposes, the remaining available Revenues (as defined with more specificity in the Master Indenture, "Excess Revenues") are pledged to secure notes or other obligations of the District. Notes issued under the Master Indenture are not "Bonds" within the meaning of such term in the Master Indenture and are not secured on a parity with any Bonds. Rather, Notes are special obligations of the District payable solely from specific revenues and funds pledged therefor under the Master Indenture and Series Resolution, such revenues and funds consisting of (a) proceeds of additional Bonds or Notes if, as and when issued under the Master Indenture for the specific purpose of providing funds to pay specified Notes at maturity, (b) Excess Revenues (as defined in the Master Indenture) and (c) if necessary, proceeds as of the maturity date of specified Notes to the extent such proceeds have not been obligated for the purpose of funding Loans. There are no Notes Outstanding under this Indenture as of the date hereof. The lien on Excess Revenues securing any Notes is subordinate to the lien on Revenues which secures all Bonds, including additional Bonds, now or hereafter Outstanding under the Master Indenture and is also subordinate to the provisions of the Master Indenture which allow a loan of funds from one Program to provide for payments of principal and interest on Bonds secured by Revenues of the other Program.

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 Bonds and Notes 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 and any Notes (including the Series 2012 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 “Clean Water Notes” 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” and “Drinking Water Notes”.

Clean Water Bonds and Clean Water Notes are payable solely out of designated funds and accounts within the Clean Water SRF and Drinking Water Bonds and Drinking Water Notes are payable solely out of designated funds and accounts within the Drinking Water SRF; provided, however, in each case, certain Excess Revenues and other amounts on deposit in the other Program Subfund 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 and Notes are each payable in accordance with their respective lien priorities (Bonds first, then Notes) 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 Notes, and no principal repayments on Loan Obligations may be applied to pay the State Match Portions of debt service on Bonds or Notes.

In the case of the Refunded Bonds, the portions of each payment of principal and interest were divided approximately as follows: Clean Water State Match Portion, 8.082%; Clean Water Leveraged Portion, 47.752%; Drinking Water State Match Portion, 11.858%; and Drinking Water Leveraged Portion, 32.308%. These percentages correspond to the application of the proceeds of the Refunded Bonds subject to adjustment as provided in the Master Indenture if the proceeds of Bonds are transferred from one Loan Account under the Master Indenture to another Loan Account for the purpose of financing Loan Obligations. Such allocations are subject to further refinement to reflect rounding and the fact that Bonds may be issued in increments as small as \$5,000. Based on the use of proceeds of the Refunded Bonds and estimated use of the proceeds of the Series 2012 Bonds, the District currently anticipates the following approximate allocations for each series of Bonds:

Series 2012A Bonds

Clean Water State Match Portion	3.787%
Clean Water Leveraged Portion	53.337%
Drinking Water State Match Portion	34.941%
Drinking Water Leveraged Portion	7.935%

Series 2012B Bonds

Clean Water State Match Portion	5.920%
Clean Water Leveraged Portion	90.123%
Drinking Water State Match Portion	0.000%
Drinking Water Leveraged Portion	3.957%

The Series 2012 Bonds are issued under authority of Chapters 46A-1 and 46A-2, South Dakota Codified Laws, as amended (the “State Act”). The Series 2012 Bonds are payable solely from specific revenues and the 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 “**SOURCE OF PAYMENT AND SECURITY,**” “**APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE**” and “**THE DISTRICT**” herein.

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

THE DISTRICT

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

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

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

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Bradley Johnson	Chairman	June 30, 2015
Gene Jones, Jr.	Vice Chairman	June 30, 2013
Don Rounds	Secretary	July 1, 2012
Todd Bernhard	Member	June 30, 2014
Paul Goldhammer	Member	June 30, 2015
Paul Gnirk	Member	June 30, 2014
Jackie Lanning	Member	June 30, 2015

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, Note proceeds and other available funds as described herein, to make Loans to Borrowers or to secure Bonds or Notes. P.L. 111-88, the Department of the Interior, Environment, and Related Agencies Appropriations Act, 2010, (the "2010 Act") appropriated \$10,002,000 for the Clean Water Program and \$13,573,000 for the Drinking Water State Revolving Program. In addition to the appropriations, the 2010 Act added several programmatic requirements to the

Programs for FFY 2010. Similar requirements were included in the appropriations acts for federal fiscal years 2011 and 2012 (the “2011 and 2012 Appropriation Acts”).

The 2010 Act and the 2011 and 2012 Appropriation Acts required that, in addition to existing subsidies under the Programs, minimum amounts must be provided as additional subsidization in the form of principal forgiveness, negative interest rates, or grants. The District has determined to apply a principal forgiveness approach to meet these requirements. The principal of such Loan Obligations may be forgiven under certain circumstances as provided by the 2010 Act, the 2011 and 2012 Appropriation Acts and related rules promulgated by the South Dakota Board of Water and Natural Resources. Potential Borrowers which meet minimum utility rate requirements are eligible to be considered for principal forgiveness. Some potential Borrowers may receive 100% principal forgiveness. All funds appropriated through these Acts are subject to State Match requirements. For a summary of the current status of principal forgiveness by the District in response to these requirements, see the table under the caption “**2010-2012 Capitalization Grants, South Dakota State Revolving Fund Programs, Principal Forgiveness**” herein.

The Bonds and Notes 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 1998A Bonds and \$5,270,000 principal amount of Series 2001 Bonds (respectively referred to herein as the “Series 1998A Bonds” and the “Series 2001 Drinking Water Bonds” and collectively as the “Prior Drinking Water Bonds”).

As of the date of this Official Statement, there are \$100,000 Series 1996 Bonds, \$3,085,000 Series 2001 Clean Water Bonds and \$3,705,000 Series 2001 Drinking Water Bonds Outstanding under the Master Indenture (herein, such Bonds are referred to collectively as the “Existing Bonds”). Of the Outstanding Existing Bonds, the Series 2001 Clean Water Bonds and the Series 2001 Drinking Water Bonds are expected to be refunded and redeemed on a current basis upon the issuance of the Series 2012 Bonds and the application of the proceeds thereof. As explained under the caption “**SOURCE OF PAYMENT AND SECURITY**” herein, these Existing Bonds were subject to certain additional requirements under the Prior Indentures, including the requirement that certain debt serve reserve accounts be funded to secure such Existing 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**”. In 2004, 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.

In 2008, the District and Trustee amended and restated the 2004 Master Indenture (the “2008 Master Indenture”) and the District issued \$40,000,000 principal amount of Series 2008 Bonds (the “Series 2008 Bonds”) to provide funds for State Match and Leveraged Loans under the Clean Water Program and the Drinking Water Program. In 2009 the District issued \$55,000,000 principal amount of State Revolving Fund Program Bond Anticipation Notes, Series 2009 (the “Series 2009 Notes”) and in 2010 the District issued \$54,330,000 principal amount of State Revolving Fund Program Bond Anticipation Notes, Series 2010 (the “Series 2010 Notes”). The Series 2010 Notes were issued to refund the Series 2009 Notes. In 2010, the District also issued \$92,380,000 principal amount of State Revolving Fund Program Bonds (the “Series 2010 Bonds”), the proceeds of which, together with other available funds, were used by the District (a) to refund the District’s outstanding (i) Series 2010 Notes and (ii) \$42,260,000 principal amount of Series 1998 Bonds and Series 2008 Bonds and (b) to pay costs of issuance.

In connection with the issuance of the Series 2010 Notes, the District and the Trustee further amended and restated the 2008 Master Indenture pursuant to the Fifth Amended and Restated Master Trust Indenture dated as of September 1, 2010 (as hereafter amended or supplemented from time to time the “Master Indenture”).

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 17 loans to nine Nonprofit Borrowers with an aggregate outstanding balance of \$26,732,114 as of December 31, 2011. The expected loans described in Appendix C include two 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 2012 the interest rates for Drinking Water Loan Obligations are 2.25% for loans with a term of 10 years or less and 3.00% 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 3.00%, 2.25%, 1.25% or 0.0% depending on the recipient's median household income as described below and may be extended to 30 years.

An administrative surcharge of up to 0.5% is included in the interest rate with the exception of loans for interim financing, which have no administrative surcharge. 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 \$25 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 \$55 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 \$37,593,735 (or approximately 23.4% of the principal amount of total outstanding Drinking Water Loan Obligations) involve loans to disadvantaged communities. \$10,584,158 of the expected loans described in Appendix C involve loans to disadvantaged communities.

Clean Water Terms

For fiscal year 2012 the interest rates for Clean Water Loan Obligations are 2.25% for loans with a term of 10 years or less, 3.00% for loans with a term of up to 20 years and 3.25% for loans with a term of up to 30 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 interest rate includes an administrative surcharge of 0.5% except for non-point source project loans with terms up to 10 years which have an administrative surcharge of 0.25%. 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. Projects may be added by amending the Intended Use Plan and Project Priority List as needed throughout the 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 2012. 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, 2012, and the amounts drawn as of December 31, 2011, 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	8,352,500	497,130	7,788,370	7,788,370	-0-
2006	8,229,300	693,758	7,535,542	7,535,542	-0-
2007	8,229,000	493,740	7,735,260	7,735,260	-0-
2008	8,146,000	488,760	7,657,240	7,657,240	-0-
2009	8,146,000	538,760	7,607,240	1,513,387	6,093,853
ARRA***	19,500,000	390,000	19,110,000	15,757,021	3,352,979
2010****	13,573,000	814,380	12,758,620	-0-	12,758,620
2011****	9,418,000	565,080	8,852,920	-0-	8,852,920
2012****	8,975,000	1,115,080	7,859,920	-0-	7,559,920

*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 American Recovery and Reinvestment Act of 2009 (the “Recovery Act”) required that at least 50 percent of these funds must be provided as additional subsidization in the form of principal forgiveness, negative interest rates, or grants. The District determined to apply a principal forgiveness approach when awarding the ARRA funds. The District awarded 80.4% of its Drinking Water ARRA funds as principal forgiveness. Funds appropriated through ARRA were not subject to State Match requirements.

**** As described above under “**SOUTH DAKOTA STATE REVOLVING FUNDS – General**”, the 2010 Act and subsequent legislation for 2011 and 2012 required that the District provide additional subsidies in the amount of at least \$8,692,300 with respect to these funds and allows principal forgiveness of up to \$25,683,500. The District intends to satisfy this requirement by forgiving principal repayments. See also, the table below under the caption “**2010-2012 Capitalization Grants - South Dakota State Revolving Fund Programs – Principal Forgiveness.**”

No appropriation has been made for such purposes by the Federal Government for any period beyond September 30, 2012 and no assurance may be given that any such appropriation will be made. No portion of the proceeds from the Series 2012 Bonds are expected to be used to provide for Drinking Water Loans.

The Clean Water Act authorizes the Federal Government to provide annual funding of the Clean Water Program with Capitalization Grants awarded for the Clean Water Program for the years ended September 30, 1989 to 2012, and the amounts drawn as of December 31, 2011, are as follows:

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Clean Water Capitalization Grants

<u>Year Ended September 30</u>	<u>Grant Amount</u>	<u>Total Set- Asides*</u>	<u>Net</u>	<u>Amount 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	4,100,890	-0-
2007	5,207,200	173,570	5,033,630	5,033,630	-0-
2008	3,274,300	109,140	3,165,160	3,165,160	-0-
2009	3,274,300	109,140	3,165,160	2,209,569	955,591
ARRA***	19,239,100	769,564	18,469,536	11,754,113	6,715,423
2010****	10,002,000	333,400	9,668,600	-0-	9,668,600
2011****	7,222,000	288,880	6,933,120	-0-	6,933,120
2012****	6,908,000	275,320	6,631,680	-0-	6,631,680

*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.

*** ARRA required that at least 50 percent of these funds must be provided as additional subsidization in the form of principal forgiveness, negative interest rates, or grants. The District determined to apply a principal forgiveness approach when awarding the ARRA funds. The District awarded 86.2% of its Clean Water ARRA funds as principal forgiveness. Funds appropriated through ARRA were not subject to State Match requirements.

**** As described above under “**SOUTH DAKOTA STATE REVOLVING FUNDS – General**”, the 2010 Act and subsequent legislation in 2011 and 2012 required that the District provide additional subsidies in the amount of at least \$2,551,047 with respect to these funds and allows principal forgiveness of up to \$7,779,931. The District intends to satisfy this requirement by forgiving principal repayments. See also, the table below under the caption “**2010-2012 Capitalization Grants - South Dakota State Revolving Fund Programs – Principal Forgiveness.**”

Set forth below is a summary table of funds received by the District under ARRA and the principal forgiveness approved by the District as of March 31, 2012.

**American Recovery & Reinvestment Act
South Dakota State Revolving Fund Programs**

Program	Funds Obligated Via Assistance Agreement		Set Aside Funds	Total Funds
	Principal Forgiveness	Loan		
Clean Water State Revolving Fund	\$15,926,084 86.2%	\$2,543,452 13.8%	\$769,564	\$19,239,100
Drinking Water State Revolving Fund	\$15,359,450 80.4%	\$3,750,550 19.6%	\$390,000	\$19,500,000

The table below summarizes the total Capitalization Grants and the amount of principal forgiven for each Program for the years 2010 through 2012 (as of March 31, 2012), together with the minimum required amount, the maximum permitted amount and the remaining principal amount eligible for principal forgiveness:

**2010-2012 Capitalization Grants
South Dakota State Revolving Fund Programs
Principal Forgiveness**

	Total Capitalization Grants 2010 through 2012	Minimum Required Principal to be Forgiven	Maximum Required Principal to be Forgiven	Principal Forgiveness Awarded as of March 31, 2012	Remaining Principal Amount Eligible to be Forgiven
Drinking Water Program	\$31,966,000	\$8,692,300	\$25,683,500	\$15,960,985	\$9,722,515
Clean Water Program	\$24,130,000	\$2,551,047	\$7,799,931	\$7,630,690	\$169,241

Availability of Future Capitalization Grants

The Series 2008 Bonds were issued to provide the State Match for the Clean Water Capitalization Grants and the Drinking Water Capitalization Grants the District anticipated receiving through 2010 and a portion of the proceeds initially derived from the Series 2009 Notes (which were refunded by the Series 2010 Notes which, in turn, were refunded by the Series 2010 Bonds) were used to provide State Match for the Clean Water Capitalization Grant for 2010 and 2011. Proceeds of the Series 2012 Bonds are to be used to provide State Match for the Clean Water Capitalization Grant for 2012 and 2013. The District has received its 2010 and 2011 Capitalization Grants in the expected amounts and has received the allotments for the 2012 Capitalization Grants but there is a risk that the 2013 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 may delay or reduce the anticipated interest earnings from Loan Obligations. No appropriation has been made for such purposes by the Federal Government for any period beyond September 30, 2012 and no assurance may be given that any such appropriation will be made.

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. In 2011, the District transferred \$10,000,000 of Excess Revenues derived from repayment of Drinking Water Loans to the Clean Water Program. With the 2012 Drinking Water Capitalization Grant, the ability exists to transfer up to \$30,664,785 from the Clean Water SRF Program to the Drinking Water SRF Program. Up to \$28,789,105 could be transferred from the Drinking Water Program to the Clean Water SRF Program.

New Loans

As of March 31, 2012, the District has approximately \$2,706,292 of the proceeds of outstanding Bonds on hand and available to make Loans. The proceeds of the Series 2012B Bonds are expected to provide \$55,000,000 to make Leveraged Loans for the Clean Water Program and, together with previously received matching funds for the 2012 Capitalization Grant, approximately \$1,700,000 of State Match Loans for the Clean Water Program. As of March 31, 2012, the District has approved Clean Water Loans with expected remaining advances to be made in excess of \$59,406,292.

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 Notes 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 and Notes 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 Federal grant and loan programs.

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, Capitalization Grant proceeds and other sources 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 December 31, 2011 are as follows:

Summary of Fund Balances, Loan Balances
and Outstanding Bonds
(as of December 31, 2011)

<u>Fund Assets</u>	<u>Clean Water</u>	<u>Drinking Water</u>
Reserve Fund:		
State Match Reserve Account	\$ 384,536.29 ⁽¹⁾	\$ 429,937.12 ⁽²⁾
Restricted Reserve Account	-	-
Unrestricted Reserve Account	-	-
Loan Fund:		
Federally Capitalized Loan Account	-	-
State Match Loan Account	2,162,895.89	665,881.13
Leveraged Loan Account	4,954.00	-
Transfer Match Loan Account	-	-
Revenue Fund:		
Unrestricted Interest Repayments Account	3,045,688.49	2,466,748.52
Restricted Principal Repayments Account	4,369,223.55	3,213,074.14
Unrestricted Cumulative Excess	21,574,993.38	18,191,973.96
Restricted Cumulative Excess	48,754,789.74	23,012,188.62
Administration Fund:		
SRF Administration Account	122,441.66	5,322.00
State Administration Account	4,536,166.45	7,218,073.07
Bond Fund:		
State Match Bond Account	1,015,071.03	885,817.41
Leveraged Bond Account	3,947,177.89	2,456,796.19
Supplemental Fund	273,420.22	133,028.66
Outstanding Loan Balances*	175,489,199.73	134,526,565.13
Disbursed Portion of Other Closed Loans	22,409,043.75	6,826,649.00
Total Assets	<u>\$288,089,602.07</u>	<u>\$200,032,054.95</u>
 <u>Bonds Outstanding</u>		
Leveraged	\$127,079,394.22	\$ 54,440,000.00
State Match	15,715,605.78	15,495,000.00
Total Outstanding Bonds	<u>\$142,795,000.00</u>	<u>\$69,935,000.00</u>

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

⁽¹⁾ Secures only Series 1996 Bonds and Series 2001 Clean Water Bonds, and the Series 2001 Clean Water Bonds are to be refunded by the Series 2012 Bonds.

⁽²⁾ Secures only Series 2001 Drinking Water Bonds, and the Series 2001 Drinking Water Bonds are to be refunded by the Series 2012 Bonds.

Investment of Certain Funds

Amounts on deposit in the Funds and Accounts under the Master Indenture may be invested in various permitted investments (see the definition of “Investment Obligations” in **Appendix A - “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE”** (herein)). Included with these permitted investments are Investment Agreements which are permitted under South Dakota law if 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.

The Investment Agreements may be subject to early termination upon certain events, in which case the Trustee may have the right to require the return of certain funds or the repurchase of certain securities held pursuant to the Investment Agreements, or, as in the case of certain of the existing Investment Agreements listed below (designated with a “*”), the Investment Agreements are subject to collateralization requirements upon the occurrence of certain events. In addition, the Investment Agreements may be subject to certain other risks, including bankruptcy or insolvency of the party with which such funds have been invested under such Investment Agreement or which has guaranteed such Investment Agreement.

Certain existing fund balances are invested under Investment Agreements as follows:

Bond Issue	Provider	<u>Investment Agreement</u>			
		Interest Rate	Cap on Investment	Amount Invested	Termination Date
1994 ⁽¹⁾	FGIC Capital Market Services, Inc. (guaranteed by General Electric Capital Corporation)	5.40%	\$70,000,000	\$ 814,625	7/31/12
1995 ⁽¹⁾	Societe Generale (New York Branch)	6.85	\$15,000,000	\$ 5,833,329	8/1/15
1996 ⁽¹⁾	MBIA Inc.*	6.22	\$15,000,000	\$ 8,578,537	8/1/17
2001 & 2004 ⁽¹⁾⁽²⁾	AIG Matched Funding Corp. (guaranteed by American International Group, Inc.)*	5.07	\$60,000,000 ⁽³⁾	\$41,432,031	8/1/25
2005 ⁽¹⁾⁽²⁾	AIG Matched Funding Corp. (guaranteed by American International Group, Inc.)*	4.41	\$80,000,000 ⁽³⁾	\$36,144,408	8/1/26

⁽¹⁾ Clean Water.

⁽²⁾ Drinking Water.

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

* Investment Agreement is currently collateralized with securities which qualify as “Investment Obligations” as a result of certain rating downgrade provisions in such Investment Agreement.

Each Investment Agreement applicable to the Refunded Bonds (the “Refunded Bonds Investment Agreements”) provides that such agreement will apply to Bonds issued to refund the Refunded Bonds (such as that portion of the Series 2012 Bonds issued for such purpose, herein for the “Series 2012 Refunding Bonds”), provided the security of such refunding bonds is substantially the same as, or greater than, the security provided under the 2004 Master Indenture and that the rating of such refunding bonds is the same or higher than the rating of the Refunded Bonds as of the date of issuance of the Series 2012 Bonds. The District presently anticipates that the Refunded Bonds Investment Agreements will continue to apply to the Series 2012 Refunding Bonds in the same manner and to the same extent as such agreements applied to the Refunded Bonds.

There is currently no investment agreement in place with respect to the Series 1998 Bonds, the Series 2008 Bonds or the Series 2010 Bonds. The District has no present intention to enter into an investment agreement with respect to any such Series of Bonds or Notes or the Series 2012 Bonds.

In August 2010, the District and the Trustee amended the Master Indenture to authorize investments of amounts on deposit in the Revenue Funds in the South Dakota Cash Flow Fund, provided; no more than 20 percent of the aggregate total of funds on deposit in the Revenue Fund, including all accounts and subaccounts therein, will be invested in the South Dakota Cash Flow Fund at any one time. See **Appendix A - “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Selected Definitions”** herein. The South Dakota Cash Flow Program has no rating assigned to it by any Rating Agency, but constitutes a permitted investment for the District because it limits the investment of funds to a subset of securities that the District is otherwise authorized to invest in as “Investment Obligations” under the Master Indenture.

The “South Dakota Cash Flow Fund” is a program operated by the South Dakota Investment Council, or its lawful successor, for the investment of state funds and other public moneys. Pursuant to existing statutory law and policy, the Investment Council is limited to investing funds in the South Dakota Cash Flow Fund to investments which are authorized by SDCL, Section 4-5-26 which permits investment in the following classes of securities and investments:

- (1) Direct and indirect obligations of the United States government;
- (2) Agencies and instrumentalities of the United States government;
- (3) Direct obligations of the State of South Dakota and any of its political subdivisions;
- (4) Obligations consisting of notes, bonds, debentures, and certificates which are direct obligations of a solvent corporation or trust existing under the laws of the United States or any state thereof, if such investments are rated in the four highest classifications established by at least two standard rating services; or
- (5) Savings accounts, share accounts, certificates of deposit of banks, savings and loan associations, building and loan associations, and bankers’ acceptances;
- (6) In addition to the investments authorized by subdivisions (1) to (5) of this section, inclusive, the investment council may also allocate a sum certain of state public funds for investment in the accounts and certificates of South Dakota banks and associations. This sum shall initially be offered to South Dakota banks and associations, and if not initially fully subscribed, the investment officer shall immediately reoffer the unsubscribed sum to other qualified public depositories [as defined by statute].

In addition, in August, 2010, the Board adopted a formal investment policy (as amended or revised from time to time, the “Investment Policy”). The Investment Policy provides that the District will invest amounts on deposit in the various Funds, Accounts and Subaccounts under the Indenture (the “Trust Funds”) in a manner and for the stated purpose of providing maximum security, sufficient liquidity, and a competitive investment return to meet the daily cash flow demands of the Programs.

The Investment Policy supplements the provisions of the Indenture and relative documents, and in the event of a conflict between the Indenture or any tax-related documents on the one hand and the Investment Policy on the other, then the provisions of the Indenture or tax documents, as applicable, shall prevail. The Investment Policy also recognizes the contractual obligations of the District to invest designated amounts in various Investment Agreements, and provides that the balance of Trust Funds not invested in Investment Agreements (the “Remaining Balance”) is subject to the following restrictions:

- a. Subject to the exception of securities issued by the U.S. Treasury or guaranteed directly or indirectly by the U.S. Government, no more than 25 percent of the aggregate of the Remaining Balance will be invested in the deposits of a single financial institution, provided, however, this limitation shall not apply to any money market fund or other investment described in clause (d) of the definition of “Investment Obligations” if such investment directly or indirectly involves solely securities described in clauses (a) or (b) of the definition of “Investment Obligations” or is rated in one of the two-highest long or short-term rating categories by the Rating Agencies (herein, each a “Qualified Fund”).
- b. In addition, no more than 20 percent of the aggregate total of funds on deposit in the Revenue Fund, including all accounts and subaccounts therein, will be invested in the South Dakota Cash Flow Fund described in clause (h) of the definition of “Investment Obligations”.
- c. The District will limit its investment in securities issued by government sponsored entities (a/k/a “GSEs”) or federally related institutions that are guaranteed directly or indirectly by the U.S. Government to no greater than 40 percent of the total Trust Funds.
- d. Amounts credited to the Bond Fund, including any account or subaccount therein, shall only be invested in (i) Investment Agreements (if applicable), (ii) investments described in clauses (a) or (b) of the definition of “Investment Obligations”, or (iii) Qualified Funds.

The Board intends to review the Investment Policy annually, and reserves the right to change the policy at any time.

For purposes of 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 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 and other balances are assumed to earn interest at 0.50% per annum. However, the Investment Agreement which relates to proceeds from the Series 1996 Clean Water Bonds provides that it will terminate earlier upon redemption, defeasance or refunding of all of the related Series 1996 Bonds.

FINANCE PLAN AND ESTIMATED SOURCES AND USE OF FUNDS

Advance Refunding. All of the proceeds of the Series 2012A Bonds (other than amounts of such proceeds, if any, used to pay costs of issuance) together with other funds on hand are expected to advance refund a portion of the Series 2004 Bonds and the Series 2005 Bonds in the following principal amount to be paid on the redemption dates, at the redemption prices set forth below (together with any accrued interest):

Bonds to be Advance Refunded	Outstanding Principal Amount	Principal Amount to be Refunded	Final Redemption Date	Redemption Price
Series 2004 Bonds	\$24,805,000	\$24,805,000	August 1, 2014	Par
Series 2005 Bonds	\$41,015,000	\$41,015,000	August 1, 2015	Par

Upon issuance of the Series 2012A Bonds, the District will enter into a Series 2004 Escrow Agreement and a Series 2005 Escrow Agreement, each with The First National Bank in Sioux Falls, as escrow agent (the “Escrow Agent”) and will deposit amounts into two escrow accounts (the “Series 2004 Escrow Account” and the “Series 2005 Escrow Account”) which will be sufficient, together with earnings thereon, to pay:

- (1) With respect to the Refunded 2004 Bonds, (i) interest on the Refunded 2004 Bonds through August 1, 2014, (ii) principal maturing on the Refunded 2004 Bonds on August 1 in the years 2013 through 2025 inclusive, and (iii) the redemption price of the Refunded 2004 Bonds maturing after August 1, 2014; and
- (2) With respect to the Refunded 2005 Bonds, (i) interest on the Refunded 2005 Bonds through August 1, 2015, (ii) principal maturing on the Refunded 2005 Bonds on August 1 in the years 2013 through 2025 inclusive, and (iii) the redemption price of the Refunded 2005 Bonds maturing after August 1, 2015.

Pending application for the purposes specified above, the amounts on deposit in the Series 2004 Escrow Account and the Series 2005 Escrow Account will be invested in Investment Obligations of a type described in clauses (a) or (b) of the definition of Investment Obligations (See “**APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Selected Definitions.**”)

Current Refunding. A portion of the proceeds of the Series 2012B Bonds, together with other available funds, are expected to be deposited into the applicable Series 2001 accounts within the Clean Water Bond Fund and Drinking Water Bond Fund for application to refund on a current basis and redeem the Series 2001 Clean Water Bonds and the Series 2001 Drinking Water Bonds in the following principal amounts, on or about the following dates and at the following redemption prices (together with any accrued interest to the respective redemption dates):

Bonds and Notes to be Refunded on a Current Basis	Outstanding Principal Amount	Expected Redemption Date	Redemption Price
Series 2001 Clean Water Bonds	\$2,890,000	June 1, 2012	100%
Series 2001 Drinking Water Bonds	\$3,470,000	June 1, 2012	100%

Estimated Sources and Uses of Funds. The proceeds of the sale of the Series 2012 Bonds will be used, together with other available funds, to make Clean Water Loans, to refund the Refunded Bonds and to pay certain costs of issuance of the Series 2012 Bonds. The following is a summary of the estimated sources and uses of Series 2012 Bonds:

<u>Sources:</u>	Clean Water	Drinking Water	Total
Bond Proceeds			
Premium			
Series 2001 Reserve Accounts			
Escrow Account (Yankton)			
Excess Revenues			
Total Sources of Funds			
<hr/>			
<u>Uses:</u>			
Refund Series 2001 Clean Water Bonds			
Refund Series 2001 Drinking Water Bonds			
Refund Series 2004 Bonds			
Refund Series 2005 Bonds			
Deposit to Clean Water State Match Loan Fund			
Deposit to Clean Water Leveraged Loan Fund			
Cost of Issuance			
Total Uses of Funds			
<hr/>			

SOURCE OF PAYMENT AND SECURITY

The Series 2012 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 Series 2012 Bonds and other Bonds now Outstanding or hereafter issued under the Master Indenture will be payable from and secured by:

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

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

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

Revenues and Other Available Moneys

Consistent with federal regulations applicable to the Programs, the Master Indenture has provisions which are designed to separate principal repayments on the Loan Obligations from the interest payments on the Loan Obligations and to separate repayments of Clean Water Loan Obligations from repayments of Drinking Water Loan Obligations. The principal repayments on the Clean Water Loan Obligations are to be deposited in the Restricted Principal Repayments Account of the Clean Water

Revenue Fund to secure the Leveraged Portion of the Clean Water Portion of debt service on the Bonds. 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. 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 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 an 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 on 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.

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 – 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 2012 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 awarded prior to December 31, 2011), 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. The tables do not include the principal amount of Loans forgiven by the District as of December 31, 2011.

**Drinking Water State Revolving Fund
Projected Coverage**

Year Ending	State Match Bonds				Leveraged Bonds					Total Bonds			
	Annualized Interest Revenues Available ⁽¹⁾	Annual State Match Debt Service	Surplus of Available Revenues After Debt Service	Coverage	Surplus of Unrestricted Revenues After State Match Debt Service	Loan Principal Repayments ⁽²⁾	Revenues Available for Leveraged Bonds	Annual Leveraged Debt Service	Coverage	Total Revenue Available for Total Debt Service	Annual Total Debt Service	Surplus of Available Revenues After Debt Service	Total Coverage
8/1/2012	\$4,482,527	\$1,764,457	\$2,718,070	2.54x	\$2,718,070	\$ 6,819,508	\$ 9,537,578	\$4,906,989	1.94x	\$11,302,035	\$6,671,446	\$ 4,630,589	1.69x
8/1/2013	5,832,019	1,767,295	4,064,724	3.30x	4,064,724	10,226,762	14,291,486	4,902,800	2.91x	16,058,781	6,670,095	9,388,687	2.41x
8/1/2014	5,683,066	1,760,673	3,922,394	3.23x	3,922,394	12,275,568	16,197,962	4,900,127	3.31x	17,958,634	6,660,800	11,297,835	2.70x
8/1/2015	5,997,498	1,762,185	4,235,313	3.40x	4,235,313	12,875,183	17,110,496	4,881,615	3.51x	18,872,681	6,643,800	12,228,881	2.84x
8/1/2016	6,321,296	1,762,058	4,559,238	3.59x	4,559,238	13,333,901	17,893,139	4,883,260	3.66x	19,655,196	6,645,317	13,009,879	2.96x
8/1/2017	6,342,301	1,760,303	4,581,998	3.60x	4,581,998	11,144,053	15,726,051	4,880,220	3.22x	17,486,353	6,640,522	10,845,831	2.63x
8/1/2018	6,325,375	1,763,763	4,561,613	3.59x	4,561,613	10,989,146	15,550,759	4,884,170	3.18x	17,314,522	6,647,932	10,666,590	2.60x
8/1/2019	6,296,410	1,712,533	4,583,878	3.68x	4,583,878	11,268,605	15,852,483	4,392,905	3.61x	17,565,016	6,105,437	11,459,579	2.88x
8/1/2020	6,303,039	971,738	5,331,301	6.49x	5,331,301	10,552,539	15,883,841	4,390,164	3.62x	16,855,578	5,361,901	11,493,677	3.14x
8/1/2021	6,312,270	601,590	5,710,680	10.49x	5,710,680	9,086,565	14,797,245	4,767,289	3.10x	15,398,835	5,368,879	10,029,955	2.87x
8/1/2022	6,327,254	699,665	5,627,589	9.04x	5,627,589	8,388,333	14,015,921	4,687,127	2.99x	14,715,586	5,386,792	9,328,795	2.73x
8/1/2023	6,082,201	591,555	5,490,646	10.28x	5,490,646	8,235,261	13,725,906	4,616,742	2.97x	14,317,461	5,208,297	9,109,165	2.75x
8/1/2024	6,070,734	597,455	5,473,279	10.16x	5,473,279	7,683,467	13,156,746	4,538,044	2.90x	13,754,201	5,135,499	8,618,702	2.68x
8/1/2025	6,061,578	272,020	5,789,558	22.28x	5,789,558	6,601,157	12,390,714	2,801,659	4.42x	12,662,734	3,073,679	9,589,055	4.12x
8/1/2026	4,590,052	576,080	4,013,972	7.97x	4,013,972	6,583,911	10,597,883	2,570,201	4.12x	11,173,963	3,146,281	8,027,682	3.55x
8/1/2027	4,072,801	453,038	3,619,764	8.99x	3,619,764	6,587,341	10,207,105	2,130,492	4.79x	10,660,142	2,583,529	8,076,613	4.13x
8/1/2028	3,966,294	453,050	3,513,244	8.75x	3,513,244	6,298,335	9,811,579	2,130,411	4.61x	10,264,629	2,583,461	7,681,167	3.97x
8/1/2029	3,856,523	452,038	3,404,485	8.53x	3,404,485	5,987,733	9,392,218	2,130,228	4.41x	9,844,256	2,582,265	7,261,990	3.81x
8/1/2030	4,690,873	-	4,690,873		4,690,873	5,774,038	10,464,910	929,685	11.26x	10,464,910	929,685	9,535,226	11.26x
8/1/2031	5,723,990	-	5,723,990		5,723,990	4,039,169	9,763,159	-		9,763,159	-	9,763,159	
8/1/2032	5,878,433	-	5,878,433		5,878,433	3,043,023	8,921,455	-		8,921,455	-	8,921,455	

(1) Includes loan interest repayments and interest earnings on funds. Does not include any Subsidy Payments which the District may receive with respect to the Series 2010A Bonds.

(2) Consists of loans in repayment, approved loans as of December 31, 2011 and projected loans to be made through September 2012.

**Clean Water State Revolving Fund
Projected Coverage**

Year Ending	State Match Bonds				Leveraged Bonds						Total Bonds			
	Annualized Interest Revenues Available ⁽¹⁾	Annual State Match Debt Service	Surplus of Available Revenues After Debt Service	Coverage	Surplus of Unrestricted Revenues After State Match Debt Service	Loan Principal Repayments ⁽²⁾	Revenues Available for Leveraged Bonds	Annual Leveraged Debt Service	Coverage	Total Revenue Available For Total Debt Service	Annual Total Debt Service	Surplus of Available Revenues After Debt Service	Total Coverage	
8/1/2012	\$6,124,345	\$2,022,823	\$4,101,522	3.03x	\$4,101,522	\$10,558,372	\$14,659,894	\$ 9,078,409	1.61x	\$16,682,717	\$11,101,232	\$ 5,581,485	1.50x	
8/1/2013	7,433,161	1,443,805	5,989,356	5.15x	5,989,356	15,723,843	21,713,199	11,611,854	1.87x	23,157,004	13,055,659	10,101,345	1.77x	
8/1/2014	6,552,214	1,451,840	5,100,374	4.51x	5,100,374	18,880,581	23,980,956	11,600,817	2.07x	25,432,796	13,052,657	12,380,139	1.95x	
8/1/2015	7,594,620	1,443,627	6,150,993	5.26x	6,150,993	22,056,081	28,207,074	11,288,904	2.50x	29,650,701	12,732,532	16,918,170	2.33x	
8/1/2016	8,502,763	1,263,517	7,239,245	6.73x	7,239,245	23,314,939	30,554,184	11,275,362	2.71x	31,817,701	12,538,879	19,278,822	2.54x	
8/1/2017	8,867,297	1,256,682	7,610,615	7.06x	7,610,615	22,495,795	30,106,410	11,268,077	2.67x	31,363,093	12,524,759	18,838,334	2.50x	
8/1/2018	9,113,669	1,047,942	8,065,726	8.70x	8,065,726	19,748,805	27,814,532	11,263,427	2.47x	28,862,474	12,311,369	16,551,105	2.34x	
8/1/2019	9,012,138	953,982	8,058,156	9.45x	8,058,156	18,623,493	26,681,649	10,367,737	2.57x	27,635,631	11,321,719	16,313,912	2.44x	
8/1/2020	8,963,762	617,701	8,346,061	14.51x	8,346,061	18,449,416	26,795,477	10,376,653	2.58x	27,413,178	10,994,354	16,418,824	2.49x	
8/1/2021	8,915,114	718,330	8,196,784	12.41x	8,196,784	17,167,317	25,364,101	11,382,512	2.23x	26,082,431	12,100,842	13,981,588	2.16x	
8/1/2022	8,792,325	798,222	7,994,103	11.01x	7,994,103	16,813,810	24,807,913	11,244,905	2.21x	25,606,135	12,043,128	13,563,008	2.13x	
8/1/2023	8,546,936	680,994	7,865,942	12.55x	7,865,942	15,759,485	23,625,428	11,104,343	2.13x	24,306,422	11,785,338	12,521,084	2.06x	
8/1/2024	8,186,748	667,604	7,519,144	12.26x	7,519,144	13,073,807	20,592,951	10,955,381	1.88x	21,260,554	11,622,985	9,637,569	1.83x	
8/1/2025	7,824,068	653,191	7,170,878	11.98x	7,170,878	11,475,134	18,646,011	10,794,004	1.73x	19,299,202	11,447,195	7,852,007	1.69x	
8/1/2026	7,463,058	612,345	6,850,713	12.19x	6,850,713	11,079,333	17,930,046	9,611,657	1.87x	18,542,391	10,224,003	8,318,388	1.81x	
8/1/2027	6,108,661	452,046	5,656,616	13.51x	5,656,616	10,344,233	16,000,848	7,273,256	2.20x	16,452,894	7,725,302	8,727,592	2.13x	
8/1/2028	5,735,267	433,259	5,302,008	13.24x	5,302,008	8,234,535	13,536,543	7,285,716	1.86x	13,969,802	7,718,975	6,250,827	1.81x	
8/1/2029	5,367,758	404,020	4,963,738	13.29x	4,963,738	7,962,352	12,926,090	7,282,515	1.77x	13,330,111	7,686,535	5,643,576	1.73x	
8/1/2030	4,989,469	595,317	4,394,152	8.38x	4,394,152	7,401,241	11,795,393	5,458,427	2.16x	12,390,710	6,053,744	6,336,966	2.05x	
8/1/2031	6,786,447	181,750	6,604,697	37.34x	6,604,697	6,139,993	12,744,690	3,720,750	3.43x	12,926,440	3,902,500	9,023,940	3.31x	
8/1/2032	6,703,953	158,750	6,545,203	42.23x	6,545,203	4,666,819	11,212,022	3,717,000	3.02x	11,370,772	3,875,750	7,495,022	2.93x	

⁽¹⁾ Includes loan interest repayments and interest earnings on funds. Does not include any Subsidy Payments which the District may receive with respect to the Series 2010B Bonds.

⁽²⁾ Consists of loans in repayment, approved loans as of December 31, 2011 and projected loans to be made through September 2012.

⁽¹⁾ Includes loan interest repayments and interest earnings on funds. Does not include any Subsidy Payments which the District may receive with respect to the Series 2010A Bonds.

⁽²⁾ Consists of loans in repayment, approved loans as of December 31, 2011 and projected loans to be made through September 2012.

Reserve Funds

The Series 2012 Bonds are not secured by a pledge of or lien on amounts on deposit in either Reserve Fund. However, certain of the Existing Bonds (as of the date of this Official Statement, the Series 1996 Bonds and the Series 2001 Bonds) are secured by certain amounts on deposit in the Reserve Fund and additional Bonds may be similarly secured. Following the issuance of the Series 2012 Bonds and the refunding of the Refunded Bonds, only \$100,000 principal amount of the Series 1996 Bonds will remain secured by a Reserve Fund as described above.

The Drinking Water SRF and the Clean Water SRF each contain a Reserve Fund which has three accounts: the State Match Reserve Account, the Restricted Reserve Account and the Unrestricted Reserve Account. The Prior Indentures establish two reserve requirements applicable to Existing Bonds. The amounts on deposit in the existing subaccounts of the Reserve Funds secure solely the debt service on such Existing Bonds and shall not secure debt service on any other Bonds including the Series 2012 Bonds. See “**APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE –Funds and Accounts –Reserve Fund**” herein.

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

For the Existing Bonds, the applicable Subaccounts within each Reserve Fund are required to maintain (A) a “State Match Reserve Requirement” and (B) a “Total Reserve Requirement”. For 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 (and such application is expressly required to be made by the Master Indenture prior to application of any Excess Revenues of either Program to the payment of principal or interest on any Outstanding Notes):

- 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 or Notes

Pursuant to the provisions of the Master Indenture, additional Bonds or Notes may be issued thereunder if certain conditions are met including, but not limited to (except in the case of (A) refunding Bonds issued to pay principal of or interest on Bonds for the payment of which sufficient funds are not expected to be available and (B) Bonds issued to refund Notes) a Coverage Certificate with supporting

schedules, estimating that, as of each Bond Year, Projected Revenues 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 (x) all Bonds then Outstanding (except Bonds and Notes and interest thereon to be refunded from the proceeds of the Bonds or Notes to be issued), (y) the State Match Portion of Bonds to be issued, and (z) principal and interest estimated to be due and payable on Refunding Bonds to be issued as State Match Portion Refunding Bonds to refund Notes (such debt service to be estimated and calculated as described in the next paragraph), 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 (x) all Bonds then Outstanding (except Bonds and Notes and interest thereon to be refunded from the proceeds of the Bonds or Notes to be issued), (y) the Leveraged Portion of Bonds to be issued and (z) principal and interest estimated to be due and payable on Refunding Bonds to be issued as Leveraged Portion Refunding Bonds to refund Notes (such debt service to be estimated and calculated as described in the next paragraph). 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.

The Master Indenture provides that for purposes of calculating the State Match Portion and Leveraged Portion of debt service any Coverage Certificate (A) shall disregard principal and interest due or to become due with respect to any Notes which shall be Outstanding during any such period and (B) shall include estimated principal and interest amounts to become due as a result of the issuance of Refunding Bond the proceeds of which are to be used to pay the redemption price of such Notes; provided, if notes are to be issued to refund Outstanding notes, the principal and interest on such refunding Notes shall be taken into account for the period such Notes are expected to remain Outstanding. For purposes of such estimates, the Coverage Certificate shall assume such Refunding Bonds shall be issued on a date within three months of the stated maturity date of the Notes to be refunded, with substantially level annual debt service for a stated term of not to exceed twenty-five years, and bearing interest at a rate or rates which are 100 basis points (1.0% per annum) in excess of the then applicable rates for comparable maturities of municipal bonds of comparable credit rating as set forth in a nationally recognized municipal market publication, including, without limitation, interest rate scales published by Municipal Market Data, a divisions of Thomson Reuters, any successor or any other similar nationally recognized service.

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 Bonds and Notes 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 2012 BONDS

Purpose and Authority

The Series 2012 Bonds are being issued pursuant to the Act, the Master Indenture and the Series Resolution adopted by the Board of Water and Natural Resources of the State of South Dakota.

Proceeds of the Series 2012 Bonds will be used by the District to make Clean Water Loans, to refund the Refunded Bonds and to pay issuance and certain administrative costs. See “**FINANCE PLAN AND ESTIMATED SOURCES AND USES OF FUNDS**” herein.

Terms of the Bonds

The Series 2012 Bond will be dated the date of delivery and will mature on August 1 in the years and amounts and will bear interest from their date payable at the rates set forth on the cover of this Official Statement. Interest will be paid semiannually on each February 1 and August 1, commencing August 1, 2012.

Optional Make-Whole Redemption – Series 2012A Bonds

At the option of the District, the Series 2012A Bonds are subject to redemption prior to their maturity in whole or in part at any time (the selection of maturities and the amount of Series 2012A Bonds of each maturity to be redeemed will be determined by the District in such manner as it may determine) at the Make-Whole Redemption Price. The “Make-Whole Redemption Price” is the greater of:

(i) 100% of the principal amount of the Series 2012A Bonds to be redeemed; or

(ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Series 2012A Bonds, as applicable, to be redeemed (taking into account any mandatory sinking fund redemptions), not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2012A Bonds, as applicable, are to be redeemed, discounted to the date on which the Series 2012A Bonds, as applicable, are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (defined below) plus 30 basis points, plus, in each case, accrued and unpaid interest on the Series 2012A Bonds to be redeemed on the redemption date.

“Treasury Rate” means, with respect to any redemption date for any particular Series 2012A Bond, the greater of:

(i) the yield to maturity as of such redemption date of the United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to

maturity; provided, however, that if the period from the redemption date to maturity is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used; all as will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the District at the District's expense and such determination shall be conclusive and binding on the owners of the Series 2012A Bonds, or

(ii) the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue (defined below), assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price (defined below), as calculated by the Designated Investment Banker (defined below).

“Comparable Treasury Issue” means, with respect to any redemption date for a particular Series 2012A Bond, the United States Treasury security or securities selected by the Designated Investment Banker that has an actual or interpolated maturity comparable to the remaining average life of the Series 2012A Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Series 2012A Bond to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Series 2012A Bond, (i) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations (defined below), the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (ii) if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all such quotations.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the District.

“Reference Treasury Dealer” means each of the four firms, specified by the District from time to time, that are primary United States government securities dealers in the City of New York (each a “Primary Treasury Dealer”); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the District will substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series 2012A Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 P.M., New York City time, on the second Business Day preceding such redemption date.

Extraordinary Optional Redemption of Series 2012 A Bonds

The Internal Revenue Code of 1986 (the “Code”) contains certain requirements and conditions for the interest on bonds issued by state and local governments for pooled financing programs, such as the Series 2012B Bonds, to be and remain exempt from federal income taxation. Among those requirements are provisions requiring the redemption of bonds if certain amounts of the bond proceeds are not used for loans within one-year and three-year periods following the issuance of the bonds. In particular, the Code requires the following:

- (a) with respect to the one-year period, (i) as of the date of issuance of an issue of bonds, the issuer must reasonably expect that within the one-year period beginning on the date of issuance, at least 30 percent of the net proceeds of the issue will be used directly or indirectly to

make or finance loans to ultimate borrowers; and (ii) to the extent that less than 30 percent of the proceeds of the issue are actually used as described in clause (i) the issuer must use an amount of proceeds equal to the excess of 30 percent of the proceeds over the amount actually used to make loans by the close of such one-year period to redeem outstanding bonds within 90 days after the end of such period.

(b) with respect to the three-year period, (i) as of the date of issuance of an issue of bonds, the issuer must reasonably expect that within the three-year period beginning on the date of issuance, at least 95 percent of the net proceeds of the issue will be used directly or indirectly to make or finance loans to ultimate borrowers; and (ii) to the extent that less than 95 percent of the proceeds of the issue are actually used as described in clause (i) the issuer must use an amount of proceeds equal to the excess of 95 percent of the proceeds over the amount actually used to make loans by the close of such three-year period to redeem outstanding bonds within 90 days after the end of such period.

As of March 31, 2012, the District has approved Clean Water Loans with expected remaining advances to be made in the aggregate amount of \$85,066,960. See “**SOUTH DAKOTA STATE REVOLVING FUNDS – New Loans**” herein. The District anticipates (i) that at least \$17,010,000, representing 30% of the net proceeds of the new money portion of the Series 2012B Bonds, will be disbursed for Clean Water Loans prior to May 15, 2013, and thereby satisfy the one-year requirement, and (ii) that the remaining net proceeds of the Series 2012B Bonds will be disbursed for Clean Water Loan draws during the remainder of the three-year period as required by the Code. In the event either of these expectations is not met, the Series 2012B Bonds are subject to Extraordinary Mandatory Redemption as described below.

The Series 2012B Bonds shall be subject to redemption and payment prior to maturity on August 1, 2013, and August 1, 2015, in such amounts on each such date as are necessary to maintain the exclusion from gross income for federal income tax purposes of the interest on the Series 2012B Bonds. The redemption price for any August 1, 2013, redemption shall be ___% of the amortized issue price and the redemption price for any August 1, 2015, redemption shall be _____% of the amortized issue price, as determined by the District for such dates and for each maturity of the Series 2012B Bonds, plus accrued interest on the principal amount redeemed to the date of redemption. The amortized issue prices and redemption prices for each redemption date are set forth in Appendix H and are expressed as percentages of the principal amount of each maturity of the Series 2012B Bonds.

Optional Redemption – Series 2012B Bonds

At the option of the District, the Series 2012B Bonds, or portions thereof, maturing on August 1, 20___ and thereafter may be called for redemption and payment prior to maturity on or after August 1, 20___, in whole or in part at any time (selection of maturities and the amount of Series 2012B Bonds of each maturity to be redeemed to be determined by the District in such manner as it may determine), at the redemption price of 100% (expressed as a percentage of the principal amount), plus accrued interest thereon to the date of redemption.

Selection of Bonds To Be Redeemed

Series 2012 Bonds shall be redeemed only in the principal amount of \$5,000 or integral multiples thereof. If less than all of the Series 2012 Bonds are to be called for redemption and payment prior to maturity, the particular Series 2012 Bonds or portions of Series 2012 Bonds to be redeemed will be selected in such manner as the District shall determine.

If the Series 2012 Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of such Series 2012 Bonds, if less than all of the Series 2012 Bonds of a maturity are called for prior redemption, the particular Series 2012 Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Series 2012 Bonds are held in book-entry form, the selection for redemption of such Series 2012 Bonds shall be made in accordance with the operational arrangements of DTC then in effect, and, if the DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, the Series 2012 Bonds will be selected for redemption, in accordance with DTC procedures, by lot.

Notice of Redemption

Thirty days prior to the redemption date, notice of any such redemption shall be given by mail to DTC, as the registered owner. In the event less than all of the Series 2012 Bonds of one maturity are called for redemption, the District shall notify DTC of the particular amount of such maturity to be called for redemption. DTC's practice is to determine the amount to be redeemed from each Participant, and each Participant (as defined under "Book-Entry Only System" below) will then select by lot the ownership interest in such maturity to be redeemed. See "Book-Entry Only System" herein.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York will act as securities depository for the Series 2012 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. See APPENDIX G for additional information obtained from DTC with respect to DTC's book-entry only system.

TAX MATTERS

Taxable Series 2012A Bonds

Interest on the Series 2012A Bonds, (the "Taxable Series Bonds") is *not* excluded from the gross income of the holders thereof for federal income tax purposes.

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of provisions relating to the taxation of securities such as the Taxable Series Bonds that may affect the taxation of certain owners, depending on their particular tax situations, including original issue discount, market discount, bond premium, and withholding requirements (which topics are briefly discussed below), as well as determining taxable gain or loss from the sale, exchange, or other disposition of such securities. As regards taxable gain or loss, investors should note that the legal defeasance of any Taxable Series Bonds, if undertaken by the District, may result in a deemed sale or exchange of such Bonds under certain circumstances, and owners of Taxable Series 2012 Bonds should consult their tax advisors as to the Federal tax consequence of such an event.

Series 2012B Bonds – Federal Tax Exemption

The Code contains a number of requirements and restrictions that apply to the Series 2012B Bonds from and after the date of issuance of the Series 2012B Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of Bond proceeds and the facilities financed or refinanced therewith, and certain other matters. The District has covenanted to comply with all requirements of the Code that must be satisfied in order for interest on the

Series 2012B Bonds to be excluded from gross income. Failure to comply with certain of such requirements could cause interest on the Series 2012B Bonds to become includable in gross income, in some cases retroactively to the date of issuance of the Bonds.

Subject to the condition that District comply with the above-referenced covenants, under present law, in the opinion of Perkins Coie LLP, Chicago, Illinois (“Bond Counsel”), interest on the Series 2012B Bonds is excluded from the gross income of the owners thereof for federal income tax purposes. Interest on the Series 2012B Bonds will not be treated as an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, but will be taken into account as an adjustment in determining the “adjusted current earnings” of certain corporation for purposes of computing the federal alternative minimum tax for such corporations.

In rendering its opinion, Bond Counsel will rely upon certifications of the District and certain other parties with respect to certain matters solely within their knowledge relating to the facilities to be financed or refinanced with the Series 2012B Bonds, the application of the proceeds of the Series 2012B Bonds, and certain other matters pertinent to the tax exemption of the Series 2012B Bonds.

Bond Counsel’s opinion with respect to the Series 2012B Bonds 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 Internal Revenue Service 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.

Ownership of the Series 2012B 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 2012B Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

Bond Counsel’s opinion is based on existing law, which is subject to change. Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Series 2012B Bonds may affect the tax status of interest on the Series 2012B Bonds. It is possible that future legislation or amendments to the Code, if enacted into law, could contain provisions that might eliminate or reduce the exclusion of the interest on the Series 2012B Bonds from gross income for federal income tax purposes or that might otherwise adversely affect the benefit of such exclusion or the value or marketability of the Series 2012B Bonds. For example, on September 12, 2011, President Obama proposed to Congress the enactment of legislation entitled the “American Jobs Act of 2011” (the “Jobs Act”). If enacted in the form proposed, certain provisions in the Jobs Act would result in federal income tax being imposed on a portion of the interest received by certain individual owners of state or local bonds, including the Series 2012B Bonds, for taxable years beginning on or after January 1, 2013. From time to time, other legislation has been proposed that, if enacted, could affect the tax treatment, value or marketability of the Series 2012B Bonds. No prediction can be made as to whether any such legislation will be enacted in the future or the form such legislation may take. Prospective purchasers should consult with their own tax advisors regarding pending or proposed federal income tax legislation.

Tax-Exempt Series 2012B Bonds Held by Financial Institutions

Section 265(b) of the Code disallows a portion of the interest deductions of financial institutions based on an institution's holding of tax-exempt obligations. "Qualified tax-exempt obligations" (also known as "bank qualified" bonds) are excluded from these disallowance rules under Section 265(b)(3) of the Code (although Section 291(e) of the Code may disallow 20 percent of such interest deductions).

The Series 2012B Bonds are not "bank qualified" bonds that are treated as "qualified tax-exempt obligations" for purposes of Code Section 265(b)(3).

Original Issue Discount

The issue price (the "Issue Price") for each maturity of each series of the Series 2012 Bonds is the price at which a substantial amount of such maturity of that series of the Series 2012 Bonds is first sold to the public. The Issue Price of a maturity and series of the Series 2012 Bonds may be different from the prices set forth, or the prices corresponding to the yields set forth, on the inside cover page hereof.

If the Issue Price of a maturity and series of the Series 2012 Bonds is less than the principal amount payable at maturity, the difference between the Issue Price of each such maturity, if any, of that series (the "OID Bonds") and the principal amount payable at maturity is "original issue discount."

For an investor who purchases an OID Bond that is a Taxable Series Bond (and unless a *de minimis* rule applicable only to taxable obligations applies), the purchaser will be required to include the original issue discount in income as it accrues (under a constant-yield-to-maturity method), prior to the receipt of cash attributable to such income. Purchasers of OID Bonds that are Taxable Series Bonds should consult their own tax advisors for the specific application of these rules to their situation.

For an investor who purchases an OID Bond that is a tax-exempt Series 2012B Bond in the initial public offering at the Issue Price for such maturity and who holds such OID Bond to its stated maturity, subject to the condition that the District complies with the covenants discussed above, (a) the full amount of original issue discount with respect to such OID Bond constitutes interest that is excluded from the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such OID Bond at its stated maturity; and (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code. (The recognition of tax-exempt income may have collateral tax consequences for certain taxpayers, as described above in connection with the receipt of tax-exempt interest on the Series 2012B Bonds.) Owners of OID Bonds should consult their own tax advisors with respect to the state and to local tax consequences of original issue discount on such OID Bonds.

Owners of tax-exempt Series 2012B Bonds who dispose of their bonds prior to the stated maturity (whether by sale, redemption, or otherwise), who purchase Series 2012B Bonds in the initial public offering, but at a price different from the Issue Price, or who purchase Series 2012B Bonds subsequent to the initial public offering should consult their own tax advisors.

Market Discount

If a Series 2012 Bond is purchased at any time for a price that is less than the Bond's stated redemption price at maturity or, in the case of an OID Bond, its Issue Price plus accreted original issue discount reduced by payments of interest included in the computation of original issue discount and previously paid (the "Revised Issue Price"), the purchaser will be treated as having purchased a 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 (even in the case of obligations

bearing interest that is excluded from gross income for federal income tax purpose is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. Such treatment would apply to any purchaser who purchases an OID Bond for a price that is less than its Revised Issue Price, even if the purchase price exceeds par. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchaser should consult their own tax advisors regarding the potential implications of market discount with respect to the Series 2012 Bonds.

Bond Premium

An investor may purchase a Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and, in the case of tax-exempt Series 2012B Bonds, must be amortized by an investor on a constant yield basis over the remaining term of the Bonds, in a manner that takes into account potential call dates and call prices. The amortized bond premium in that case is treated as a reduction in the tax-exempt interest received, and, as bond premium is amortized, it reduces the investor's tax basis in the Series 2012B Bond.

In the case of bond premium on a Taxable Series Bond, the purchaser may *elect* to amortize the bond period over the term of the Taxable Series Bond, in which case the annual amount amortized offsets interest on the Taxable Series Bond, and reduces the purchaser's basis. (An election to amortize bond premium applies to *all* bonds held by the holder on the first day of the taxable year to which the election applies, and to all bonds thereafter acquired by the holder.) If the election to amortize bond premium is not made, the premium is reflected in the holder's basis (without annual reduction) and is taken into account in determining gain or loss upon a subsequent disposition of the Taxable Series Bond.

The rules governing the amortization of bond premium are complex. Investors who purchase a Series 2012 Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Bond.

Reporting and Withholding Requirements

Payments of interest on, and proceeds of the sale, redemption or maturity of, obligations (including tax-exempt obligations such as the Series 2012B Bonds), are in certain cases required to be reported to the Internal Revenue Service. In addition, backup withholding may apply to any such payments to any Series 2012 Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Series 2012 Bond owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest on the Series 2012B Bonds from gross income for federal tax purposes.

Circular 230 Disclaimer

With respect to the Taxable Series Bonds, the foregoing description of certain tax matters is not intended or written by Bond Counsel to be used, and cannot be used by any purchaser of the Taxable Series Bonds, for the purpose of avoiding penalties that may be imposed on such purchaser. This advice is written to support the promotion or marketing of the Taxable Series Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors concerning the particular federal, state, local, and foreign tax consequences of their ownership of Series 2012 Bonds.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement the District will agree to provide to the Municipal Securities Rulemaking Board notice of certain 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. The District has complied with its existing obligations to provide annual financial information pursuant to continuing disclosure undertakings for its outstanding Bonds.

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 2012 Bonds and the conditions for amendment of the Agreement.

RATINGS

Moody’s Investors Service, Inc. and Standard & Poor’s Public Finance Ratings have assigned ratings of “ ” and “ ”, respectively, to the Series 2012 Bonds. The ratings reflect only the views of such rating agencies, and an explanation of the significance of such ratings may be obtained only from such rating agencies. Generally, rating agencies base their ratings on the information and materials furnished to them and on investigation, studies and assumptions by the rating agencies. A security’s rating is not a recommendation to buy, sell or hold securities. The rating of the Series 2012 Bonds represents a judgment as to the likelihood of a timely payment of the Series 2012 Bonds according to their terms, but does not address the likelihood of redemption or acceleration prior to maturity. There is no assurance that either rating will remain in effect for any given period of time or that it may not be lowered, suspended or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward change in or suspension or withdrawal of such rating may have an adverse effect on the market price and marketability of the Series 2012 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 2012 Bonds, or prohibiting the District from making Loans to Borrowers or purchasing Loan Obligations with the proceeds of the Series 2012 Bonds, or in any way contesting or affecting the validity of any Series 2012 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 2012 Bonds or the existence or necessary powers of the District.

LEGAL MATTERS

The Series 2012 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. The District and the Board have been represented in connection with the Series 2012 Bonds and the Program by the office of the Attorney General of South Dakota. Certain legal matters will be passed upon for the Underwriters by Faegre Baker Daniels LLP, Minneapolis, Minnesota.

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 2012 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 2012 Bonds.

UNDERWRITING

The Series 2012A Bonds offered hereby are being purchased from the District by Wells Fargo Bank, National Association, as representative of the underwriters (the “Representative”) listed on the cover page hereof (collectively, the “Underwriters”) at a price of \$_____, which purchase price reflects an Underwriters’ discount of \$_____. The Series 2012B Bonds offered hereby are being purchased from the District by the Underwriters at a price of \$_____, which purchase price reflects a net original issue premium of \$_____ and an Underwriters’ discount of \$_____. The Bond Purchase Agreement provides that the Underwriters shall purchase all of the Series 2012 Bonds offered hereby if any are purchased, and that the obligation to make such purchase is subject to the approval of certain legal matters by Bond Counsel and certain other conditions. The initial public offering price may be changed from time to time by the Underwriters.

The following paragraph have been provided by Wells Fargo Bank, N.A., one of the Underwriters of the Series 2012 Bonds, for inclusion in this Official Statement.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association (“WFBNA”). Wells Fargo Bank, N.A., the senior managing underwriter of the Series 2012 Bonds, has entered into an agreement (the “Wells Fargo Distribution Agreement”) with Wells Fargo Advisors, LLC (“WFA”) for the retail distribution of certain municipal securities offerings, including the Series 2012 Bonds. Pursuant to the Wells Fargo Distribution Agreement, Wells Fargo Bank, N.A. will share a portion of its underwriting compensation with respect to the Series 2012 Bonds with WFA. WFBNA and WFA are both subsidiaries of Wells Fargo & Company.

The following paragraph was provided by J.P. Morgan Securities LLC (“JPMS”) for inclusion in this Official Statement.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the Series 2012 Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of UBS Financial Services Inc. (“UBSFS”) and Charles Schwab & Co., Inc. (“CS&Co.”) for the retail distribution of certain securities offerings, including the Series 2012 Bonds, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2012 Bonds that such firm sells.

The following paragraph was provided by Piper Jaffray & Co for inclusion in this Official Statement.

Piper Jaffray & Co, and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the “Agreement”) which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray & Co., including the Series 2012 Bonds. Under the Agreement, Piper Jaffray & Co. will share with Pershing LLC a portion of the fee or commission paid to Piper.

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 purchasers or holders of any of the Series 2012 Bonds.

SOUTH DAKOTA CONSERVANCY DISTRICT

By: _____
Chairman

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SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE

The following includes a brief summary of certain provisions of the Master Indenture and is not to be considered as a full statement of the provisions of the Master Indenture. The summary is qualified by reference to and is subject to the complete Master Indenture, the Series Resolution authorizing the Series 2012 Bonds and all prior Series Resolutions with respect to any Bonds Outstanding, 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:

“Account” or “Accounts” means one or more of the special accounts or subaccounts created and established within any Fund hereunder pursuant to any Series Resolution or otherwise in accordance with the provisions of the Master Indenture.

“Act” means SDCL Chapters 46A-1 and 46A-2, as amended from time to time together with the administrative rules promulgated thereunder and then in effect.

“Adjusted Leveraged Portion” with respect to a series of Bonds or Notes means, on and after the Transfer Date for such series of Bonds or Notes, a fraction the numerator of which is the sum of (A) all proceeds of such series deposited to the Leveraged Loan Account plus (B) all proceeds of such series later transferred from the Bond Proceeds Account to the Leveraged Loan Account and the denominator of which is the sum of all proceeds of such series initially deposited to the Bond Proceeds Account, the Leveraged Loan Account and the State Match Loan Account.

“Adjusted State Match Portion” with respect to a series of Bonds or Notes means, on and after the Transfer Date for such series of Bonds or Notes, a fraction the numerator of which is the sum of (A) all proceeds of such series deposited to the State Match Loan Account plus (B) all proceeds of such series later transferred from the Bond Proceeds Account to the State Match Loan Account and the denominator of which is the sum of all proceeds of such series initially deposited to the Bond Proceeds Account, the Leveraged Loan Account and the State Match Loan Account.

“Adjusted Projected Revenues” means, as of the date of a Coverage Certificate submitted by the District to the Trustee in connection with a request under the Master Indenture (i) the scheduled principal and interest payments on all Loan Obligations for a Program held 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 or other assets which (A) are then in default in the payment of principal or interest, (B) failed to meet the Credit Standard in effect at the time the Loan Obligations were acquired and, if a revenue obligation payable from 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 or (C) are proposed as Released Obligations under the Master Indenture or proposed to be prepaid under Section 6.08(b) of the Master Indenture, 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 (unless and to the extent that such earnings would be derived from Released Obligations under of the Master Indenture), including amounts which are reasonably expected to be drawn under the Letter of Credit for such Program.

“Administration Funds” means the Clean Water Administration Fund and the Drinking Water Administration Fund.

“Administrative Expense Surcharge” means a surcharge on each Loan charged by the District to each Borrower, which may be payable by the Borrower on the same dates that payments of interest on its Loan are due but which will not constitute principal of or interest on the Loan, which surcharge shall be deposited and applied as provided in the Master Indenture.

“Allocable Portion” with respect to any Series of Bonds or Notes, means the respective percentages of the aggregate principal amount of such Series of Bonds or Notes issued to finance Clean Water Loans or Drinking Water Loans.

“Amortized Value” means, when used with respect to securities purchased at a premium above or a discount below par, the value as of any given date obtained by dividing the total amount of the premium or the discount at which such securities were purchased by the number of days remaining to the first call date (if purchased at a premium) or the maturity date (if purchased at a discount) of such securities at the time of such purchase and by multiplying the amount so calculated by the number of days having passed from the date of such purchase; and (i) in the case of securities purchased at a premium, by deducting the product thus obtained from the purchase price and (ii) in the case of securities purchased at a discount, by adding the product thus obtained to the purchase price.

“Annual Prepayment Amount” shall mean, for each Program, the greater of (a) \$5,000,000 or (b) 5% of the unpaid principal amount of Loan Obligations as of the most recent August 1.

“Applicable EPA Agreement” means any and all capitalization grant agreements, operating agreements, and other agreements between the District or the Department and the EPA relating to a specific Program and the use of moneys governed by such agreements.

“ARRA” means the American Recovery and Reinvestment Act of 2009, as hereafter amended or supplemented.

“Authorized Denominations” when used with respect to the Series 2012 Bonds, means \$5,000 and any integral multiple of \$5,000.

“Authorized Representative” means the Chairman of the District, the Secretary of the Department or any other officer expressly authorized by the Board of Water and Natural Resources to act on behalf of the District with respect to the Bonds, the Notes or the Master Indenture.

“Board of Water and Natural Resources” means the Board of Water and Natural Resources created pursuant to SDCL §1-40-5 or any other board or public entity which succeeds to the powers, duties or functions of the Board of Water and Natural Resources with respect to the Program, the Bonds and the Notes.

“Bond” or “Bonds” means all Outstanding Bonds of the District issued pursuant to a Series Resolution, the Act and the Master Indenture.

“Bond Anticipation Notes” means any series of notes issued and Outstanding under the Master Indenture and which the Series Resolution identifies the principal thereof as being payable principally out of the proceeds of a future Series of Bonds.

“Bond Counsel” means any attorney or firm of attorneys of recognized standing in the field of municipal law, duly admitted to the practice of law before the highest court of any state of the United

States of America, appointed from time to time by the Board of Water and Natural Resources with respect to the District.

“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 Funds” means the Clean Water Bond Fund and the Drinking Water Bond Fund.

“Bondholder” or “Holder” or “Holders of Bonds” or “Owner” or similar term when used with respect to a Bond or Bonds, means any person who shall be the registered owner of any Outstanding Bond.

“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 or Notes and related matters. An executed counterpart of any Bond Order shall be filed in the official records of the District.

“Bond Payment Date” means any date on which principal or interest or Redemption Price is due and payable on any Bonds or Notes.

“Bond Proceeds Accounts” means the Bond Proceeds Accounts established within the Loan Funds with respect to the proceeds of a specific series of Bonds or Notes.

“Bond Year” means the period beginning on August 2 of any year through August 1, of the succeeding year, provided that the first Bond Year for any Series of Bonds or Notes shall commence on the date of original issuance of a Series of Bonds or Notes and extend through the next August 1.

“Borrower” means a Political Subdivision, any other owner of a public water supply system, state agency, instrumentality, or other person who is eligible to receive loan assistance from the District under a Program.

“Clean Water Act” means the Federal Clean Water Act, more commonly known as the Clean Water Act (PL 92-500), as amended by the Water Quality Act of 1987 (PL 100-4), 33 U.S.C. 1251, et seq., any subsequent amendments thereto and any other applicable statutes governing any Program funded under the Master Indenture, and includes the State Revolving Fund Program Implementation Regulations, any amendments thereof issued pursuant thereto and any other applicable regulations.

“Clean Water Administration Fund” means the Clean Water Administration Fund established under the Master Indenture and described in Section 5.03 of the Master Indenture.

“Clean Water Bond Fund” means the Clean Water Bond Fund established under the Master Indenture.

“Clean Water Letter of Credit” means the Letter of Credit or any other funding arrangement for capitalization grants by the United States of America pursuant to the Clean Water Act for the benefit of the State of South Dakota.

“Clean Water Loan” means any loan made by the District to a Borrower as part of the Clean Water Program and evidenced by a Loan Agreement.

“Clean Water Loan Fund” means the Clean Water Loan Fund established under the Master Indenture.

“Clean Water Portion” means all of the principal and interest on the Outstanding Existing Bonds issued under the Original Clean Water Indenture and the Allocable Portion of the principal and interest on other Bonds or Notes of a Series equal to a portion of the proceeds deposited into the Clean Water Fund in accordance with Section 4.01 of the Master Indenture, including, without limitation, any amounts required to be paid with respect to Qualified Interest Rate Agreements.

“Clean Water Program” means the District’s Clean Water State Revolving Fund Program under the Clean Water Act and the Act.

“Clean Water Program Subfund” means the State Revolving Fund established under the Master Indenture in accordance with the Clean Water Act and the Act.

“Clean Water Reimbursement Obligation” means the obligation of the District under Section 5.13 of the Master Indenture to reimburse the Clean Water Program Subfund for any amounts transferred to the Drinking Water Bond Fund pursuant to Section 5.04(d)(1)(iii) or (e)(1)(v) of the Master Indenture, as applicable, to pay the Drinking Water Portion of principal and interest on Bonds when due.

“Clean Water Reserve Fund” means the Clean Water Reserve Fund established under the Master Indenture.

“Clean Water Revenue Fund” means the Clean Water Revenue Fund established under the Master Indenture.

“Clean Water State Match Portion” means, with respect to the Clean Water Portion of any principal or interest on any Bonds or Notes, the portion of such principal or interest of a Series of Bonds or Notes equal to a portion of the proceeds deposited into the Clean Water Fund in accordance with Section 4.01 of the Master Indenture.

“Clean Water State Match Reserve Requirement” shall have the meaning assigned in any Series Resolution, except that for Existing Bonds it shall mean the largest amount of the State Match Portion of the Clean Water Portion of principal (including Sinking Fund Installments) and interest in the then current or any succeeding calendar year on all Existing Bonds (or the relevant portion of debt service on all Existing Bonds) which are secured by a lien on or pledge of amounts on deposit in the State Match Reserve Account or the Unrestricted Reserve Account of the Clean Water Reserve Fund and are Outstanding under the Master Indenture.

“Clean Water Total Reserve Requirement” shall have the meaning assigned in any Series Resolution, except that for Existing Bonds it shall mean the largest amount of the Clean Water Portion of principal (including Sinking Fund Installments) and interest in the then current or any succeeding calendar year on all Existing Bonds (or the relevant portion of debt service on Bonds) which are secured by a lien on or pledge of amounts on deposit in the Clean Water Reserve Fund and are Outstanding under the Master Indenture.

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder or officially proposed to be promulgated thereunder.

“Costs of Issuance” means any and all items of expense payable or reimbursable directly or indirectly by the District and related to the authorization, sale and issuance of Bonds or Notes, which items of expense shall include but not be limited to printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of the Trustee, initial letter of credit fees, surety obligation

fees or other similar fees, municipal bond insurance premiums or the costs of providing any Credit Enhancement, and initial costs or payments with respect to the entering into of any Interest Rate Agreement, legal fees and charges, professional consultants' fees, costs of credit ratings, fees and charges for execution, transportation and safekeeping of Bonds or Notes, underwriter discount or placement fees, and other costs, charges and fees in connection with the original issuance of Bonds or Notes.

“Counterparty” means any counterparty with which the District enters into an Interest Rate Agreement.

“Counterparty Payment” means a payment due to a Counterparty from the District pursuant to an Interest Rate Agreement (including, but not limited to, Termination Payments).

“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.

“Credit Enhancement” means any municipal bond insurance, letter of credit, surety obligation or bond purchase agreement (or any combination thereof) issued to secure the prompt payment of the principal of and interest on any Series of Bonds or Notes.

“Credit Enhancement Provider” means any issuer or other obligor with respect to any Credit Enhancement.

“Credit Standard” means the credit criteria established from time to time by the Board of Water and Natural Resources for the making of Loans by the District from the Leveraged Loan Account, the State Match Loan Account or the Federally Capitalized Loan Account of either Loan Fund.

“Default” means any failure to perform any term or condition of the Master Indenture which, after notice or the passage of time, may become an Event of Default.

“Defeasance Obligations” means direct obligations of the United States of America or, if permitted by the Act, any other Investment Obligation described in clause (a) of the definition of “Investment Obligations” in the Master Indenture.

“Department” means the Department of Environment and Natural Resources of the State of South Dakota or such other agency or department which succeeds to the powers, duties or functions of the Department of Environment and Natural Resources with respect to a Program.

“Depository” means The First National Bank in Sioux Falls and any other bank, trust company, national banking association or savings institution selected by the District and approved by the Trustee and qualified under all applicable laws as a depository of moneys and securities held under the provisions of the Master Indenture, and its successor or successors.

“District” means the South Dakota Conservancy District, a governmental agency, body politic and corporate constituted as an instrumentality of the State of South Dakota exercising public and essential governmental functions and created by the Act, or any body, agency or instrumentality of the State of South Dakota which shall hereafter succeed to the powers, duties or functions of the District.

“District Request” means the written request of the District signed by an Authorized Representative.

“Drinking Water Act” means Chapter 6A of the Public Health Service Act, 42 U.S.C. §§300f through 300j-26, more commonly known as the Safe Drinking Water Act, any subsequent amendments thereto and any other applicable statutes governing any Program funded under the Master Indenture, any amendments thereof and all applicable regulations.

“Drinking Water Administration Fund” means the Drinking Water Administration Fund established under the Master Indenture.

“Drinking Water Bond Fund” means the Drinking Water Bond Fund established under the Master Indenture.

“Drinking Water Letter of Credit” means the Letter of Credit or any other funding arrangement for capitalization grants by the United States of America pursuant to the Drinking Water Act for the benefit of the State of South Dakota.

“Drinking Water Loan” means any loan made by the District to a Borrower as part of the Drinking Water Program and evidenced by a Loan Agreement.

“Drinking Water Loan Fund” means the Drinking Water Loan Fund established under the Master Indenture.

“Drinking Water Portion” means all of the principal and interest on the Outstanding Existing Bonds under the Original Drinking Water Indenture and the Allocable Portion of principal and interest on Bonds or Notes of a Series equal to a portion of the proceeds deposited into the Drinking Water Fund in accordance with Section 4.01 of the Master Indenture, including, without limitation, any amounts required to be paid with respect to Qualified Interest Rule Agreements.

“Drinking Water Program” means the District’s Drinking Water State Revolving Fund Program under the Drinking Water Act and the Act.

“Drinking Water Program Subfund” means the State Revolving Fund established under Article V of the Master Indenture in accordance with the Drinking Water Act and the Act.

“Drinking Water Reimbursement Obligation” means the obligation of the District under Section 5.16 of the Master Indenture to reimburse the Drinking Water Program Subfund for any amounts transferred to the Clean Water Bond Fund pursuant to Section 5.04(h)(1)(iii) or (i)(1)(v) of the Master Indenture, as applicable, to pay the Clean Water Portion of principal and interest on Bonds or Notes when due.

“Drinking Water Reserve Fund” means the Drinking Water Reserve Fund established under the Master Indenture.

“Drinking Water Revenue Fund” means the Drinking Water Revenue Fund established under the Master Indenture.

“Drinking Water State Match Portion” means, with respect to the Drinking Water Portion of any principal or interest on any Bonds or Notes, the portion of such principal or interest of a Series of Bonds or Notes equal to a portion of the proceeds deposited into the Drinking Water Fund in accordance with Section 4.01 of the Master Indenture.

“Drinking Water State Match Reserve Requirement” shall have the meaning assigned in any Series Resolution, except that for all Existing Bonds it shall mean the largest amount of the Drinking Water State Match Portion of principal (including Sinking Fund Installments) and interest in the then

current or any succeeding calendar year on all Existing Bonds (or the relevant portion of debt service on all Existing Bonds) which are secured by a lien on or pledge of amounts on deposit in the State Match Reserve Account or the Unrestricted Reserve Account of the Drinking Water Reserve Fund and are Outstanding under the Master Indenture.

“Drinking Water Total Reserve Requirement” shall have the meaning assigned in any Series Resolution, except that for all Existing Bonds it shall mean the largest amount of the Drinking Water Portion of Principal (including Sinking Fund Installments) and interest in the then current or any succeeding calendar year on all Existing Bonds (or the relevant portion of debt service on all Existing Bonds) which are secured by a lien on or pledge of amounts on deposit in the Drinking Water Reserve Fund and are Outstanding under the Master Indenture.

“Effective Date” shall mean the earlier of (a) the date on which all Holders of Existing Bonds consent or are deemed to have consented to the reduction in the percentage of Holders of Bonds described in Sections 11.03, 11.04 and 11.06 of the Master Indenture, or (b) date on which no Existing Bonds are deemed Outstanding under the Master Indenture.

“EPA” means the Environmental Protection Agency, an agency of the United States of America, and any successor to its functions under the Drinking Water Act or Clean Water Act, or any other agency of the United States of America having jurisdiction with respect to the funding of Loans for the Programs.

“Event of Default” means any of those events defined as Events of Default in the Master 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.

“Excess Revenues” means Excess Clean Water Revenues and Excess Drinking Water Revenues.

“Existing Bonds” means the Series 1996 Bonds, Series 2001 Clean Water Bonds and Series 2001 Drinking Water Bonds Outstanding under the Master Indenture.

“Federally Capitalized Loan Accounts” means the Account of the Loan Funds so designated in the Master Indenture.

“Fund” or “Funds” means one or more of the special trust funds created and established under the Master Indenture.

“General Limitation” means the limitation described in Section 5.11 of the Master Indenture, as now or hereafter revised or clarified.

“Initial Leveraged Portion” means, with respect to any principal or interest on any series of Bonds or Notes, the initial portion of such principal or interest determined in accordance with Section 4.01 of the Master Trust Indenture as the Leveraged Portion with respect to such series of Bonds or Notes.

“Initial State Match Portion” means, with respect to any principal or interest on any Series of Bonds or Notes, the initial portion of such principal or interest determined in accordance with Section 4.01 of the Master Trust Indenture as the State Match Portion with respect to such Series of Bonds or Notes.

“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.

“Investment Obligations” means and includes any of the following, if and to the extent the same are authorized as permitted investments for the District’s moneys in the Funds and Accounts created and maintained under the Master Indenture:

- (a) Direct obligations of, or obligations the prompt payment of principal and interest on which are fully guaranteed by, the United States of America; or
- (b) 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; or
- (c) Interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any Depository (including the Trustee), provided that such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation or secured by obligations described in clauses (a) or (b) of this definition, or a combination thereof; or
- (d) Money market funds or similar funds which invest exclusively in obligations described in clauses (a), (b), (e) or (f) of this definition, or a combination thereof; or
- (e) 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 assigned a long-term rating by the Rating Agency which is no lower than the long-term rating assigned by the Rating Agency to the

Outstanding Bonds (without taking into account any higher rating assigned to the Bonds by virtue of Credit Enhancement); or

(f) Any repurchase agreement or similar financial transaction with a national banking association or a bank or trust company organized under the laws of any state (including the Trustee), or with a government bond dealer reporting to, trading with and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement satisfies the following requirements: (1) it is secured, in the opinion of counsel, by a perfected security interest in any one or more of the securities described in clause (a) or (b); (2) provides that the collateral must be valued at least weekly and must be maintained at a value of at least 103% of the amount invested plus accrued interest (with a no more than one-week cure period, if the value of collateral falls below this amount); (3) is entered into with a primary reporting dealer that reports to the Federal Reserve Bank of New York or one of the 100 largest United States commercial banks, as measured by domestic deposits; and (4) the securities which are the subject of the repurchase agreement must be held by the Trustee or by an agent or custodian on its behalf, provided that the requirements of clauses (3) and (4) shall apply only if and to the extent that South Dakota law so requires; or

(g) Any investment agreement, guaranteed investment contract or similar debt obligation which in the opinion of counsel is permitted by South Dakota law and the issuer or guarantor of such obligation is assigned, or such agreement, contract or obligation is assigned, the highest short-term debt rating by the Rating Agency or which is assigned a long-term rating by the Rating Agency which is no lower than the two highest long-term rating categories (without regard to numeric or other modifiers) at the time such investment is acquired or which agreement is approved by each Rating Agency then rating Outstanding Bonds as of the date the agreement is entered into by the District; or

(h) the South Dakota Cash Flow Fund provided the District determines that such fund invests solely in investments authorized by SDCL 4-5-26 or other investments which the District is authorized to acquire and hold.

“Letter of Credit” means the instrument or procedure by which the United States of America or any agency thereof provides for payment of moneys authorized under or pursuant to applicable law for capitalization grants for the Programs and shall include draws under the letter of credit or such other instrument or procedure known as the EPA Automated Clearing House (EPA-ACH) payment system.

“Leveraged Bond Accounts” means the Accounts of the Bond Funds so designated as described in the Master Indenture.

“Leveraged Loan Accounts” means the Accounts of the Loan Funds so designated as described in the Master Indenture.

“Leveraged Note Accounts” means the Accounts of the Bond Funds so designated in the Master Indenture.

“Leveraged Portion” means, with respect to any principal or interest on any Bonds or Notes, the portion of such principal or interest determined in accordance with Section 4.01 of the Master Indenture, including, if applicable, the Adjusted Leveraged Portion.

“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 Facility” means the obligation of a Liquidity Provider to provide funds for the purpose of purchasing tendered Bonds or Notes, which Liquidity Facility may be in the form of a line of credit, bond purchase agreement or letter of credit.

“Liquidity Provider” means one or more commercial banks, trust companies or financial institutions obligated with respect to a Liquidity Facility.

“Loan” means a loan of funds to a Borrower in accordance with Section 4.03 together with any Supplemental Loan designated under Section 4.04 of the Master Indenture.

“Loan Agreement” means any loan agreement between the District and a Borrower relating to a loan of moneys from a Loan Fund or Revenue Fund under the Master Indenture, a Supplemental Loan designated under Section 4.04 or otherwise described and pledged in a Series Resolution; provided, such term shall not include any loan agreements which relate to any Released Obligations.

“Loan Funds” means the Clean Water Loan Fund and the Drinking Water Loan Fund.

“Loan Obligation” or “Loan Obligations” means any evidence of indebtedness or other obligation to repay a Loan pursuant to a Loan Agreement, which is issued by a Borrower and payable from taxes, non-ad valorem sales taxes, or from rates, revenues, charges or assessments, or distributions of revenue pursuant to a state appropriation or statutory or constitutional provision, or payable from a pledge of property or other amounts; provided, however, the terms “Loan Obligation” and “Loan Obligations” shall not include any Released Obligations or any portion of a Supplemental Loan which is canceled or forgiven pursuant to the Master Indenture.

“Mandatory Transfer”, with respect to a series of Bonds or Notes, shall have the meaning given thereto by Section 4.01(b) of the Master Indenture.

“Note” or “Notes” means any Outstanding Notes of the District issued pursuant to a Series Resolution, the Act and the Master Indenture.

“Noteholder” or “Holder of Notes” or “Owner of Notes” or similar term when used with respect to a Note or Notes, means any person who shall be the registered owner of any Outstanding Note.

“Optional Transfer Conditions” means the conditions precedent to transfer of the proceeds of a series of Bonds or Notes as established pursuant to Section 4.01(b) of the Master Indenture.

“Original Amended and Restated Indenture” shall have the meaning given to such term in the preamble clauses of the Master Indenture.

“Original Clean Water Indenture” shall have the meaning given to such term in the preamble clauses of the Master Indenture.

“Original Drinking Water Indenture” shall have the meaning given to such term in the preamble clauses of the Master Indenture.

“Original Master Trust Indenture” shall have the meaning given to such term in the preamble clauses of the Master Indenture.

“Outstanding” means, when used with respect to Bonds or Notes, as of any date, all Bonds or Notes theretofore authenticated and delivered under the Master Indenture except:

any Bond or Note cancelled or delivered to the Trustee for cancellation on or before such date;

any Bond or Note (or any portion of any Bond or Note) (i) for the payment or redemption of which there shall be held in trust under the Master Indenture and set aside for such payment or redemption, moneys and/or Defeasance Obligations maturing or redeemable at the option of the holder thereof not later than such maturity or redemption date, which, together with income to be earned on such Defeasance Obligations prior to such maturity or redemption date, will be sufficient to pay the principal or Redemption Price thereof, as the case may be, together with interest thereon to the date of maturity or redemption, and (ii) in the case of any Bond or Note (or any portion of any Bonds or Notes) to be redeemed prior to maturity, notice of the redemption of which shall have been given in accordance with Article III of the Master Indenture or provided for in a manner satisfactory to the Trustee;

any Bond or Note in lieu of or exchange for which another Bond or Note shall have been authenticated and delivered pursuant to Article II of the Master Indenture.

“Political Subdivision” means any “public entity” as defined in §46A-2-4, SDCL, or any successor statutory provision, including without limitation, a county, township, municipality, political or administrative subdivision of State government, irrigation district, water user district, sanitary district, water project district, watershed district, water development district, or any other public body recognized by State law.

“Program” means any program now or hereafter described in the Act pursuant to which the Board of Water and Natural Resources makes loans to Political Subdivisions or other Borrowers for various environmental or infrastructure purposes, including projects or purposes authorized by the Clean Water Act or Drinking Water Act.

“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.

“Public Water System” means any public water system as defined in SDCL §34A-3A-1 or any successor statutory provision, including, without limitation, a system for the provision to the public of piped water for human consumption, if such system has at least fifteen service connections or regularly serves an average of at least twenty-five individuals daily at least sixty days out of the year.

“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.

“Redemption Price” means, when used with respect to a Bond or Note or portion thereof to be redeemed, the principal amount of such Bond or Note or such portion thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to the applicable Series Resolution.

“Refunding Bonds” means any Bonds or Notes the proceeds of which are to be used to pay the principal of or interest on any Outstanding Bonds or Notes.

“Regular Record Date” means the record date for the payment of interest on any Series of Bonds or Notes established by a Series Resolution.

“Released Obligations” means all Loan Obligations, Loan Agreements, cash or investments and any other assets or related rights of payments relating to Loan Obligations, Loan Agreements or other assets heretofore released or presently proposed to be released from the lien of the Master Indenture pursuant to Section 5.10 of the Master Indenture.

“Relevant Federal Act” means, as the context shall indicate, the Clean Water Act or the Drinking Water Act.

“Reserve Fund” means the Clean Water Reserve Fund and the Drinking Water Reserve Fund.

“Restricted Cumulative Excess Principal Repayments Subaccounts” means the Subaccounts so designated within the Restricted Principal Repayments Accounts of the Revenue Funds as described in the Master Indenture.

“Restricted Reserve Accounts” means the Accounts of the Reserve Funds so designated in the Master Indenture.

“Restricted Principal Repayments Accounts” means the Accounts of the Revenue Funds so designated as described in Section 5.04 of the Master Indenture.

“Revenue Funds” means the Clean Water Revenue Fund and the Drinking Water Revenue Fund.

“Serial Bonds” means the Bonds of any Series so designated in the Series Resolution.

“Series of Bonds” or “Bonds of a Series” means a series of Bonds issued under the Master Indenture designated as a “Series” and authorized by a separate Series Resolution.

“Series of Notes” or “Notes of a Series” means a series of Notes issued under the Master Indenture designated as a “Series” and authorized by a separate Series Resolution.

“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 or Notes, and any Bond Order related thereto.

“Series 1998/2001 Bond Insurer” means AMBAC Assurance Corporation, the issuer of Credit Enhancement with respect to the Outstanding Series 1998/2001 Bonds.

“Series 1998/2001 Bonds” the District’s Outstanding Bonds which were part of the following: (1) \$6,450,000 original principal amount of Drinking Water State Revolving Fund Program Bonds, Series 1998, (2) \$5,575,000 original principal amount Drinking Water State Revolving Fund Program Bonds, Series 2001, and (3) \$4,405,000 principal amount of Clean Water State Revolving Fund Program Bonds, Series 2001.

“Series 1998/2001 Series Resolutions” means the Series Resolutions adopted by the District with respect to the Series 1998/2001 Bonds.

“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.

“Sinking Fund Installment” means when used with respect to any Series of Bonds issued pursuant to a Series Resolution, the amount so designated for any particular due date in the Series Resolution pursuant to the Master Indenture.

“South Dakota Cash Flow Fund” means the program operated by the South Dakota Investment Council, or its lawful successor, for the investment of state funds and other public moneys.

“SRF Administration Accounts” means the Accounts of the Administration Funds so designated as described in the Master Indenture.

“State” means the State of South Dakota.

“State Administration Accounts” means the Accounts of the Administration Funds so designated in the Master Indenture.

“State Match Bond Accounts” means the Accounts of the Bond Funds so designated in the Master Indenture.

“State Match Loan Accounts” means the Accounts of the Loan Funds so designated as described in the Master Indenture.

“State Match Note Accounts” means the Accounts of the Bond Funds so designated in the Master Indenture.

“State Match Portion” means, with respect to any principal or interest on any Bonds or Notes, the portion of such principal or interest determined in accordance with Section 4.01 of the Master Indenture, including, if applicable, the Adjusted State Match Portion.

“State Match Reserve Accounts” means the Accounts of the Reserve Funds so designated in the Master Indenture.

“State Match Reserve Requirement” shall have the meaning assigned in any Series Resolution, except that for all Existing Bonds it shall mean the largest amount of the State Match Portion of principal (including Sinking Fund Installments) and interest in the then current or any succeeding calendar year on the Allocable Portion of all Existing Bonds Outstanding under the Master Indenture which (or the relevant portion of which) are secured by a lien on or pledge of amounts on deposit in the Special Reserve Account and Unrestricted Reserve Account.

“Supplemental Indenture” means an indenture supplemental to the Master Trust Indenture for the purpose of establishing terms, conditions or other details with respect to a specific series of Bonds or Notes and related matters.

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

“Term Bonds” means the Bonds of any Series so designated in the Series Resolution.

“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.

“Total Reserve Requirement” shall have the meaning assigned in any Series Resolution, except that for all Existing Bonds it shall mean the largest amount of principal (including Sinking Fund Installments) and interest scheduled to be due and payable in the then current or any succeeding calendar year with respect to the Allocable Portion of all Existing Bonds Outstanding under the Master Indenture

which (or the relevant portion of which) are secured by a lien on or pledge of amounts on deposit in one or more accounts in the Reserve Fund.

“Transfer Date” means, with respect to a Series of Bonds or Notes, the date established pursuant to Section 4.01(b) of the Master Indenture or Section 5.19(a) of the Master Indenture.

“Trustee” means The First National Bank in Sioux Falls and any successor or successors at any time substituted in its place as Trustee pursuant to the Master Indenture.

“Unrestricted Cumulative Excess Interest Repayments Subaccounts” means the Subaccounts so designated within the Unrestricted Interest Repayments Accounts of the Revenue Funds as described in the Master Indenture.

“Unrestricted Interest Repayments Accounts” means the Accounts of the Revenue Funds so designated in the Master Indenture.

“Unrestricted Reserve Accounts” means the Accounts of the Reserve Funds so designated in the Master 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.

“Valuation Date” means each date on which the balances in the Restricted Reserve Account, the State Match Reserve Account and the Unrestricted Reserve Account of each Reserve Fund are determined by the Trustee as required by the Master 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 or Notes 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 or Notes 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.

Funds on deposit from time to time in the Restricted Cumulative Excess Principal Repayments Subaccount and the Unrestricted Cumulative Excess Interest Repayments Subaccounts for each Program and not required to be applied to provide for payment of principal or interest with respect to the Outstanding Bonds of either Program are defined in the Master Indenture as “Excess Revenues”. The Master Indenture provides that any Excess Revenues shall be transferred to the related principal or interest accounts in the Note Payment Fund to pay principal or interest on Notes as and when due, but subject to the same restrictions as to State Match Portion and Leveraged Portion of debt service on Notes as are applicable with respect to Bonds as described above.

Bond Fund. The Bond Fund for each State Revolving Fund consists of a State Match Bond Account, a Leveraged Bond Account, a State Match Note Account, a Leveraged Note 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.

Following all of the transfers and applications described above with respect to provision for payment of debt service on the Bonds of either Program, on each Bond Payment Date, the Master Indenture provides that the Trustee shall also make any certain transfers of Excess Clean Water Revenues and/or Excess Drinking Water Revenues to the applicable Note Payment Accounts to provide for the payment of the Leveraged Portion and the State Match Portion of the principal and interest with respect to Notes due on such Bond Payment Date, provided, however, in all cases the Trustee shall first apply any proceeds of Refunding Bonds for such purposes to the extent available on such Bond Payment Date as provided in any applicable Series Resolution..

Under no circumstances shall any amounts be transferred directly to the State Match Bond Account or State Match Note Account from the Leveraged Loan Account or Federally Capitalized Loan Account of either Loan Fund, the Restricted Principal Repayments Account of either Revenue Fund, the Leveraged Bond Account of either Bond Fund or the Restricted Reserve Account of either Reserve Fund or the SRF Administration Account of either 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 under the Master Indenture (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 2012 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; (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) or (g) the South Dakota Cash Flow Fund provided the District determines that such fund invests solely in investments authorized by SDCL 4-5-26 or other investments which the District is authorized to acquire and hold.

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 (x) the principal and interest due in such year on the State Match Portion and the Leveraged Portion on all then Outstanding Bonds (but expressly excluding Outstanding Notes and interest thereon which are intended to be refunded from the proceeds of Refunding Bonds to be issued) and (y) the principal and interest estimated to be due and payable in each such year on the State Match Portion and the Leveraged Portion of all Refunding Bonds to be issued as to refund Outstanding Notes (calculated as described below under the subcaption "**Additional Series of Bonds or Notes**") 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 (x) the principal and interest due in such year on the State Match Portion and the Leveraged Portion on all then Outstanding Bonds (but expressly excluding Outstanding Notes and interest thereon which are intended to be refunded from the proceeds of Refunding Bonds to be issued) and (y) the principal and interest estimated to be due and payable in each such year on the State Match Portion and the Leveraged Portion of all Refunding Bonds to be issued as to refund Outstanding Notes (calculated as described below under the subcaption "**Additional Series of Bonds or Notes**").

Upon satisfaction of the foregoing, 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 or Notes

The District anticipates the issuance of additional Series of Bonds and Notes from time to time under the Master Indenture. The Master Indenture permits the issuance of additional Series of Bonds and Notes 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 then Outstanding 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 (A) Refunding Bonds issued to pay principal of or interest on Bonds for the payment of which sufficient funds are not expected to be available and (B) Bonds issued to refund Notes) a Coverage Certificate, with supporting schedules, estimating that, as of each Bond Year, Projected Revenues 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 (x) all Bonds then Outstanding (except Bonds and Notes and interest thereon to be refunded from the proceeds of the Bonds or Notes to be issued), (y) the State Match Portion of Bonds to be issued, and (z) principal and interest estimated to be due and payable on Refunding Bonds to be issued as State Match Portion Refunding Bonds to refund Notes calculated as described in the immediately succeeding paragraph, 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 (x) all Bonds then Outstanding (except Bonds and Notes and interest thereon to be refunded from the proceeds of the Bonds or Notes to be issued), (y) the Leveraged Portion of Bonds to be issued and (z) principal and interest estimated to be due and payable on Refunding Bonds to be issued as Leveraged Portion Refunding Bonds to refund Notes calculated as described in the immediately succeeding paragraph. For purposes of the foregoing, interest payable on any future Bond Payment Date with respect to (i) any Bonds or proposed Bonds with respect to which a Qualified Interest Rate Agreement applies shall be calculated as provided in the Master Indenture and any related Series Resolution and (ii) any Variable Rate Bonds shall be calculated as provided in the Master Indenture and any related Series Resolution.

For purposes of calculating the State Match Portion and Leveraged Portion of debt service, any Coverage Certificate (A) shall disregard principal and interest due or to become due with respect to any Notes which will be Outstanding during any such period and (B) shall include estimated principal and interest amounts to become due as a result of the issuance of Refunding Bond the proceeds of which are to be used to pay the Redemption Price of any such Notes; provided, if Notes are to be issued to refund Outstanding Notes, the interest on such refunding Notes shall be taken into account for the period such Notes are expected to remain Outstanding. For purposes of such estimates, the Coverage Certificate shall assume such Refunding Bonds shall be issued on a date within three months of the stated maturity date of the Notes to be refunded, with substantially level annual debt service for a stated term of not to exceed twenty-five years, and bearing interest at a rate or rates which are 100 basis points (1.0% per annum) in excess of the then applicable rates for comparable maturities of municipal bonds of comparable credit

rating as set forth in a nationally recognized municipal market publication, including, without limitation, interest rate scales published by Municipal Market Data, a division of Thomson Reuters, any successor or any other similar nationally recognized service.

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 or Note 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 or Notes, 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 and Notes 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 Holders of Bonds or Notes under the Bonds, the Notes 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 Holders of the Bonds and Notes 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 or Notes 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 or Notes;
- (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 and Notes;
- (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 or Notes; and
- (v) Enforcement of any other right of the Holders of Bonds or Notes 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 and Notes 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 Holders of Bonds or Notes, 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 or Notes 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 and Notes 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 Bonds or Notes secured by the credit enhancement provided by such credit enhancement provider.

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 plus any Refunding Bonds expected to be issued to provide for the payment of the redemption price of any Outstanding Notes. 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) above in this paragraph to any Rating Agency then maintaining a rating with respect to any Outstanding Bonds or Notes.

Covenants and Miscellaneous

The District covenants and agrees, so long as the Bonds or Notes 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 and Notes. 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 and Note 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 or Notes, as applicable.

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 Holder who makes a written request with the Trustee. The report is required to include a schedule of outstanding Bonds and Notes, 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.

EXISTING LOAN OBLIGATIONS

**Drinking Water Loans in Repayment
(as of December 31, 2011)**

<u>Loan</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>	<u>Final Payment Date</u>	<u>Security</u>
Aberdeen #2	\$ 1,197,106	2.25%	4/15/2026	Sales Tax
Baltic	173,073	3.50%	1/15/2024	Water Rev.
Baltic #2	143,811	2.25%	7/15/2021	Water Rev.
BDM Rural Water (N)	192,594	3.50%	1/15/2024	Water Rev.
Big Stone City #1	291,085	5.25%	10/1/2019	GO & Water
Big Stone City #2	105,722	3.50%	7/1/2025	GO & Water
Black Hawk WUD #1	262,161	5.25%	1/1/2020	Water Rev.
Black Hawk WUD #2	1,008,390	3.25%	4/15/2030	Water Rev.
Brandon	526,271	4.75%	1/1/2015	Water Rev.
Britton	204,949	4.50%	7/1/2022	Water Rev.
Brookings Deuel RWS #1 (N)(D)	906,661	3.25%	4/15/2037	Water Rev.
Brookings Deuel RWS #2 (N)(D)	1,618,839	3.25%	1/15/2038	Water Rev.
Bryant (D)	108,361	3.00%	1/1/2032	Water Rev.
Burke	102,536	2.50%	1/15/2037	Water Rev.
Canistota (D)	111,333	3.00%	4/15/2041	Water Rev.
Canton	363,132	3.50%	12/1/2024	Water Rev.
Centerville (D)	735,374	3.25%	1/1/2035	Water Rev.
Chamberlain	253,558	3.25%	7/15/2029	Sales Tax
Chamberlain #2	611,593	3.00%	10/15/2031	Sales Tax
Chancellor	186,266	3.25%	7/15/2037	Water Rev.
Clay RWS #1 (N)(D)	3,941,767	3.25%	7/15/2037	Water Rev.
Clay RWS #2 (N)	142,687	3.00%	11/15/2040	Water Rev.
Clear Lake (D)	394,987	3.00%	10/1/2030	Water Rev.
Colonial Pine Hills	402,862	3.50%	1/1/2023	Water Rev.
Colonial Pine Hills #2	732,724	3.00%	4/1/2031	Water Rev.
Colton (D)	532,924	3.50%	7/1/2034	Water Rev.
Corson Village	57,067	3.00%	4/15/2031	Project Fee
Crooks	103,967	3.25%	7/15/2025	Water Rev.
Custer	550,986	3.50%	2/15/2024	Water Rev.
Dakota Dunes	20,213	3.50%	7/1/2012	Water Rev.
Dell Rapids #1	455,536	3.50%	1/15/2025	Water Rev.
Dell Rapids #2	132,644	3.25%	1/15/2027	Water Rev.
Delmont (D)	151,794	2.50%	10/15/2039	Project Fee
DeSmet (D)	228,097	2.25%	1/15/2041	Water Rev.
Elk Point #1	142,161	3.50%	1/15/2023	Water Rev.
Elk Point #2	454,706	3.25%	7/15/2026	Water Rev.
Elk Point #3	101,707	3.25%	7/15/2028	Water Rev.
Elk Point #4	519,958	3.25%	10/15/2030	Water Rev.
Elk Point #5	351,138	3.00%	10/15/2031	Project Fee
Eureka	76,866	0.00%	7/15/2017	Project Fee
Fall River #1 (D)	576,856	3.00%	10/1/2031	Water Rev.
Fall River #2 (D)	205,590	2.50%	4/1/2033	Water Rev.
Garretson (D)	922,175	3.50%	7/1/2034	Water Rev.
Gregory (D)	271,534	2.50%	1/1/2033	Water Rev.
Groton #1	324,200	3.50%	1/15/2025	Sales Tax
Groton #2	243,781	3.25%	4/15/2026	Sales Tax
Hanson RWS (N)(D)	257,383	3.00%	11/15/2031	Water Rev.
Harrisburg #1	332,344	5.00%	1/1/2022	Water Rev.
Harrisburg #2	\$ 1,148,704	3.25%	10/15/2028	Water Rev.
Harrisburg #3	1,708,006	3.25%	1/15/2031	Water Rev.

<u>Loan</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>	<u>Final Payment Date</u>	<u>Security</u>
Hartford #2	569,149	3.50%	1/15/2024	Water Rev.
Hartford #3	918,612	3.25%	4/15/2027	Water Rev.
Hermosa	156,341	5.00%	1/1/2020	Water Rev.
Hill City (D)	133,364	3.00%	4/15/2041	Project Fee
Humboldt	418,301	3.25%	4/15/2028	Project Fee
Huron	2,869,605	3.50%	4/1/2024	Water Rev.
Huron #2	376,621	3.00%	4/15/2031	Water Rev.
Ipswich (D)	306,050	3.00%	10/15/2041	Project Fee
Keystone	496,004	3.25%	4/15/2026	Sales Tax
Kingbrook #1 (N)(D)	321,051	0.00%	4/1/2032	Water Rev.
Kingbrook #2 (N)(D)	1,825,969	3.25%	10/1/2035	Water Rev.
Kingbrook #3 (N)	2,564,125	3.25%	4/1/2027	Water Rev.
Kingbrook #4 (N)	2,041,723	3.25%	10/1/2028	Water Rev.
Lead #1	23,387	4.50%	1/1/2013	Water Rev.
Lead #2 (D)	166,236	3.25%	10/1/2035	Water Rev.
Lead #3 (D)	456,351	3.00%	1/1/2032	Water Rev.
Lennox (D)	1,808,865	3.25%	4/15/2037	Water Rev.
Lincoln Co RWS (N)	795,152	3.50%	1/15/2025	Water Rev.
Martin (D)	782,641	2.50%	10/15/2035	Water Rev.
McLaughlin (D)	303,763	2.50%	4/15/2036	Water Rev.
Mellette (D)	25,281	3.00%	1/15/2042	Water Rev.
Milbank (D)	3,309,084	2.50%	10/15/2035	Project Fee
Miller	192,160	2.50%	1/15/2020	Water Rev.
Mina Lake San & Water Dist	142,868	5.00%	10/1/2020	Water Rev.
Minnehaha CWC (N)	4,301,607	3.50%	7/15/2024	Water Rev.
Mitchell	2,035,636	4.00%	4/1/2024	Water Rev.
Mitchell #2	1,548,421	3.00%	1/1/2032	Project Fee
Mobridge #3 (D)	194,692	2.50%	1/15/2038	Water Rev.
Mobridge #4 (D)	57,324	2.50%	4/15/2038	Water Rev.
New Underwood	99,710	3.00%	4/15/2031	Water Rev.
Newell (D)	418,578	2.25%	1/15/2042	Project Fee
Nisland (D)	256,667	0.00%	1/1/2034	Project Fee
Northville	33,427	3.00%	1/15/2032	Project Fee
Parker #1	597,070	3.25%	1/15/2027	Water Rev.
Parker #2	187,906	3.25%	10/15/2028	Project Fee
Parker #3	98,313	3.00%	10/15/2030	Project Fee
Pierre #1	456,534	3.50%	1/1/2018	Water Rev.
Pierre #2	1,183,308	3.50%	10/1/2020	Water Rev.
Platte	133,553	2.50%	1/15/2016	Water Rev.
Rapid City #2	1,949,270	3.00%	10/15/2031	Water Rev.
Redfield #1	45,910	4.50%	10/1/2020	Water Rev.
Redfield #2 (D)	217,521	2.50%	10/1/2039	Water Rev.
Salem #1	36,815	3.50%	7/15/2014	Water Rev.
Salem #2	272,314	3.25%	4/15/2027	Water Rev.
Salem #3 (D)	1,275,906	3.25%	4/15/2039	Project Fee
Scotland (D)	197,984	2.50%	4/15/2035	Sales Tax
Sioux Falls #2	354,081	4.50%	1/1/2013	Water Rev.
Sioux Falls #3	2,236,878	3.50%	4/1/2014	Water Rev.
Sioux Falls #4	101,622	3.50%	1/1/2015	Water Rev.
Sioux Falls #5	5,757,169	2.50%	7/1/2016	Water Rev.
Sioux Falls #6	8,936,553	2.50%	1/15/2020	Water Rev.
Sioux Falls #7	1,853,483	2.50%	1/15/2020	Water Rev.

<u>Loan</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>	<u>Final Payment Date</u>	<u>Security</u>
Sioux Falls #8	1,663,323	2.50%	7/15/2019	Water Rev.
Sioux Falls #9	2,248,515	2.25%	1/15/2021	Water Rev.
Sioux Falls #10	4,889,296	2.25%	1/15/2021	Water Rev.
South Lincoln RWS (N)	1,533,744	3.50%	1/15/2025	Water Rev.
Sturgis #2	510,633	2.25%	1/15/2021	Water Rev.
Tea #1	1,942,862	3.25%	1/15/2028	Water Rev.
Tripp (D)	177,778	2.50%	4/15/2033	Water Rev.
Tripp County WUD #1 (D)	2,887,465	2.50%	10/15/2034	Water Rev.
Tripp County WUD #2 (D)	100,793	0.00%	10/15/2034	Water Rev.
Tyndall #2 (D)	731,791	2.50%	10/1/2035	Water Rev.
Vermillion #1	435,034	5.00%	7/1/2020	Water Rev.
Vermillion #2	1,059,603	3.50%	7/1/2024	Water Rev.
Vermillion #3 (D)	3,099,938	2.50%	1/1/2028	Project Fee
Viborg	95,821	3.25%	7/15/2029	Water Rev.
Wagner #1 (D)	675,000	0.00%	10/15/2038	Water Rev.
Wagner #2 (D)	153,125	0.00%	1/15/2038	Water Rev.
Watertown	23,163,397	3.25%	7/1/2030	Project Fee
Waubay (D)	697,643	2.50%	10/15/2038	Project Fee
Webster	213,431	3.50%	7/1/2023	Water Rev.
Wolsey #1	191,413	3.25%	7/15/2027	Sales Tax
Wolsey #2	155,131	3.25%	7/15/2030	Sales Tax
Woonsocket (D)	296,580	3.00%	1/15/2042	Water Rev.
Worthing	217,566	3.50%	4/1/2025	Water Rev.
Yankton #1	2,396,163	3.50%	10/1/2023	Water Rev.
Yankton #2	823,045	3.25%	7/15/2029	Water Rev.
Yankton #3	1,794,778	3.00%	10/15/2031	Water Rev.
Yankton #4	<u>1,943,558</u>	3.00%	4/15/2031	Water Rev.
	<u>\$134,526,565</u>			

(N) Nonprofit Borrower

(D) Disadvantaged Community

Other Drinking Water Loans Closed (Not in Repayment)

<u>Loan</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>First Payment Date</u>	<u>Loan Term</u>	<u>Security</u>
Butte Meade San Water District	\$ 311,700	2.25%	1/1/2014	10 years	Water Rev.
Clay RWS #3 (N)(D)	1,708,000	3.00%	4/1/2013	30 years	Water Rev.
Clay RWS #4 (N)	1,369,758	2.00%	1/1/2014	3 years	RD Financing
Dell Rapids	531,835	3.00%	1/1/2014	20 years	Water Rev.
Faulkton (D)	115,820	3.00%	7/1/2013	30 years	Water Rev.
Gayville (D)	420,000	3.00%	7/1/2013	30 years	Project Fee
Hot Springs	1,636,000	3.00%	1/1/2014	20 years	Water Rev.
Huron #3	1,098,600	3.00%	1/1/2014	20 years	Water Rev.
Mid Dakota RWS (N)	2,979,054	3.00%	1/1/2014	20 years	Water Rev.
Mina Lake SWD	283,695	3.00%	4/15/2012	20 years	Water Rev.
Montrose (D)	300,000	3.00%	10/1/2013	30 years	Water Rev.
Oacoma	1,351,300	2.25%	4/1/2013	10 years	Sales Tax
Sioux Falls #11	4,000,000	2.25%	4/1/2013	10 years	Water Rev.

<u>Loan</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>First Payment Date</u>	<u>Loan Term</u>	<u>Security</u>
South Lincoln RWS (N)(D)	232,000	3.00%	7/1/2013	30 years	Water Rev.
Sturgis #3	3,460,000	2.00%	1/1/2014	30 years	RD Financing
TM Rural WD	1,084,750	3.00%	1/1/2014	30 years	Water Rev.
Trail West SD (D)	825,500	3.00%	1/1/2014	20 years	Project Fee
Viborg (D)	117,000	3.00%	7/1/2013	30 years	Water Rev.
Webster #2	<u>237,400</u>	2.25%	1/1/2014	10 years	Water Rev.
	<u>\$22,062,412</u>				

Drinking Water Loans Approved, But Not Closed

	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Loan Term</u>
Letcher (D)	\$ 200,000	3.00%	30
Piedmont	600,000	2.25%	20
Vermillion (D)	1,378,800	3.00%	30
Plankinton (D)	756,000	3.00%	30
Pierpont (D)	137,800	3.00%	30
Doland (D)	387,200	2.25%	30
Menno	117,750	2.25%	10
Colton	158,055	2.25%	10
Dell Rapids	<u>270,000</u>	3.00%	10
	<u>\$4,005,605</u>		

(N) Nonprofit Borrower
(D) Disadvantaged Community

**Clean Water Loans in Repayment
(as of December 30, 2011)**

<u>Loan</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>	<u>Final Payment Date</u>	<u>Security</u>
Aberdeen #1	\$ 10,162,820	2.25%	10/15/2027	Project Fee
Aberdeen NPS #1	1,032,069	2.25%	10/15/2027	Project Fee
Aberdeen #2	5,020,644	3.25%	4/15/2030	Project Fee
Aurora	197,128	5.00%	1/1/2022	Sewer Rev.
Aurora #2	229,611	3.25%	10/15/2041	Project Fee
Baltic #1	280,835	3.50%	1/15/2024	Sewer Rev.
Baltic #2	147,214	3.00%	7/15/2031	Sewer Rev.
Belle Fourche #1	16,568	3.00%	1/1/2013	Project Fee
Black Hawk San. District	362,432	3.50%	10/15/2025	Sewer Rev.
Brandon #4	321,654	2.25%	1/15/2021	Sewer Rev.
Bridgewater #2	262,897	3.25%	1/15/2027	Sewer Rev.
Britton #2	211,862	3.50%	10/1/2024	Sewer Rev.
Brookings #2	670,090	3.00%	10/15/2031	Sales Tax
Burke #1	133,030	3.25%	1/15/2028	Sewer Rev.
Canistota	193,705	3.25%	1/15/2041	Sewer Rev.
Canton #2	435,711	3.50%	12/1/2024	Sewer Rev.
Canton #3	1,576,566	3.00%	3/1/2031	Sewer Rev.
Castlewood #1	144,505	3.50%	7/15/2023	Sewer Rev.
Castlewood #2	130,794	3.25%	1/15/2027	Sewer Rev.
Centerville #1	346,146	3.50%	4/1/2024	Sewer Rev.
Clark #1	293,324	3.50%	1/15/2025	Sewer Rev.
Clear Lake #2	547,423	3.25%	7/15/2026	Sewer Rev.
Colton #1	151,433	3.25%	10/15/2027	Sewer Rev.
Crooks #1	390,980	3.25%	10/15/2029	Sewer Rev.
Dell Rapids #2	464,999	3.25%	4/15/2027	Sewer Rev.
Dell Rapids #3	953,416	3.25%	1/15/2029	Sewer Rev.
Dell Rapids #4	898,092	3.25%	4/15/2030	Sewer Rev.
Elk Point #2	308,026	3.50%	4/15/2023	Sewer Rev.
Elk Point #4	88,858	3.25%	7/15/2028	Sewer Rev.
Elk Point #5	138,982	3.25%	10/15/2029	Sewer Rev.
Elk Point #6	547,056	3.00%	10/15/2031	Project Fee
Elkton	375,464	3.00%	1/15/2032	Project Fee
Fort Pierre #2	222,437	3.50%	4/1/2018	Sewer Rev.
Fort Pierre #3	348,826	3.50%	6/1/2026	Sewer Rev.
Fort Pierre #5	204,307	3.00%	7/1/2031	Sales Tax
Freeman #1	144,279	2.50%	4/15/2016	Sewer Rev.
Freeman #2	741,239	3.25%	10/15/2029	Sales Tax
Garretson #2	480,629	3.25%	10/15/2030	Sewer Rev.
Gayville #1	41,455	3.25%	4/15/2014	Sales & Sewer
Gettysburg	525,897	3.00%	4/15/2031	Sewer Rev.
Gregory	237,128	3.00%	4/15/2031	Sewer Rev.
Groton #3	223,828	5.25%	1/1/2019	Sewer Rev.
Groton #4	90,521	3.50%	7/15/2024	Sales Tax
Groton #5	324,200	3.50%	1/15/2025	Sewer Rev.
Groton #6	53,228	3.25%	7/15/2029	Sales Tax
Groton #7	\$ 179,086	3.00%	1/15/2032	Sewer Rev.

<u>Loan</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>	<u>Final Payment Date</u>	<u>Security</u>
Harrisburg #3	2,544,036	3.25%	1/1/2042	Sales Tax
Harrold #1	153,740	3.25%	1/15/2030	Sales Tax
Hartford #1	319,363	5.00%	4/1/2022	Sewer Rev.
Hartford #2	438,251	5.00%	4/1/2022	Sales Tax
Hartford #3	186,757	3.50%	10/1/2022	Sewer Rev.
Hartford #4	382,521	3.50%	1/15/2024	Sewer Rev.
Hartford #5	459,834	3.25%	10/15/2028	Sewer Rev.
Hecla #1	54,218	3.00%	1/15/2032	Project Fee
Highmore	181,588	3.50%	1/1/2024	Sales & Sewer
Hot Springs NPS #1	251,367	5.00%	10/1/2015	Solid W. & Sales
Huron #3	688,553	5.25%	3/10/2017	Sewer Rev.
Jefferson	124,183	3.50%	4/15/2025	Sewer Rev.
Lake Cochrane San. Dist. #2	113,489	3.50%	1/15/2025	Sewer Rev.
Lake Madison San. Dist. #2	451,902	3.50%	1/1/2025	Sewer Rev.
Lake Poinsett San Dist #2	1,046,741	3.50%	7/15/2039	Sewer Rev.
Lead #4	29,016	4.50%	1/1/2013	Sewer Rev.
Lead #5	165,845	3.25%	10/1/2025	Sewer Rev.
Lead #6	218,843	3.25%	7/1/2029	Sewer Rev.
Lennox #1	128,993	5.25%	1/1/2017	Sewer Rev.
Lennox #2	281,826	5.25%	1/1/2019	Sewer Rev.
Lennox #4	1,520,385	3.25%	1/15/2042	Project Fee
Madison #2	4,621,847	3.25%	10/15/2029	Sewer Rev.
Marion	1,644,534	3.50%	1/15/2041	Sewer Rev.
McCook Lake San. Dist.	97,284	5.00%	12/1/2013	Sewer Rev.
Milbank #1	901,244	3.00%	1/15/2032	Project Fee
Milbank #2	212,307	3.25%	1/15/2042	Project Fee
Mitchell #2	1,017,954	3.50%	10/1/2025	Solid Waste
Mitchell #3	1,487,055	2.00%	1/15/2031	Sewer Rev.
Mitchell #3 NPS	148,266	2.00%	7/15/2031	Sewer Rev.
Mobridge #3	82,796	4.50%	4/1/2012	Sales Tax
Montrose #1	24,817	2.50%	10/15/2017	Sewer Rev.
Montrose #2	6,377	3.25%	1/15/2042	Project Fee
Nisland	168,983	3.25%	1/1/2027	Project Fee
Parker #1	328,769	3.25%	10/15/2025	Sewer Rev.
Parker #2	429,079	3.25%	10/15/2028	Project Fee
Parker #3	221,775	3.25%	7/15/2041	Project Fee
Parkston #1	595,001	3.25%	1/15/2030	Sewer Rev.
Philip #2	150,334	5.25%	12/1/2018	Sales & Sewer
Philip #3	227,530	3.25%	1/1/2022	Sales Tax
Pickerel Lake #1	107,117	5.25%	1/1/2018	Sewer Rev.
Pierre #4	870,876	3.50%	1/1/2025	Sales Tax
Pierre #5	610,615	3.25%	4/15/2031	Sales Tax
Rapid City #6	3,582,978	3.00%	10/15/2031	Sewer Rev.
Rapid Valley San. Dist. #3	269,659	5.25%	1/1/2018	Sewer Rev.
Salem #1	370,265	3.50%	7/15/2024	Sewer Rev.
Salem #2	309,036	3.25%	7/15/2026	Sewer Rev.
Scotland #1	186,927	3.50%	4/15/2025	Sales Tax
Sioux Falls #1	109,041	3.00%	7/15/2012	Sewer Rev.
Sioux Falls #14	\$ 300,168	4.50%	6/15/2012	Sewer Rev.
Sioux Falls #15	469,131	3.50%	10/15/2014	Sewer Rev.

<u>Loan</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>	<u>Final Payment Date</u>	<u>Security</u>
Sioux Falls #16	874,730	3.50%	1/15/2015	Sewer Rev.
Sioux Falls #17	194,413	3.50%	1/15/2015	Storm Sewer
Sioux Falls #18	1,947,244	2.50%	7/1/2016	Sewer Rev.
Sioux Falls #19	210,240	2.50%	7/1/2016	Storm Sewer
Sioux Falls #20 NPS	710,221	1.50%	4/15/2017	Storm Sewer
Sioux Falls #20A	9,095,568	1.50%	4/15/2017	Storm Sewer
Sioux Falls #20B	4,945,715	1.50%	4/15/2017	Storm Sewer
Sioux Falls #21 NPS	2,922,038	2.25%	4/15/2027	Sewer Rev.
Sioux Falls #21A	10,115,116	2.25%	4/15/2027	Sewer Rev.
Sioux Falls #21B	14,159,665	2.25%	4/15/2027	Sewer Rev.
Sioux Falls #22	6,642,507	2.50%	10/15/2017	Sales Tax
Sioux Falls #23	7,239,960	2.50%	7/15/2018	Sewer Rev.
Sioux Falls #24	296,344	2.50%	10/15/2015	Solid Waste Rev.
Sioux Falls #25	3,028,225	2.50%	1/15/2020	Sewer Rev.
Sioux Falls #26	3,310,671	2.50%	4/15/2020	Sewer Rev.
Sioux Falls #27	2,305,504	2.50%	4/15/2020	Storm Sewer
Sioux Falls #28	1,564,439	2.25%	1/15/2021	Sewer Rev.
Sioux Falls #29	1,017,665	2.25%	1/15/2021	Sewer Rev.
Sioux Falls #30	4,377,307	2.25%	1/15/2021	Sewer Rev.
Sioux Falls #31	1,499,673	2.25%	10/15/2020	Solid Waste
Southern Missouri WMD	115,180	5.00%	10/1/2017	Solid Waste
Spearfish #2	5,349,396	3.25%	4/15/2030	Sewer Rev.
Spencer #1	85,445	3.25%	1/15/2042	Project Fee
Sturgis #5	287,542	3.00%	10/15/2030	Project Fee
Tea #3	85,362	5.25%	1/1/2018	Sales Tax
Tea #4	67,366	5.00%	1/1/2014	Sewer Rev.
Tea #5	343,024	3.50%	4/1/2024	Sewer Rev.
Tea #6	706,689	3.25%	1/15/2029	Sewer Rev.
Tea #7	821,584	3.00%	1/15/2031	Sewer Rev.
Tyndall #1	713,715	3.25%	1/15/2029	Project Fee
Valley Springs #1	220,139	5.25%	10/1/2019	Sewer Rev.
Valley Springs #2	273,987	3.25%	1/1/2026	Sales Tax
Vermillion #1	10,187	3.00%	3/1/2013	Sewer Rev.
Vermillion #3	195,816	3.50%	9/1/2024	Sewer Rev.
Vermillion #4	2,626,090	3.25%	7/1/2026	Sewer Rev.
Vermillion #5	4,025,212	3.25%	7/1/2030	Project Fee
Vermillion #6	240,247	3.00%	1/1/2031	Sewer Rev.
Wagner #1	124,186	3.25%	1/15/2029	Sewer Rev.
Wall Lake San. District	119,246	3.50%	10/1/2023	Sewer Rev.
Watertown #3	919,879	5.25%	10/1/2016	Sewer Rev.
Watertown #5	1,600,233	3.50%	1/1/2025	Project Fee
Watertown #6	1,044,257	2.25%	4/1/2029	Sales Tax
Watertown #6 NPS	98,760	2.25%	7/1/2028	Sales Tax
Watertown #7	718,399	2.25%	1/1/2029	Project Fee
Watertown #7 NPS	72,079	2.25%	1/1/2029	Project Fee
Watertown #8	466,037	2.25%	1/1/2029	Sales Tax
Watertown #8 NPS	52,145	2.25%	1/1/2029	Sales Tax
Watertown #9	\$ 8,177,901	3.00%	4/1/2031	Project Fee
Watertown #10	2,303,608	3.00%	4/1/2031	Sales Tax
Webster #2	540,524	3.50%	7/1/2023	Sewer Rev.

<u>Loan</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>	<u>Final Payment Date</u>	<u>Security</u>
Weston Heights San Dist	523,479	3.25%	4/15/2028	Sewer Rev.
Whitewood #2	112,546	5.00%	7/1/2021	Sewer Rev.
Willow Lake	72,461	3.50%	1/15/2025	Sewer Rev.
Winner	824,795	3.25%	10/15/2028	Sewer Rev.
Wolsey	153,432	3.25%	4/15/2030	Sewer Rev.
Worthing #1	91,578	5.25%	7/1/2017	GO & Sewer
Worthing #2	545,422	3.50%	4/15/2040	Project Fee
Yankton #3	<u>4,159,396</u>	3.50%	10/1/2023	Sewer Rev.
	<u>\$175,489,200</u>			

**Other Clean Water Loans Closed
(Not in Repayment)**

<u>Loan</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>First Payment Date</u>	<u>Loan Term</u>	<u>Security</u>
Brookings #3	\$ 598,500	3.00%	4/1/2013	20 years	Storm Sewer Rev.
Bridgewater #3	261,000	3.25%	4/1/2014	30 years	Sewer Rev.
Canistota #2	188,669	3.25%	7/15/2012	30 years	Sewer Rev.
Canova	92,500	3.25%	7/1/2013	30 years	Project Fee
Colton #2	189,200	3.00%	10/1/2013	20 years	Sewer Rev.
Dell Rapids #5	550,000	3.00%	1/15/2014	20 years	Sewer Rev.
Groton #8	241,500	2.25%	4/1/2013	10 years	Sales Tax
Groton #9	485,000	2.25%	1/1/2014	10 years	Sales Tax
Hot Springs #2	1,453,000	3.00%	1/1/2014	20 years	Sewer Rev.
Lead #7	150,000	3.00%	4/1/2013	20 years	Sewer Rev.
Martin	237,250	3.25%	4/1/2013	30 years	Project Fee
Menno	240,000	3.00%	4/1/2013	20 years	Sewer Rev.
Mount Vernon	1,250,000	3.25%	7/1/2013	30 years	Project Fee
Sioux Falls #32	23,400,000	1.25%	4/1/2013	10 years	Sewer Rev.
Sioux Falls #32NPS	1,189,400	1.25%	4/1/2013	10 years	Sewer Rev.
Sioux Falls #33	14,000,000	1.25%	1/1/2014	10 years	Sewer Rev.
Sioux Falls #33NPS	711,614	1.25%	4/1/2014	10 years	Sewer Rev.
Viborg	883,000	3.25%	4/1/2014	30 years	Project Fee
Watertown #11	509,127	3.00%	4/1/2013	20 years	Sales Tax
Wolsey #3	<u>901,560</u>	3.00%	4/1/2013	20 years	Sales Tax

\$47,531,320

Clean Water Loans Approved, But Not Closed

<u>Loan</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Loan Term</u>
Brant Lake Sanitary Dist.	\$1,700,000	3.25%	30
Richmond Lake San. Dist.	193,600	3.00%	20
Richmond Lake San. Dist.	339,800	3.25%	30
Hermosa	303,604	3.25%	30
Herried	694,300	3.25%	30
Northville	238,300	3.25%	30
Plankinton	855,744	3.25%	30
Brookings	483,538	3.00%	20
Scotland	945,930	3.25%	30
Interior	250,000	3.25%	30
Yale	279,000	3.25%	30
Warner	808,000	3.25%	30
Britton	<u>1,042,034</u>	3.00%	20
	<u>\$8,133,850</u>		

LIST OF POTENTIAL LOANS

Clean Water Projects

<u>Borrower</u>	<u>Expected Loan Amount</u>
Alpena	\$ 1,465,000
Andover	194,000
Baltic	764,700
Beresford #2	789,790
Brookings #5	549,476
Brookings #6	3,222,319
Centerville #2	435,471
Colman	1,217,748
Ethan	500,000
Fort Pierre #6	216,000
Hurley	973,464
Philip #5	750,000
Philip #6	1,073,300
Powder House Pass	2,575,218
Redfield #2	884,000
Summerset	225,000
Vermillion #7	1,639,000
Wall Lake #2	135,000
Winner	400,000
Worthing	459,832
Yankton #4	3,330,000
Aberdeen	1,602,000
Brookings #7	30,600,000
Canton #4	658,800
Custer #4	1,633,000
Dell Rapids #6	888,300
Ellsworth Development	19,891,000
Mobridge #4	764,000
Southern Missouri #2	450,000
Brookings #9	444,000
Pierre #6	2,000,000
Sioux Falls #35	12,000,000
Waubay #2	746,000
Crooks	425,000
	<u>\$ 93,901,418</u>

Drinking Water Projects

<u>Borrower</u>	<u>Expected Loan Amount</u>
Baltic #3	\$ 457,000
Beresford	458,020
Centerville	116,685
Colman	182,000
Colman #2	439,008
Lennox #2	312,431
Madison #2	3,464,360
Newell #2	100,000
Sturgis #3	2,200,000
Worthing #2	101,227
Aberdeen #3	1,040,000
Colonial Pine Hills #3	634,500
Dell Rapids #5	807,300
Hisega Meadows	243,750
Mid-Dakota RWS #4	611,150
Mobridge #6	1,090,800
Niche SD	127,500
Tripp WUD #2	850,000
Dupree	570,000
Twin Brooks	232,200
Wessington Springs	2,750,000
Beresford #2	182,000
Springfield	329,000
New Underwood #2	280,000
Winner	<u>3,250,000</u>
	<u>\$20,828,931</u>

OBLIGATED PERSONS

The City of Sioux Falls is the Borrower under the Drinking Water Program with the largest amount of outstanding Loan Obligations. Sioux Falls, with 153,888 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 eleven separate Loan Obligations with the District to finance improvements to its water system. The outstanding unpaid principal amount of such Loan Obligations as of December 31, 2011 was \$29,356,337 and the amount of undisbursed funds authorized to be drawn under such Loan Obligations was an additional \$7,471,946. These amounts exclude any portion subject to principal forgiveness. 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 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			
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
2007	18,044,570	2,290,664	10,262,761	10,072,473	-	2,368,558	2,803,686	5,172,244	1.95
2008	19,814,189	2,663,172	10,905,003	11,572,358	-	2,689,044	3,639,576	6,328,620	1.83
2009	20,980,694	147,323	11,406,759	9,721,258	-	2,931,120	3,496,683	6,427,803	1.51
2010	22,064,401	1,093,659	10,595,293	12,562,767	-	3,384,219	3,391,042	6,775,261	1.85

* 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 February 1, 2012 are as follows:

Retail Water Rates: As of February 1, 2012

Residential

Monthly Basic Charge	
5/8"	\$2.90
3/4"	3.91
1"	7.19
Volume charge-single family	
0-7 ccf	\$3.33
8-50 ccf	3.56
51 to 150 ccf	6.64
Over 150 ccf	9.97
Volume charge-multi-family	
Less than 2.5 monthly avg.	\$3.33
2.5 or more times monthly avg.	6.64

Commercial

Monthly Basic Charge	
5/8"	\$11.26
3/4"	12.26
1"	13.56
2"	21.71
Volume charge	
Less than 2.5 monthly avg.	\$2.80
2.5 or more times monthly avg.	5.59

Industrial

Monthly Basic Charge	\$1,285.55
Volume charge	
0-90,000 ccf	\$1.73
90-001-100,000 ccf	1.87
Over 100,000 ccf	1.91

The City of Sioux Falls has entered into 33 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 December 31, 2012 was \$93,874,489 and the amount of undisbursed funds authorized to be drawn under such Loan Obligations was an additional \$31,287,815. These amounts exclude any portion subject to principal forgiveness. 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 21 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 21 loans, 14 of the loans with an outstanding balance of \$67,975,304 and \$31,287,815 of undisbursed loan funds are payable from net revenues of wastewater facilities; one of the loans with an outstanding balance of \$6,642,507 carry of pledge of sales tax revenues but are paid from net revenues of wastewater facilities; four of the loans with an outstanding balance of \$17,460,661 are payable from storm drainage fee revenue; and two loans with an outstanding balance of \$1,796,017 are 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			
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
2007	10,612,568	1,529,864	6,262,300	5,880,132	--	2,130,698	1,063,139	3,193,837	1.84
2008	12,453,800	964,804	6,345,245	7,073,359	--	2,983,361	128,534	3,111,895	2.27
2009	14,371,411	1,747,637	6,845,487	9,273,561	--	3,636,666	1,165,858	4,802,524	1.95
2010	16,581,957	1,801,997	8,594,706	9,789,248	--	4,087,257	1,279,032	5,366,289	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 February 1, 2012

Monthly Residential Customers

Basic Charge	\$3.05
Volume Charge	\$2.87 per 100 cubic foot

Volume charge shall be based on actual water use for the months of December, January, February, and March. All other months shall be based on the average of actual water usage in the months of December, January, February, and March. 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	\$13.56
Volume Charge	\$3.52 per 100 cubic foot

Volume charge shall be based on actual water usage for all months.

Monthly Industrial Customers

Basic Charge	\$15.60
Flow per 1,000 gallons	\$1.59
BOD, per pound	0.2429
TSS, per pound	0.2429
TKN, per pound	0.8904
Grease, per pound (exceeding 100 mg/l)	0.8904

For industries discharging only nonprocessed domestic strength wastewater, the rate is \$4.71 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
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
2007	5,220,037	166,852	969,740	4,417,149	88,299	25,080	113,379	38.96
2008	7,403,220	190,083	1,381,954	6,211,349	91,055	25,116	116,171	53.47
2009	6,548,800	79,151	2,144,513	4,483,438	93,899	57,033	150,932	29.71
2010	6,967,165	87,259	1,777,327	5,277,097	191,914	65,519	257,433	20.50

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

Additional information relating to the financial 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.

FORM OF BOND COUNSEL OPINION

[To be dated the date of original issuance of the Series 2012 Bonds]

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

\$126,020,000
South Dakota Conservancy District
State Revolving Fund Program Bonds,
Series 2012

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 \$126,020,000 aggregate principal amount of its State Revolving Fund Program Bonds, Series 2012 (the "Series 2012 Bonds") consisting of \$69,995,000 principal amount of Taxable Revenue Bonds, Series 2012A (the "Series 2012A Bonds") and \$56,065,000 principal amount Revenue Bonds, Series 2012B (the "Series 2012B Bonds"). The Series 2012 Bonds are authorized by a Series Resolution of the District adopted on _____, 2012 (the "Series Resolution") and are issued under and pursuant to (i) the provisions of that certain Fifth Amended and Restated Master Trust Indenture dated as of September 1, 2010 as heretofore amended and supplemented (the "Master Indenture") 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 (collectively, the "Indenture").

The Series 2012 Bonds are issuable as fully registered bonds in the denomination of \$5,000 or any integral multiple of \$5,000. The Series 2012 Bonds mature on the dates specified in the Series Resolution and are subject to redemption prior to maturity as specified in the Bond Order (as defined in the Series Resolution).

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 2012 Bonds are special obligations of the District, payable solely from specific revenues and funds pledged therefor under the Master Indenture and Series Resolution. The Series 2012 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. 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 and Notes 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 Notes and (b) Clean Water Bonds and Notes 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 and Notes.

The Series 2012 Bonds are being issued by the District. The Refunded Bonds were issued to finance the making of 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.

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 2012 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 2012 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) The opinion dated of even date herewith of the Office 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;
- (d) An executed copy of the Tax Regulatory Agreement dated as of this date between the District and the Trustee relating to the Series 2012B Bonds (the “Series 2012B Tax Regulatory Agreement”);
- (e) A specimen Series 2012A Bond and a Specimen Series 2012B Bond; and
- (f) 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 2012 Bonds and to refund the Refunded Obligations and to assign and pledge to the Trustee the Trust Estate, as defined in the Indenture, to secure payment of the Series 2012 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 2012 Bonds.

2. The Series 2012 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. Interest on the Series 2012A Bonds, (the "Taxable Series Bonds") is *not* excluded from the gross income of the holders thereof for federal income tax purposes. Subject to the condition that the District and the Political Subdivisions comply with their respective covenants set forth in the Indenture and in the Series 2012B Tax Regulatory Agreement (with respect to the District) and in the Loan Agreements (with respect to the Political Subdivisions), under present law, interest on the Series 2012B Bonds is excluded from the gross income of the owners thereof for federal income tax purposes. Interest on the Series 2012B Bonds will not be included as an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations but will be included in the "adjusted current earnings" of certain corporations for purposes of computing the alternative minimum tax for such corporations. Further, a failure to comply with certain of the above-referenced covenants could cause interest on the Series 2012B Bonds to be included in gross income, in some cases retroactively to the date of issuance of the Series 2012B Bonds. Ownership of the Series 2012B 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 2012 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 2012B Bonds, the application of the proceeds of the Series 2012B Bonds and certain other matters pertinent to the tax-exempt status of the Series 2012B Bonds.

The obligations of the District and the security provided therefor, as contained in the Series 2012 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.

With respect to the Taxable Series Bonds, we advise you that this opinion is not intended or written to be used, and cannot be used by any purchaser of the Taxable Series Bonds, for the purpose of avoiding penalties that may be imposed on such purchaser under the federal income tax laws. This opinion is being delivered to support the promotion or marketing of the Taxable Series Bonds. Prospective purchasers of the Taxable Series Bonds should consult their own tax advisors concerning the particular federal, state, local, and foreign tax consequences of their ownership of Taxable Series Bonds.

We express no opinion with respect to the Loans heretofore made or to be made in the future to Political Subdivisions, whose obligations with respect to such Loans have been or are to be made subject

to the receipt of approving legal opinions from various other counsel at the times such Loans were heretofore made or are to be made.

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

Very truly yours,

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

This Continuing Disclosure Agreement (the “Agreement”) is executed and delivered by the South Dakota Conservancy District (the “District”) in connection with the issuance of \$126,020,000 State Revolving Fund Program Bonds, Series 2012 (the “Series 2012 Bonds”) consisting of \$69,995,000 principal amount of Taxable Revenue Bonds, Series 2012A (the “Series 2012A Bonds”) and \$56,065,000 principal amount Revenue Bonds, Series 2012B (the “Series 2012B Bonds”). The Series 2012 Bonds are being executed and delivered pursuant to a Fifth Amended and Restated Master Trust Indenture dated as of September 1, 2010 (as now or hereafter amended or supplemented, the “Master Indenture”) between the District and The First National Bank in Sioux Falls, as trustee (the “Trustee”), and a Series Resolution (as now or hereafter amended or supplemented, the “Series Resolution”) adopted by the South Dakota Board of Water and Natural Resources (the “Board”). The Master Indenture and Series Resolution are collectively referred to as the “Indenture.”

In consideration of the issuance of the Series 2012 Bonds by the District and the purchase of such Series 2012 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 2012 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, the Series Resolution which authorized the Series 2012 Bonds or any notification of sale or bond order relating thereto.

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.

EMMA means the MSRB’s Electronic Municipal Market System.

Material Event means the occurrence of any of the events with respect to the Series 2012 Bonds set forth in Exhibit II.

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.

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 dated _____, 2012 relating to the Series 2012 Bonds.

Prescribed Form means, with regard to the filing of Annual Financial Information Disclosure, District Audited Financial Statements, Obligated Person Audited Financial Statements and notices of Material Events with the MSRB at www.emma.msrb.org (or such other address or addresses as the MSRB may from time to time specify), such electronic format, accompanied by such identifying information, as shall have been prescribed by the MSRB and which shall be in effect on the date of filing of such information.

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.

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 2012 Bonds.

Section 3. CUSIP NUMBER. The CUSIP Numbers of the Series 2012 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 the MSRB 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 Prescribed Form and by such time so that such entities receive the information by the dates specified.

The District assumes no responsibility for the accuracy or completeness of the Obligated Person Annual Financial Information and Obligated Person Financial Statements.

The District covenants that, if necessary to comply with this Section 4, it will enforce the provisions of the Loan Agreements that require an Obligated Person to provide the District with certain financial and operational information in connection with the issuance of any District 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, not in excess of 10 business days after the occurrence of the event, Material Events Disclosure to the MSRB in Prescribed Form. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any Series 2012 Bonds or defeasance of any Series 2012 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 Master Indenture.

Section 6. DUTY TO UPDATE. The District shall determine, in the manner it deems appropriate, whether there has been a change in the MSRB's email address or filing procedures under EMMA each time it is required to file information with the MSRB.

Section 7. CONSEQUENCES OF FAILURE OF DISTRICT TO PROVIDE INFORMATION. The District shall give notice in a timely manner, not in excess of 10 business days after the due date, to MSRB in Prescribed Form, 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 2012 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 2012 Bonds under the Indenture. If this Section is applicable, the District shall give notice in a timely manner and in Prescribed Form to MSRB.

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 2012 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: _____, 2012

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 the MSRB 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 tables 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 compiled consistent with the state fiscal year end of June 30 and presented as part of the District's annual report to the United States Environmental Protection Agency which is compiled consistent with the federal year which currently ends on September 30) exclusive of District Audited Financial Statement will be provided to the MSRB 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 the MSRB 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 the MSRB 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 WITH RESPECT TO THE BONDS FOR WHICH
MATERIAL EVENTS DISCLOSURE IS REQUIRED

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security;
7. Modifications to rights of security holders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the District (when such event is considered to have occurred under the Rule);
13. The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

EXHIBIT III
CUSIP NUMBERS

\$69,995,000 Taxable Revenue Bonds, Series 2012A

YEAR OF MATURITY	CUSIP NUMBER (887545)
2012	
2013	
2014	
2015	
2016	
2017	
2018	
2019	
2020	
2021	
2022	
2023	
2024	
2025	
2026	

\$56,065,000 Revenue Bonds, Series 2012B

YEAR OF MATURITY	CUSIP NUMBER (837545)
2012	
2013	
2014	
2015	
2016	
2017	

2018	
2019	
2020	
2021	
2022	
2023	
2024	
2025	
2026	
2027	
2028	
2029	
2030	
2031	
2032	

APPENDIX G

GLOBAL BOOK-ENTRY FORM OF OWNERSHIP

The information in this Appendix concerning DTC and DTC's book-entry only system has been obtained from DTC and neither the District nor any Underwriter takes responsibility for the accuracy or completeness thereof.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchase of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive 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 Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the

identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in connection with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the District and the Bond Registrar, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District and the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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.

APPENDIX H

EXTRAORDINARY OPTIONAL REDEMPTION OF SERIES 2012A BONDS

AMORTIZED ISSUE PRICES AND REDEMPTION PRICES

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