

NEW ISSUE**Ratings:** (See "RATINGS" herein)

In the opinion of Perkins Coie LLP, Bond Counsel, subject to compliance with certain covenants made by the Authority, the South Dakota Board of Education and the Qualified Participating Institutions (as defined herein) to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended, under present law, interest on the Series 2014B Bonds is excluded from the gross income of the owners thereof for federal income tax purposes. Interest on the Series 2014B 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 taken into account in computing the corporate alternative minimum tax for certain corporations. See the caption "TAX EXEMPTION" herein regarding a description of other tax considerations.

\$20,030,000**SOUTH DAKOTA HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
Vocational Education Program Refunding Revenue Bonds, Series 2014B****Dated:** Date of Issue**Due:** August 1, as shown on the Inside Front Cover

The South Dakota Health and Educational Facilities Authority (the "Authority") is issuing its \$20,030,000 Vocational Education Program Refunding Revenue Bonds, Series 2014B (the "Series 2014B Bonds") pursuant to the Indenture (as herein defined, the "Indenture") between the Authority and The First National Bank in Sioux Falls, Sioux Falls, South Dakota, as bond trustee (the "Bond Trustee").

The Series 2014B Bonds will 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 2014B Bonds. Purchases of beneficial interests in the Series 2014B Bonds will be made in book-entry form only. Purchasers of a beneficial interest in the Series 2014B Bonds ("Beneficial Owners") will not receive certificates representing their interests in the Series 2014B Bonds. Interest on the Series 2014B Bonds is payable on each February 1 and August 1 beginning February 1, 2015.

Interest on the Series 2014B 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 2014B 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 2014B Bonds will be authorized under the Sixteenth Supplemental Indenture of Trust dated as of December 1, 2014 (the "Sixteenth Supplemental Indenture") which supplements and amends that certain Indenture of Trust dated as of August 1, 1988, as heretofore previously amended and supplemented (as defined in more detail herein, the "Original Indenture," and as so supplemented or amended from time to time, the "Indenture") between the Authority and the Trustee.

The Series 2014B Bonds are subject to optional and mandatory redemption prior to maturity as described hereinafter.

The Series 2014B Bonds, together with Outstanding parity bonds previously issued in 2007, 2008, 2010, 2011, 2012, and 2014 and any other Additional Bonds on a parity therewith issued from time to time in the future (collectively, defined herein as the "Bonds"), are payable solely from Lease Rentals (defined herein), paid to the Authority by the South Dakota Board of Education (the "Board"). The Board will fund Lease Rental payments from two sources: (1) Appropriated Payments (defined herein), which are subject to annual appropriation or expenditure authorization by the South Dakota Legislature, and (2) Program Revenues, which include (i) Facility Fees (defined herein) collected by each of the four post-secondary vocational educational participating institutions (the "Qualified Participating Institutions") in the State of South Dakota, (ii) any Optional Deposits (defined herein), (iii) investment earnings on the foregoing and (iv) any other amounts subject to the lien of the Indenture. All of the foregoing Program Revenues have been pledged, assigned and transferred pursuant to a General Pledge and Escrow Agreement, as amended (the "Pledge Agreement") and an Amended and Restated Facility Fee Tuition Collection and Deposit Agreement (the "Collection Agreement") to the Tuition Subaccount (defined herein) for the benefit of the Authority to offset the payment of the Lease Rentals (due from the Board which will lease vocational education facilities financed with proceeds of the Bonds) and for the benefit of holders from time to time of the Bonds for the payment thereof. See, however, a description of certain amendments under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE PLEDGE AGREEMENT - Amendments to Pledge Agreement and Indenture" for a description of a modification of the term "Program Revenues" and certain related amendments. In addition, payment of the Bonds is secured by a Debt Service Reserve Fund as described herein.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM LEASE RENTALS (DEFINED HEREIN), AND THE DEBT SERVICE RESERVE FUND. THE AUTHORITY HAS NO TAXING POWER. THE OBLIGATION OF THE BOARD TO PAY LEASE RENTALS IS SUBJECT TO ANNUAL APPROPRIATION AND/OR EXPENDITURE AUTHORITY AS DESCRIBED HEREIN.

For Maturities, Interest Rates and Prices, See Inside Front Cover

The Series 2014B Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without any notice, and to the approval of legality of the Series 2014B Bonds by Perkins Coie LLP, Chicago, Illinois, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Authority by its general counsel, Murphy, Goldammer & Prendergast, L.L.P., Sioux Falls, South Dakota. Certain legal matters will be passed upon for the Board and the South Dakota Treasurer by the South Dakota Attorney General. Certain legal matters will be passed upon for the Underwriter by Perkins Coie LLP, Chicago, Illinois. It is expected that the Series 2014B Bonds will be available for delivery to DTC in New York, New York, on or about December ___, 2014.

DOUGHERTY & COMPANY LLC

The date of this Official Statement is November ___, 2014.

Series 2014B Serial Bonds

<u>Maturity (August 1)</u>	<u>Par Amount</u>	<u>Interest Coupon</u>	<u>Price</u>	<u>CUSIP*</u>
2023				
2024				
2025				
2026				
2027				
2028				
2029				

Series 2014B Term Bonds

\$ _____ % SERIES 2014B TERM BONDS MATURING AUGUST 1, 2038
PRICE _____ % CUSIP _____.

* Copyright 2014, American Bankers Association. CUSIP numbers provided herein are assigned by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., an independent company not affiliated with the Authority, the State or the Underwriter. The Authority, the State and the Underwriter are not responsible for the selection or uses of the above CUSIP numbers, and no representation is made as to the correctness of such numbers. The CUSIP numbers may be subject to change after the issuance of the Series 2014B Bonds.

No dealer, broker, salesman or other person has been authorized by the South Dakota Health and Educational Facilities Authority, the South Dakota Board of Education, the South Dakota Treasurer, the Qualified Participating Institutions or the Underwriter to give information or to make any representations with respect to the Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. Certain information contained herein has been obtained from the South Dakota Board of Education, the South Dakota Treasurer, the Qualified Participating Institutions and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed to be the representation of the South Dakota Health and Educational Facilities Authority or the Underwriter. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof or since any earlier date as of which information is stated to be given.

TABLE OF CONTENTS

	PAGE
Introduction.....	1
The Program.....	1
Lease Rentals	4
The Authority.....	7
The Bonds	10
Book-Entry System	13
Plan of Finance	15
Estimated Application of Series 2014B Bond Proceeds and Other Funds	16
Summary of Principal Instruments	16
Definitions of Certain Terms	16
Summary of Certain Provisions of the Indenture	23
Summary of Certain Provisions of the Pledge Agreement	30
Summary of Certain Provisions of the Collection Agreement	35
Summary of Certain Provisions of the Lease	37
Tax Exemption.....	45
Ratings	46
Legal Matters	47

Litigation.....	47
Continuing Disclosure	47
Underwriting.....	48
Miscellaneous	48
Appendix A — South Dakota Post-Secondary Vocational Technical Education	A-1
Appendix B — The State of South Dakota	B-1
Appendix C — Form of Continuing Disclosure Undertaking.....	C-1
Appendix D — Form of Opinion of Bond Counsel.....	D-1

OFFICIAL STATEMENT

relating to

\$20,030,000

SOUTH DAKOTA HEALTH AND EDUCATIONAL FACILITIES AUTHORITY Vocational Education Program Refunding Revenue Bonds, Series 2014B

INTRODUCTION

The purpose of this Official Statement is to set forth certain information concerning the South Dakota Health and Educational Facilities Authority, a body politic and corporate and a public instrumentality of the State of South Dakota (the “*Authority*”) created and existing under and by virtue of the South Dakota Health and Educational Facilities Authority Act (as may be amended from time to time, being hereinafter sometimes called the “*Act*”), the Authority’s Vocational Education Program Refunding Revenue Bonds, Series 2014B (the “*Series 2014B Bonds*”) to be dated the date of issuance, the Authority’s Vocational Education Program Revenue Bonds, Series 2007 (the “*Series 2007 Bonds*”), the Authority’s Vocational Education Program Revenue Bonds, Series 2008 (the “*Series 2008 Bonds*”), the Authority’s Taxable Vocational Education Program Revenue Bonds, Series 2010A (the “*Series 2010A Bonds*”), the Authority’s Taxable Vocational Education Program Revenue Bonds, Series 2010B (the “*Series 2010B Bonds*”), the Authority’s Taxable Vocational Education Program Revenue Bonds, Series 2010C (the “*Series 2010C Bonds*”), the Authority’s Vocational Education Program Revenue Bonds, Series 2011A (the “*Series 2011A Bonds*”), the Authority’s Vocational Education Program Revenue Bonds, Series 2012A (the “*Series 2012A Bonds*”), the Authority’s Vocational Education Program Revenue Bonds, Series 2014A (the “*Series 2014A Bonds*” and, together with the Series 2007 Bonds, the Series 2008 Bonds, the Series 2010A Bonds, the Series 2010B Bonds, the Series 2010C Bonds, the Series 2011A Bonds, and the Series 2012A Bonds, the “*Currently Outstanding Bonds*”).

The Currently Outstanding Bonds, and certain other series of Bonds which have been refunded and are no longer Outstanding, were issued under that certain Indenture of Trust dated as of August 1, 1988 (the “*Original Indenture*”) by and between the Authority and The First National Bank in Sioux Falls, Sioux Falls, South Dakota, as Trustee (the “*Trustee*”). The Original Indenture has heretofore been supplemented and amended by fifteen separate supplemental indentures, the most recent of which being the Fifteenth Supplemental Indenture of Trust between the Authority and the Trustee (the “*Fifteenth Supplemental Indenture*”), which was entered into in connection with the issuance of the Series 2014A Bonds. The Series 2014B Bonds will be issued in accordance with the Sixteenth Supplemental Indenture of Trust between the Authority and the Trustee dated as of December 1, 2014 (the “*Sixteenth Supplemental Indenture*”). The Original Indenture as so amended and supplemented is herein referred to as the “*Indenture*.” Any parity bonds to be issued in the future (the “*Additional Bonds*”) will be issued in accordance with the Indenture.

THE PROGRAM

By virtue of certain amendments to the Act and certain related amendments to Title 13 of South Dakota Codified Laws, a financing program for the acquisition and improvement of post-secondary vocational technical education facilities (the “*Program*”) was approved by the 1987 South Dakota Legislature and amended by the South Dakota Legislature in 1988 and 2013. The Program involves the issuance and sale of revenue bonds by the Authority from time to time to finance the acquisition and improvement of post-secondary vocational technical educational facilities (each such facility to be referred to herein as a “*Project*” and collectively as the “*Projects*”) for lease to and purchase by the South Dakota Board of Education (the “*Board*”). The Board will, in turn, sublease such Projects pursuant to separate Sublease Agreements (the “*Subleases*”) with each of the school districts which administer a post-secondary vocational technical education program (herein, the “*Qualified Participating Institutions*”). There are currently four Qualified Participating Institutions which operate post-secondary vocational technical education programs. Those Qualified Participating Institutions and the vocational technical institutes under their supervision are the following:

1. Rapid City Area School District 51-4 (“*Rapid City*”), administering Western Dakota Technical Institute (“*Western Dakota*”);
2. Sioux Falls School District 49-5 (“*Sioux Falls*”), administering Southeast Technical Institute (“*Southeast*”);
3. Watertown School District 14-4 (“*Watertown*”), administering Lake Area Technical Institute (“*Lake Area*”); and
4. Mitchell School District 17-2 (the “*Mitchell School District*” or “*Mitchell*”), administering Mitchell Technical Institute (“*Mitchell Institute*”).

The Projects financed or refinanced with the proceeds of the Authority’s Vocational Education Program Revenue Bonds, Series 1988 were leased by the Authority, as lessor, to the Board, as lessee, pursuant to a Lease Purchase Agreement dated as of August 1, 1988 (the “*Original Lease*”). The Original Lease has been amended and supplemented over the years to provide for the financing of various projects (each “*Lease Supplement*”) by adding the financed projects as leased property, by providing for the payment of Lease Rentals annually in amounts and at times sufficient to pay debt service with respect to Additional Bonds and for certain other purposes. The most recent Lease Supplement was the Seventeenth Supplement to the Lease Purchase Agreement dated as of June 1, 2014 (the “*Seventeenth Supplement to Lease*”) which was entered into in connection with the issuance of the Series 2014A Bonds. In connection with the issuance of the Series 2014B Bonds, the Board and the Authority will enter into a Eighteenth Supplement to Lease Purchase Agreement dated as of December 1, 2014 (the “*Eighteenth Lease Supplement*”).

The Original Lease as amended and supplemented by the various Lease Supplements through and including the Eighteenth Lease Supplement is herein referred to as the “*Lease*”.

The Projects financed with the proceeds of Bonds are shown in the following table:

<u>SERIES</u>	<u>PROJECT DESCRIPTION</u>	<u>BOND FINANCED IMPROVEMENTS</u>	<u>INSTITUTES</u>
1987	Renovate Rushmore Classroom Building	\$ 1.5 million	Western Dakota
1987	Construct George S. Mickelson Building	\$ 3.5 million	Southeast
1988	Ed Wood Building	\$ 2.3 million	Southeast
1988	Aviation Addition	\$.4 million	Lake Area
1988	Remodeling	\$ 1.0 million	Mitchell
1990	Construct Four Day Care Centers	\$1.31 million	Lake Area/ Mitchell/Southeast/ Western Dakota
1992	Construct Mickelson Building	\$ 5.5 million	Western Dakota
	Construct an Addition to Ed Wood Building and construct the Sullivan Building	\$ 3.6 million	Southeast
	Remodel Existing Building	\$.3 million	Mitchell
1993B	Technical Education Building	\$ 4.5 million	Lake Area
1997	Construct Mickelson Building Addition	\$1.7 million	Western Dakota
1999	Technology Center	\$ 4.0 million	Southeast
1999	Electronic, Machine Tool and Engineering Labs, Shops and Classrooms	\$ 2.2 million	Lake Area
2008	Manufacturing Education Center for Automotive addition, diesel, energy and welding additions	\$11.0 million	Lake Area
2008	Utilities program building and Technology Building addition	\$6.0 million	Mitchell
2010A	Auto building and maintenance	\$1.2 million	Lake Area
2010A	Student Services Administration and Classroom Building	\$11.5 million	Mitchell
2010A	Main Entry and Student Services Remodel at Mickelson Building	\$3.0 million	Southeast
2010B	Student Services Building and Main Entry	\$5.8 million	Lake Area
2010C	Expansion of Mickelson Building	\$11.50 million	Western Dakota
2011A	Building Construction for the Construction Trades, Agriculture, and Power Sports program facilities	\$18.50 million	Mitchell
2012A	Building for the Agriculture, Environmental Technology and Heavy Equipment Operator Programs	\$12.50 million	Lake Area

The Series 2014B Bonds are being issued for the purposes of refinancing and refunding the outstanding Series 2008 Bonds of the Authority. The Series 2008 Bonds financed projects that were constructed by the Lake Area and Mitchell Technical Institutes. A description of the use of the proceeds of the Series 2014B Bonds, including purposes and approximate amounts, is included herein under “Estimated Application of Series 2014B Bond Proceeds and Other Funds.”

The Series 2014B Bonds are limited obligations of the Authority. The Series 2014B Bonds, the Series 2007 Bonds, the Series 2008 Bonds, the Series 2010A Bonds, the Series 2010B Bonds, the Series 2010C Bonds, the Series 2011A Bonds, the Series 2012A Bonds, the Series 2014A Bonds, and any Additional Bonds hereafter issued (collectively, the “*Bonds*”) are equally and ratably payable solely from Lease Rentals and the Debt Service Reserve Fund as more fully described herein under “LEASE RENTALS” and “THE BONDS—Security for the Bonds.” No other series of Bonds are Outstanding under the Indenture as of the date of issuance of the Series 2014B Bonds.

LEASE RENTALS

The Series 2014B Bonds (together with the Currently Outstanding Bonds and all Additional Bonds) are payable primarily from payments (“*Lease Rentals*”) made by the Board as Lessee under the Lease, to the Authority as Lessor. The Lease is an annual appropriation obligation of the Board pursuant to which the Board is only obligated to pay Lease Rentals with respect to any year for which the South Dakota Legislature authorizes and/or appropriates sufficient funds therefor. In the Lease, the Board covenants and agrees to pay Lease Rentals semiannually for deposit to the Tuition Subaccount which are required to be in the amount necessary to pay all amounts of principal and interest when due on the outstanding Bonds and any Additional Bonds, as well as any Trustee, Paying Agent and Authority fees.

Historically, the Board has relied on two primary sources of funding for its semi-annual Lease Rentals: (i) Student Facility Fees and (ii) Appropriated Payments received from the State, both of which are more fully described in the following table. The following table shows, for the period beginning Fiscal Year 1994 through Fiscal Year 2014, the Student Facility Fees, the Appropriated Payments and other Program Revenues components of the total Lease Rentals received by the Trustee, as well as the amounts of such Lease Rentals applied by the Trustee to pay principal and interest on outstanding Bonds.

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**SOUTH DAKOTA HEALTH AND EDUCATIONAL
VOCATIONAL EDUCATION FACILITIES PROGRAM
SCHEDULE OF RECEIPTS AND PAYMENTS
OF THE TUITION SUB ACCOUNT**

	(1)	(2)	(3)	(4)	(5)	(6)
Fiscal Year Ending June 30,	Student Facility Fees	Appropriated Payments	Interest Income*	Bond Debt Service	Miscellaneous Program Payments**	Ending Balance
1994	\$ 741,581.74	\$ 550,000.00	\$ 103,995.88	\$ 1,707,947.59	\$ 47,163.86	\$ 639,668.17
1995	\$ 981,143.22	\$ 832,148.52	\$ 26,003.37	\$ 1,810,044.55	\$ 103,164.95	\$ 565,753.78
1996	\$ 1,047,663.94	\$ 552,662.00	\$ 143,040.59	\$ 1,884,742.35	\$ 31,071.04	\$ 393,306.92
1997	\$ 1,052,941.14	\$ 910,000.00	\$ 109,235.97	\$ 1,855,482.78	\$ 26,792.33	\$ 583,208.92
1998	\$ 1,153,894.82	\$ 800,000.00	\$ 122,021.07	\$ 1,607,294.36	\$ 25,866.11	\$ 1,025,964.34
1999	\$ 1,240,616.27	\$ 800,000.00	\$ 138,851.98	\$ 1,798,264.78	\$ 30,220.06	\$ 1,376,947.75
2000	\$ 1,365,216.90	\$ 824,000.00	\$ 155,808.76	\$ 1,970,147.15	\$ 38,491.42	\$ 1,713,334.84
2001	\$ 1,415,497.63	\$ 824,000.00	\$ 161,119.34	\$ 2,091,319.64	\$ 34,811.01	\$ 1,987,821.16
2002	\$ 1,400,510.36	\$ 824,000.00	\$ 135,126.68	\$ 2,411,984.67	\$ 33,231.00	\$ 1,902,242.53
2003	\$ 1,372,035.63	\$ 824,000.00	\$ 102,435.96	\$ 2,131,458.99	\$ 65,254.14	\$ 2,004,000.99
2004	\$ 1,458,948.95	\$ 824,000.00	\$ 78,894.56	\$ 2,556,020.98	\$ 39,863.18	\$ 1,769,960.34
2005	\$ 1,514,627.18	\$ 824,000.00	\$ 66,971.31	\$ 2,532,254.61	\$ 41,021.44	\$ 1,602,282.78
2006	\$ 1,443,900.14	\$ 824,000.00	\$ 85,939.29	\$ 2,424,518.10	\$ 36,679.80	\$ 1,494,924.31
2007	\$ 1,704,621.74	\$ 824,000.00	\$ 83,883.85	\$ 2,470,974.78	\$ 35,511.59	\$ 1,600,943.53
2008	\$ 1,552,325.81	\$ 824,000.00	\$ 119,252.82	\$ 2,388,313.37	\$ 36,012.87	\$ 1,672,195.92
2009	\$ 1,777,267.84	\$ 824,000.00	\$ 94,658.64	\$ 2,534,406.88	\$ 21,694.88	\$ 1,812,020.64
2010	\$ 2,410,385.87	\$ 1,650,000.00	\$ 44,740.36	\$ 2,507,645.69	\$ 49,427.50	\$ 3,360,073.68
2011	\$ 2,802,107.42	\$ 1,650,000.00	\$ 111,968.64	\$ 3,929,465.86	\$ 64,915.25	\$ 3,929,768.63 ***
2012	\$ 3,431,390.50	\$ 1,650,000.00	\$ 53,133.28	\$ 4,711,563.55	\$ 372,679.50	\$ 3,980,049.36 ****
2013	\$ 3,890,454.03	\$ 1,650,000.00	\$ 43,764.55	\$ 5,222,160.18	\$ 120,897.50	\$ 4,221,210.26
2014	\$ 4,457,070.57	\$ 1,650,000.00	\$ 25,402.86	\$ 5,675,723.14	\$ 121,511.50	\$ 4,556,449.05

* Previously included earnings from the Technical Institutes Facilities Fund created under SDCL §13-39-69, which were pledged as security for the payment of debt service on outstanding Bonds. Following the issuance of the Authority's Series 2014A Bonds on June 17, 2014, the balance of the Technical Institutes Facilities Fund (in the amount of \$1,500,000) was transferred to a newly created Postsecondary Technical Institute Equipment Fund, to finance equipment purchases for Qualified Participating Institutions, and earnings on the Technical Institutes Facilities Fund are no longer pledged as security for outstanding Bonds.

** Includes annual trustee and authority fees, legal fees, transfers to rebate account, refund of unused federal grant funds, and repair and maintenance expense.

*** Transfers for bond debt service are net of IRS interest rebates beginning in fiscal year 2011.

**** Miscellaneous Program Payments for fiscal year 2012 include a special payment to the Series 2012 A construction fund in the amount of \$300,000.

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APPROPRIATED PAYMENTS

From the inception of the Program, the Board has paid a portion of the Lease Rentals using funds appropriated to it by the South Dakota Legislature. For more than two decades, these funds have been appropriated from the State's General Fund. In determining the amount of its appropriation request for State funds, the Board is permitted to estimate Program Revenues (described below) and reduce its total appropriation request by an amount equal to the Program Revenues so estimated.

In 2009, the South Dakota Legislature increased the amount of appropriations from \$824,000 to \$1,650,000. In 2013, the South Dakota Legislature expressed its intent that, beginning with the 2015 fiscal year, such appropriations will be set at a level that is equal to at least 50 percent of the available Student Facility Fees, however, such intention is not legally binding upon future Legislatures.

PROGRAM REVENUES

Program Revenues include three distinct components, as described below.

(1) *Facility Fees.* Pursuant to the statutory authority vested in it, on August 18, 1988 the Board adopted a policy requiring each of the four Qualified Participating Institutions to establish and collect a Facility Fee as a non-refundable component of the general tuition charges assessed all students who enroll in the four post-secondary vocational schools in the State. Set forth below is a table showing the history of the Facility Fees and scheduled increases thereof, including fees to be established by the Amended and Restated Facility Fee Tuition Collection and Deposit Agreement to be entered into by the Board, the Qualified Participating Institutions and the Escrow Holder in connection with the issuance of the Series 2014B Bonds (the "*Collection Agreement*").

Effective Dates	Facility Fee
Prior to June 1, 1993	\$10 per month for full time students; 10% of tuition for part time, specialty and adult program students.
June 1, 1993 – June 30, 1996	\$126 per semester for full time students; \$10.50 per credit hour for all other students.
July 1, 1996 – 1 st Semester 1999/2000	\$136 per semester for full time students; \$11.25 per hour for all other students.
2 nd Semester 1999/2000 – 1 st Semester 2006/2007	\$151 per semester for full time students; \$12.60 per credit hour for all other students.
2 nd Semester 2006/2007 – June 30, 2008	\$10.50 per credit hour for all students.
July 1, 2008 – June 30, 2009	\$12.00 per credit hour for all students.
July 1, 2009	\$14.00 per credit hour for all students.
July 2, 2010	\$15.00 per credit hour for all students.
July 1, 2011	\$19.00 per credit hour for all students.
July 1, 2012	\$22.00 per credit hour for all students.

July 1, 2013

\$25.00 per credit hour for all students.

July 1, 2014

\$28.00 per credit hour for all students.

For the 2013-2014 school year, there were approximately 6,023 full-time equivalent students enrolled in Western Dakota, Southeast, Lake Area and Mitchell Technical Institutes. (See APPENDIX A for more information regarding post-secondary vocational education in South Dakota.)

The Collection Agreement requires the Qualified Participating Institutions to collect the Facility Fees and pay them over to the Escrow Holder for deposit to the credit of the Tuition Subaccount monthly as described above. See also "SUMMARY OF CERTAIN PROVISIONS OF THE COLLECTION AGREEMENT" herein.

(2) *Optional Deposits.* In addition to the required Appropriated Payments, the Authority and the Board each has the right under the Pledge Agreement to make optional payments or deposits ("*Optional Deposits*") for deposit into the Tuition Subaccount.

(3) *Investment Earnings.* Any investment earnings on any of the foregoing, whether while on deposit in the Tuition Subaccount or in the Debt Service Fund, shall also constitute Program Revenues (except for investment earnings required to be rebated to the United States Treasury under Section 148 of the Code).

Each Series of Bonds issued under the Indenture will have as its purpose the acquisition and improvement of or the refunding of the costs of, one or more Projects for lease to and the installment purchase by the Board. The Lease will identify the principal amount of Bonds allocated to the Project being leased and the Lease will obligate the Board to pay Lease Rentals and other amounts at times and in amounts sufficient to pay the principal of and interest on the Series of Bonds issued to finance such Project or Projects and other related costs of administration.

The Facilities are not collateral or security for the Bonds and neither the Trustee nor the owners of the Bonds have any lien or security interest in the land, buildings or equipment constituting the Facilities.

THE AUTHORITY

The Authority was created as a body politic and corporate and public instrumentality of the State of South Dakota for the purpose of exercising the powers conferred on it by virtue of the Act. The purpose of the Authority is to assist private non-profit health and educational institutions in South Dakota in the construction, acquisition, financing and refinancing of projects to be undertaken for health care and higher education programs and to assist South Dakota school districts to alleviate cash flow shortages and to finance vocational education facilities.

MEMBERSHIP AND ORGANIZATION

The Authority's Act provides that the Authority be comprised of seven members who shall be appointed by the Governor. All members of the Authority serve without compensation but are entitled to reimbursement for actual or necessary expenses incurred in the performance of their duties under the Authority's Act. The Authority shall annually elect one member to serve as Chairman, one member to serve as Vice Chairman and one member as Treasurer.

MEMBERS

Norbert Sebade, Chairman; resident of Rapid City; Past Regional President SD Southern Hills Region, First Interstate Bank of Rapid City; member of South Dakota Community Foundation, Children's Home Society Foundation and Black Hills State University Foundation, Chairman of the Board of SDREI and former Trustee of Rapid City Regional Hospital. Term expires June 30, 2018.

Mack Wyly, Vice Chairman; resident of Stanley County; farmer-rancher; Chairman of the Board of Directors of the American State Bank, member of the South Dakota Stockgrowers and the National Cattleman's Association, former member of the Board of Directors of the Farm Mediation Board, South Dakota Wheat, Inc., the St. Mary's Foundation and the Stanley County Commission. Term expires June 30, 2015.

William F. Lynch, member; resident of Pierre; Chief Financial Officer of the Associated School Boards of South Dakota; member and former President of the Association of School Business Officials, a member of the Association of School Business Officers International; a member and former President of School Administrators of South Dakota Association. Term expires June 30, 2017.

David Timpe, member; resident of Hartford; CPA, FHFMA; Past Partner in Regional CPA Firm Eide Bailly LLP for 37 years; Past Part-time CFO for Classified Verticals; Past Part-time Interim CFO for Sioux Center Community Hospital and Health Center (Iowa); Past Part-Time Interim CFO for Avera Sacred Heart Hospital; Past Part-time Interim CFO for Brookings Health System; Past Interim CEO for Children's Care Hospital and School; Board member and Audit Committee member for First Bank and Trust in Sioux Falls; and Past Board member and Audit Committee Chair for Granite City Food and Brewery (GCFB). Mr. Timpe also serves on the Board of Avera Health Plans, Inc., a non-Obligated Group subsidiary of Avera Health, and he works part-time for Avera Health in the Avera eCare[®] department. Term expires June 30, 2019.

David F. Fleck, member; resident of Brandon; President of Sioux Falls Construction Company, Sioux Falls, South Dakota. Chairman of the Board of Directors for the Sioux Falls Area Chamber of Commerce, member of the Board and Past President of the Associated General Contractors of South Dakota, member of the Board of Trustees of Avera McKennan, member of the Board of Directors of the Associated General Contractors of America and member of the Board of Directors and Past President of DakotAbilities. Term expires June 30, 2018.

Gene N. Lebrun, member; resident of Pennington County; former partner and now of counsel with Lynn, Jackson, Shultz & Lebrun, P.C.; counsel for South Dakota School of Mines & Technology, counsel and former member of Board of Directors for Westhills Village, Commissioner South Dakota Uniform Laws Commission, member and past president of National Conference of Commissioners on Uniform State Laws, former member of Advisory Commission on Electronic Commerce, former member and Speaker of the South Dakota House of Representatives. Term expires June 30, 2018.

Alan "Dick" Dempster, member; resident of Sioux Falls; Principal Architect and President of Architecture Incorporated; member of American Institute of Architects, LEED Accredited, former member and chair of Sioux Falls Planning Commission and Sioux Falls Housing Commission, member and former chair of Dow Rummel Village Board of Directors. Term expires June 30, 2015.

REPRESENTATIVES AND GENERAL COUNSEL

Donald A. Templeton, Executive Director and Secretary of the Authority, is responsible for the general management of its affairs. Mr. Templeton is a resident of Pierre, South Dakota. He is the past President and is currently the Treasurer and a member of the Board of Directors for the National Association of Health and Educational Facilities Finance Authorities. He is a past member of the Muni Council. He is also a current member of the South Dakota Chapter of Healthcare Financial Management Association and has served as a member on its Board of Directors.

Murphy, Goldammer & Prendergast, L.L.P., attorneys, Sioux Falls, South Dakota, serve as general counsel for the South Dakota Health and Educational Facilities Authority.

POWERS OF THE AUTHORITY

Under the Authority's Act, the Authority is authorized and empowered, among other things: to issue bonds, notes and other obligations for any of its corporate purposes and to refund the same; to charge and collect rates, rents, fees and charges for the use of projects or for services furnished by facilities in relation thereto; to construct, reconstruct, renovate, replace, maintain, repair, operate, lease or regulate projects for participating health institutions or participating educational institutions incurred with respect to the construction or acquisition of facilities by such institutions; to establish or cause to be established rules and regulations for the use of projects; to receive in relation to project loans or grants from any public agency or any other source; to make loans to participating health institutions or participating educational institutions for the costs of projects; to mortgage any project and the site thereof for the benefit of the holders of bonds issued to finance such project; and to do all things necessary or convenient to carry out the purpose of the Authority Act. The bonds, notes and other obligations of the Authority, including the Series 2014B Bonds, do not constitute indebtedness of the State of South Dakota. The Authority has no taxing power.

The Authority's Act provides that the Authority shall have the power to employ consulting engineers, architects, attorneys, accountants, construction and financial experts, and such other employees as in its judgment may be necessary.

INDEBTEDNESS OF THE SOUTH DAKOTA ISSUER

As of August 31, 2014 the Authority had issued \$3,712,943,017 of bonds, leases or notes for 234 projects or programs (including certificates of participation issued in school district borrowing programs sponsored by the Authority), of which \$1,172,118,793 was then outstanding.

With respect to additional indebtedness of the Authority, the Authority intends to enter into separate agreements with participating health or educational institutions in the State of South Dakota for the purpose of providing financing for eligible projects and the Authority may enter into other arrangements for financing programs for students in health care, for South Dakota school districts or other programs as may be authorized under the Authority Act.

Beginning July 1, 2013, any bonds, notes, or other obligations of the Authority which are payable out of payments made under Subleases with the Qualified Participating Institutions may only be issued pursuant to the Authority's Act if the Board determines by resolution that the estimated receipts, rentals, and other payments, including Appropriated Payments authorized by the South Dakota Legislature, Student Facility Fees, and any other amounts pledged under the applicable bond indenture or similar agreement, will not be less than 103 percent of the scheduled debt service payments on all outstanding Bonds, including the bonds proposed to be issued. In addition, beginning July 1, 2013, all bonds issued under the Program

(other than bonds issued for the purposes of refinancing or refunding existing bonds) must be authorized by legislation of the South Dakota Legislature.

The Board has determined in a resolution that available revenues and other sources of payment are estimated to be sufficient to satisfy the 103-percent of debt service requirement with respect to all outstanding Bonds, including the Series 2014B Bonds.

With respect to additional indebtedness of the Authority, the Authority intends to enter into separate agreements with participating health or educational institutions in the State of South Dakota for the purpose of providing financing for eligible projects; and the Authority may enter into other arrangements for financing programs for students in health care, for South Dakota school districts, or other programs that may be authorized under the Authority's Act.

THE BONDS

DESCRIPTION OF THE SERIES 2014B BONDS

The Series 2014B Bonds will mature at the times and in the principal amounts as set forth on the inside cover page of this Official Statement. The Series 2014B Bonds will be dated the date of issue, and bear interest from that date payable on February 1 and August 1 in each year commencing February 1, 2015.

SECURITY FOR THE BONDS

The Bonds, including the Series 2014B Bonds, and the interest thereon are limited obligations of the Authority and are payable solely from Lease Rentals and amounts on deposit in the Debt Service Reserve Fund. The Bonds, including the Series 2014B Bonds, do not constitute general obligations, debt or bonded indebtedness or a pledge of the faith and credit of the State of South Dakota, the Board, the Treasurer or the Authority, and the holders thereof have no right to any taxes levied by the State or any political subdivision thereof.

Notwithstanding anything in the Lease to the contrary, the cost and expense of the performance by the Board of its obligations under the Lease and the incurrence of any liabilities of the Board under the Lease, including, without limitation, the obligation to pay Lease Rentals and all other amounts required to be paid by the Board under the Lease, shall be subject to and dependent upon moneys being made legally available from time to time from Appropriated Payments. In order to effectuate the foregoing, the Board agrees in the Lease that the Secretary of the Department of Education shall include in the Board's budget for the next occurring Fiscal Year an amount sufficient to pay all of the Lease Rentals and other amounts scheduled to become due in the next occurring Fiscal Year.

In addition, the Board covenants and agrees in the Collection Agreement that if at any time the Board is advised by the Authority or the Trustee or otherwise becomes aware or determines that the Facility Fees, Appropriated Payments and other amounts available for payment of scheduled Debt Service may be deficient in any manner, the Board shall immediately seek from the Legislature an increase in Appropriated Payments that are sufficient in amount and available on the dates required in order to remedy such a deficiency. The Board shall provide notice to the Authority and the Trustee of any action required to be taken pursuant to this covenant, and shall provide periodic updates to the Authority and the Trustee of progress made in connection therewith.

The South Dakota Legislature is under no obligation to approve such appropriations. In addition, although the Subleases contain lease rental schedules payable in amounts sufficient to pay debt service on Bonds, as and when due, no sublease rentals have ever been required to be paid since the

commencement of the Program in 1988 since Program Revenues have been sufficient for such purposes, and in any event, the obligation to pay such sublease rentals is in all events subject to affirmative appropriations by each District.

The Lease Rentals are duly pledged under the Lease and the Indenture and the Program Revenues are duly pledged under the Pledge Agreement, the Collection Agreement and the Indenture for the payment of principal, redemption premium, if any, and interest on the Bonds, and the rights of the Authority in and to the Lease Rentals and Program Revenues (except for the Authority's right to certain fees and expenses) are assigned to the Trustee, all to secure such payments on the Bonds (except for any investment earnings required to be transferred to and deposited in the Rebate Fund).

None of the Projects have been mortgaged to secure the Bonds. However, if an Event of Default under the Lease shall have happened and be continuing, the Authority or the Trustee shall have the right to terminate the Lease and re-let any and all Projects financed or refinanced with any Outstanding Bonds to another governmental unit or other person the use of the Projects by which will not adversely effect the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

RATE COVENANT

In the Collection Agreement, the Board and each Qualified Participating Institution acknowledge and agree that the Qualified Participating Institutions shall charge, collect and pay over Facility Fees in each Academic Year which are estimated to be sufficient, together with the Appropriated Payments and any other Program Revenues projected to be available therefor, to equal or exceed one hundred three (103%) of scheduled Debt Service on all Outstanding Bonds required to be paid for the 12-month period commencing on August 1 in the next succeeding calendar year and program expenses. The Collection Agreement establishes a procedure and a timeline for making such calculations on an annual basis so that the Facility Fees can be adjusted as necessary to provide for sufficient time to impose and collect increased fees which are projected to be adequate to pay current scheduled debt service without assuming any increases in Appropriated Payments.

ADDITIONAL BONDS

One or more Series of Additional Bonds may be secured by the Pledge Agreement on a parity with other Outstanding Bonds, whether issued theretofore or thereafter, upon compliance with the terms and conditions set forth in the Indenture and Pledge Agreement, including an amendment or supplement to the Lease to describe the new Projects to be acquired and leased and to provide for Lease Rentals in amounts and at times sufficient to cover payments of principal and interest to be made on such Additional Bonds.

REDEMPTION OF THE SERIES 2014B BONDS

No redemption prior to maturity of the Series 2014B Bonds outstanding at any time shall be made except as described below under the headings "Sinking Fund Installments" and "Optional Redemption."

SINKING FUND INSTALLMENTS

Series 2014B Bonds due on August 1 of _____ and _____ (collectively the "*Series 2014B Term Bonds*"), are subject to redemption prior to maturity at 100% of the principal amount to be redeemed plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem on August 1, the principal amount of such Bonds, all in the manner provided in the Indenture and any applicable Supplemental Indenture:

SERIES 2014B TERM BONDS
DUE AUGUST 1, 20__

<u>YEAR</u>	<u>AMOUNT</u>
2030	
2031	
2032	
2033	
2034	
2035	
2036	
2037	
2038	

The par value of Series 2014B Term Bonds redeemed otherwise than pursuant to Sinking Fund Installments shall be credited, in whole or in part, against each Sinking Fund Installment to become due following the date of redemption, in an amount bearing the same ratio to each such Sinking Fund Installment as the total amount of such Series 2014B Term Bonds so redeemed bears to the total amount of all Sinking Fund Installments to be so credited.

The par value of the Series 2014B Term Bonds purchased by the Authority and surrendered to the Trustee shall be credited, in whole or in part, against each Sinking Fund Installment to become due more than 45 days following the date of such surrender, in an amount bearing the same ratio to each such Sinking Fund Installment as the total amount of such Series 2014B Term Bonds so surrendered bears to the total amount of all Sinking Fund Installments to be so credited.

OPTIONAL REDEMPTION

The Series 2014B Bonds are subject to redemption prior to maturity on or after August 1, 20__ in whole or in part on any date upon receipt by the Trustee of a written certificate from the Authority stating that it intends to effect redemption of all or a part of such Series 2014B Bonds at the redemption price of par plus accrued interest to the redemption date; *provided, however*, notice to the holders of the Series 2014B Bonds to be redeemed shall not be given by the Trustee unless the Trustee determines that sufficient funds shall be on deposit to pay the redemption price in full on the date set for redemption.

In the event any of the Series 2014B Bonds or portions thereof (which shall be \$5,000 or any integral multiple thereof) are called for redemption as aforesaid, notice thereof identifying the Series 2014B Bonds or portions thereof to be redeemed will be given by the Trustee by mailing a copy of the redemption notice by first class mail not more than 45 days and not less than 30 days prior to the date fixed for redemption to the registered owner of any Series 2014B Bonds designated for redemption in whole or in part, at his address as the same shall last appear upon the registration books. Failure to give such notice by mailing to any such owner, or any defect therein, shall not affect the validity of the redemption of any other Series 2014B Bonds. Upon the giving of notice, if sufficient funds for redemption are on deposit with the Trustee, the Series 2014B Bonds or portions thereof so called for redemption will cease to bear interest after the specified redemption date.

If less than all of the Series 2014B Bonds shall be called for optional redemption prior to their stated maturing date, the particular Bonds to be redeemed shall be selected and redeemed by the Trustee in multiples of \$5,000 at the direction of the Authority either (a) in inverse order of maturity and within a

maturity as selected by lot or (b) on a reasonably proportionate basis for each maturity, such basis to be determined as nearly as practicable by the Trustee with respect to each outstanding maturity of the Series 2014B Bonds by multiplying the amount then available to redeem such Series 2014B Bonds, less the amount required to pay the accrued interest thereon, by the ratio by which (i) the principal amount of the Outstanding Bonds of each such maturity (for such Series) bears to (ii) the aggregate principal amount of all Outstanding Bonds for all maturities for such Series.

NOTICE OF REDEMPTION

Notice of the call for redemption of any of the Series 2014B Bonds pursuant to the above provisions will be given by mail to the registered holders of Series 2014B Bonds to be redeemed to the address shown on the registration books maintained by the Trustee not less than thirty days prior to the redemption date; provided, however, that failure to give such notice by mailing or a defect in the notice or the mailing will not affect the validity of the redemption. Interest will not be payable on the Series 2014B Bonds after the redemption date if notice has been given and if sufficient moneys have been deposited with the Trustee to pay the principal, applicable redemption premium, if any, and interest on the Series 2014B Bonds to the redemption date.

BOND REGISTRATION

The Series 2014B Bonds issued under the Indenture will be only in the form of registered bonds in the denomination of \$5,000 or integral multiples thereof.

BOOK-ENTRY SYSTEM

THE INFORMATION CONCERNING DTC AND THE BOOK-ENTRY SYSTEM HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE AUTHORITY OR THE UNDERWRITER AS TO THE ACCURACY OR ADEQUACY OF INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE OF THIS OFFICIAL STATEMENT.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2014B Bonds. The Series 2014B Bonds will be issued as fully-registered bonds registered in the name Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2014B Bond certificate will be issued for each stated maturity of the Series 2014B Bonds, each 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, the National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTC 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.

Purchases of Series 2014B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2014B Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2014B 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 Series 2014B 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 Series 2014B Bonds, except in the event that use of the book-entry system for the Series 2014B Bonds is discontinued.

To facilitate subsequent transfers, all Series 2014B 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 Series 2014B Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2014B Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2014B 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 Series 2014B Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2014B Bonds, such as redemptions, tenders, defaults and proposed amendments to the documents relating to the Series 2014B Bonds. For example, Beneficial Owners of the Series 2014B Bonds may wish to ascertain that the nominee holding the Series 2014B Bonds for their benefit have agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2014B Bonds are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in the Series 2014B Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2014B Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 Series 2014B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2014B Bonds and payments of the redemption or purchase price of Series 2014B 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 Authority or the Trustee, on the 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 Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest on the Series 2014B Bonds and of the redemption or purchase price of the Series 2014B Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority and the Trustee, 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 services as securities depository with respect to the Series 2014B Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2014B Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2014B Bond certificates will be printed and delivered.

PLAN OF FINANCE

The Series 2014B Bonds are being issued (i) to effect an advance refunding of the Authority's Series 2008 Bonds (the "*Refunded Bonds*") and (ii) to pay certain costs of issuing the Series 2014B Bonds. In addition, a portion of the proceeds of the Series 2014B Bonds, corresponding to the present value of the debt service savings resulting from the refunding of the Refunded Bonds will be transferred to the South Dakota State Bureau of Finance and Management for deposit in the State's General Fund in consideration of prior and future Appropriated Payment provided by the State for the payment of Lease Rentals. The State of South Dakota intends to use the transferred amount for various governmental capital expenditures of the State.

On the delivery date of the Series 2014B Bonds, bond proceeds of the Series 2014B Bonds will be deposited with the Bond Registrar under the terms of an Escrow Agreement between the Authority and the Bond Registrar, dated as of the delivery date of the Series 2014B Bonds (the "*Escrow Agreement*"). Pursuant to the terms of the Escrow Agreement, the Bond Registrar will apply such proceeds to purchase U.S. Treasury securities maturing at times and in amounts sufficient to pay (i) interest on the Refunded Bonds through and including their call date of August 1, 2018 and (ii) the call price of the Refunded Bonds on their call date. On the delivery date of the Series 2014B Bonds, Eide Bailly LLP, as verification agent, will deliver a report confirming the adequacy of the U.S. Treasury securities being deposited in the escrow account to make the required interest payment and to pay the call price of the Refunded Bonds.

**ESTIMATED APPLICATION OF SERIES 2014B BOND PROCEEDS
AND OTHER FUNDS**

The source and uses of proceeds of the Series 2014B Bonds and other amounts are estimated to be as follows:

SOURCES OF FUNDS:

Principal Amount of Series 2014B Bonds
Reoffering Premium
Transfer from prior Debt Service Fund
Transfer from prior Debt Service Reserve Fund
Total Sources of Funds

USES OF FUNDS:

Deposit to Refunding Account
Additional Funds for State Purposes
Debt Service Reserve Fund
Costs of Issuance, including Underwriting
Discount and Rounding
Total Uses of Funds

SUMMARY OF PRINCIPAL INSTRUMENTS

The definition of certain terms and brief descriptions of the Indenture, the Pledge Agreement, the Collection Agreement and the Lease are included hereafter in this Official Statement. Such descriptions do not purport to be comprehensive or definitive; all references herein to the Indenture, Pledge Agreement, the Collection Agreement and the Lease are qualified in their entirety by reference to each such document, copies of which are available for review prior to the delivery of the Series 2014B Bonds against payment at the offices of the Authority or the Underwriter, and thereafter at the office of the Trustee; and all references to the Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto included in the Indenture.

DEFINITIONS OF CERTAIN TERMS

The following are definitions of certain of the terms used in the Indenture, the Pledge Agreement, the Collection Agreement, the Lease and this Official Statement.

The following words and phrases shall have the following meanings unless the context otherwise requires:

“*Act*” means the South Dakota Health and Educational Facilities Authority Act, as may be amended from time to time.

“*Additional Bonds*” means the additional parity Bonds authorized to be issued by the Authority pursuant to the terms and conditions of the Indenture.

“Advance” means any advance of funds from a Project Subaccount by the Trustee on behalf of the Authority to or upon the order of a Tenant to acquire a Project as provided in the Lease.

“Aggregate Debt Service” for any period shall mean, as of any date of calculation, the sum of the amounts of Debt Service for such period with respect to all Outstanding Series of Bonds.

“Appropriated Payments” shall mean the moneys appropriated from time to time by the South Dakota Legislature for expenditure by the Board for the payment of Lease Rentals or other amounts under the Lease.

“Authority” means the South Dakota Health and Educational Facilities Authority, constituted as an issuer to act on behalf of the State of South Dakota and created by virtue of the laws of the state, and its successors and assigns.

“Authority Officer” means the Chairman, Vice Chairman, Executive Director or Secretary of the Authority, and, when used with reference to an act or document, also means any other person authorized by resolution or rule of the Authority to perform such act or sign such document.

“Beneficial Owners” means any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories.

“Board” means the South Dakota Board of Education and its lawful successors and assigns.

“Bond” or *“Bonds”* means one or more of the Authority’s Series 2004 Bonds, Series 2007 Bonds, Series 2008 Bonds, Series 2010A Bonds, Series 2010B Bonds, Series 2010C Bonds, Series 2011A Bonds, Series 2012A Bonds, Series 2014A Bonds, and Series 2014B Bonds Outstanding under the Indenture or any other Outstanding bonds issued under the provisions of the Indenture on a parity with the Series 2004 Bonds, Series 2007 Bonds, Series 2008 Bonds, Series 2010A Bonds, Series 2010B Bonds, Series 2010C Bonds, the Series 2011A Bonds, Series 2012A Bonds, Series 2014A Bonds, and Series 2014B Bonds, including any Additional Bonds.

“Bond Counsel” means any 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, acceptable to the Authority and the Trustee.

“Bondowner” or *“holder of Bonds”* or *“owner of Bonds”* means the party in whose name the Bond is registered.

“Bond Payment Date” means any February 1 or August 1 so long as there are Bonds outstanding.

“Bond Year” shall mean the period from August 1 of one year to and including July 31 of the succeeding year.

“Code” means the Internal Revenue Code of 1986, as amended from time to time, and the regulations from time to time promulgated or proposed thereunder or any predecessor Internal Revenue Code.

“Collection Agreement” means the Amended and Restated Facility Fee Tuition Collection and Deposit Agreement among the Board, the Qualified Participating Institutions, the Treasurer and the Escrow Holder, as it may be amended, revised or supplemented from time to time.

“Cost of Issuance Fund” means the fund by that name created by the Indenture.

“Counsel” means an attorney or firm of attorneys designated by the Authority and acceptable to the Trustee duly admitted to practice law before the highest court of any state; an attorney for the Board, the Trustee or the Authority may be eligible for appointment as Counsel.

“Debt Service” means for any period, as of any date of calculation and with respect to any Series of Bonds, an amount equal to the sum of (i) interest accruing during such period on Bonds of such Series, except to the extent that such interest is to be paid from deposits in the Debt Service Fund from the proceeds of Bonds, and (ii) that portion of each Principal Installment due for payment within such period of such Series of Bonds due for payment within such period which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Series of Bonds (or, if there shall be no such preceding Principal Installment due date for such Series of Bonds from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such Series, whichever date is later). Such interest and Principal Installments for such Series of Bonds shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

“Debt Service Account” means the account by that name created by the Indenture.

“Debt Service Fund” means the fund by that name created by the Indenture.

“Debt Service Reserve Fund” means the fund by that name created by the Indenture.

“Debt Service Reserve Fund Requirement” shall mean, as of any date of calculation, the lesser of (i) an amount equal to the maximum amount of Aggregate Debt Service for the then current or any future Bond Year or (ii) upon the issuance of any Additional Bonds, the principal amount on deposit in the Debt Service Reserve Fund immediately prior to such issuance and the maximum amount of any additional deposit to the Debt Service Reserve Fund which may be funded out of the proceeds of such Additional Bonds consistent with Section 148 of the Code.

“Direct Participants” means DTC’s participants for which DTC holds and provides asset servicing and who deposit with DTC.

“DTC” means the Depository Trust Company, New York, New York.

“DTCC” means The Depository Trust & Clearing Corporation.

“Eighteenth Supplement to Lease” means the Eighteenth Supplement to the Lease Purchase Agreement dated as of December 1, 2014, between the Board and the Authority, supplementing and amending the Original Lease.

“Eligible Investment” means and includes the cash and Government Obligations required for defeasance under Article VIII of the Indenture, the Lease and any of the following securities:

- (a) Governmental Obligations;
- (b) Obligations issued by or obligations the principal of and interest on which are fully guaranteed or insured by any agency or instrumentality of the United States of America and are rated at least AA by S&P and Aa by Moody’s;

(c) Obligations of any solvent insurance company existing under the laws of the United States or any state thereof, provided the obligation of such insurance company shall be rated at least AA by S&P and Aa by Moody's;

(d) Short term discount obligations of the Federal National Mortgage Association; and

(e) Any other investment permitted by law as an investment of the Authority's funds and accounts so long as such investment is rated AA or higher by S&P and Aa or higher by Moody's.

"Events of Default" mean any occurrence or event specified in the Indenture.

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

"Facilities" means all Projects which are subject to the Lease at any specific point in time.

"Facility Fees" means the tuition and fees described in and limited by the Pledge Agreement, as they may be adjusted pursuant to the terms of the Pledge Agreement.

"Fiscal Year" means, with respect to the Authority, the Board, the Treasurer and any Qualified Participating Institution, any period commencing on July 1 and ending on the following June 30.

"Funds" means the funds created pursuant to Article IV of the Original Indenture, as amended and supplemented.

"Governmental Obligations" means direct obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America) or obligations the prompt payment of the principal of and interest on which are unconditionally guaranteed by the United States of America.

"Governmental Unit" means the State of South Dakota or any political subdivision thereof, and, for purposes of the Indenture, shall include any organization described in Section 501(c)(3) and exempt from tax under Section 501(a) of the Code (within the meaning of Section 150(a)(4) of the Code) but if and only to the extent that such organization's activities with respect to the Project and the use of proceeds of the Bonds do not constitute unrelated trade or business income determined by applying Section 513(a) of the Code, but shall not include the United States of America or any agency or instrumentality thereof (within the meaning of Section 150(a)(2) of the Code).

"Improvements" means the improvements to be acquired, constructed and/or installed on the Land pursuant to the plans and specifications therefor, including the Projects, Facilities and Leased Equipment.

"Indenture" means the Original Indenture, as amended and supplemented from time to time.

"Indirect Participants" means 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, and who directly or indirectly have access to the DTC system.

"Interest Payment Date" means each February 1 and August 1 on which a semiannual payment of interest on a Bond is due.

"Lake Area" means the Lake Area Technical Institute administered by Watertown.

"Lease" means the Original Lease as amended and supplemented from time to time.

“Leased Equipment” means those items of equipment or other personal property, if any, described in Exhibit A to the Lease, and in general all items which are acquired in whole or in part with proceeds from the sale of the Bonds, and any items of equipment or other personal property acquired and installed in substitution thereof or replacement thereof and including any other equipment or personal property which shall become subject, from time to time, to the Lease by a supplemental Exhibit or Exhibits.

“Lease Rentals” means the rentals payable by the Board under the Lease.

“Mitchell” means Mitchell School District 17-2.

“Mitchell Institute” means the Mitchell Technical Institute administered by Mitchell.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a security rating agency with respect to the Bonds, *“Moody’s”* shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, by notice to the Trustee.

“NYSE” means the New York Stock Exchange, Inc.

“Optional Deposits” means the optional payments or deposits into the Tuition Subaccount made by the Board pursuant to its right under the Pledge Agreement.

“Opinion of Counsel” means an opinion in writing of a legal counsel, who may but need not be counsel to the Authority, to the Board or to the Trustee.

“Original Indenture” means the Indenture of Trust dated as of August 1, 1988, between the Authority and the Trustee.

“Original Lease” means the Lease Purchase Agreement dated August 1, 1988 between the Authority and the Board with respect to the Facilities and other facilities financed with proceeds from the sale by the Authority of any Series of Bonds authorized under the Indenture.

“Outstanding” or *“Bonds Outstanding”* means all Bonds which have been authenticated and delivered by the Trustee under the Indenture, except:

- (a) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;
- (b) Bonds deemed paid under the Indenture; and
- (c) Bonds in lieu of which other Bonds have been authenticated under the Indenture.

“Paying Agent” means any bank or trust company designated pursuant to Section 10.10 of the Indenture to serve as a paying agency or place of payment for the Bonds, and any successors designated pursuant to the Indenture.

“Pledge Agreement” means the General Pledge and Escrow Agreement between the Board, the Treasurer, the Authority and the Escrow Holder, as it may be amended, revised or supplemented from time to time.

“Principal Installment” means, as of any date of calculation and with respect to any Series of Bonds, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance (determined as provided in Section 2.12 of the Indenture) of any Sinking Fund Installments due on a certain future date for Bonds of such Series, in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

“Principal Payment” means a payment of a Bond at maturity or upon earlier required redemption.

“Principal Payment Date” means the date upon which a Principal Payment is due.

“Program” means the program of the Authority to issue Bonds from time to time to finance vocational education facilities for lease by the Board under the Lease.

“Program Revenues” includes (i) Facility Fees and other amounts payable under and deposited in the Tuition Subaccount as provided in the Collection Agreement, (ii) any Optional Deposits (as defined in the Pledge Agreement), (iii) any investment earnings realized on the foregoing and (iv) any other amounts subject to the provisions of the Pledge Agreement, but subject to the provisions of the Indenture and of the Pledge Agreement relating to the release of lien or withdrawal or application of any of such amounts for other purposes and subject in all events to the exclusion thereof of all amounts required to be deposited in the Rebate Fund under the Indenture. In no event is the corpus of the Technical Institutes Facilities Fund to be deemed included as Program Revenues do not include any Trust Fund Earnings.

“Project Fund” means the Participating Institution Project Fund created pursuant to the Indenture.

“Project Subaccount” means the Project Subaccount established for a Project being subleased to a Qualified Participating Institution as provided in the Indenture.

“Projects” means all of the property, real and personal, which is subject to the Lease at any specified point in time.

“Purchase Price” or *“Purchase Option Price”* means the Purchase Option Amount due pursuant to a Lease in order to entitle the Board to require the Authority to convey the Improvements leased thereunder to the Board and to terminate the Lease Term.

“Qualified Participating Institutions” means the School Districts responsible for post-secondary vocational education programs specified in Exhibit A to the Pledge Agreement, as expanded by the Board from time to time, without the need of consent by any other party.

“Rapid City” means Rapid City Area School District 51-4.

“Record Date” means the fifteenth day of the month preceding the relevant Interest Payment Date, unless the Authority shall default in the payment of interest due on such payment date. In the event of any such default, such defaulted interest shall be payable to the person in whose name such Bond is registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by or on behalf of the Authority to the registered owners of the Bonds not less than fifteen (15) days preceding such special record date. Such notice shall be mailed to the person in whose name the Bonds are registered at the close of business on the fifth day preceding the date of mailing.

“Related Amount of Series Bonds” shall mean those Bonds of a particular Series which the Board and the Authority have agreed to allocate to a specific Project, such allocation having a relationship to the approximate costs of such Project to be financed or refinanced by proceeds of the Bonds made available to the Board for such Project.

“SEC” means the U.S. Securities and Exchange Commission.

“Series 2004 Bonds” means the Vocational Education Program Revenue Bonds, Series 2004, of the Authority.

“Series 2007 Bonds” means the Vocational Education Program Revenue Refunding Bonds, Series 2007, of the Authority.

“Series 2008 Bonds” means the Vocational Education Revenue Bonds, Series 2008, of the Authority.

“Series 2010A Bonds” means the Taxable Vocational Education Revenue Bonds, Series 2010A (Build America Bonds), of the Authority.

“Series 2010B Bonds” means the Taxable Vocational Education Revenue Bonds, Series 2010B (Recovery Zone Economic Development Bonds), of the Authority.

“Series 2010C Bonds” means the Taxable Vocational Education Revenue Bonds, Series 2010C (Build America Bonds), of the Authority.

“Series 2011A Bonds” means the Vocational Education Revenue Bonds, Series 2011A, of the Authority.

“Series 2012A Bonds” means the Vocational Education Revenue Bonds, Series 2012A, of the Authority.

“Series 2014A Bonds” means the Vocational Education Revenue Bonds, Series 2014A, of the Authority.

“Series 2014B Bonds” means the Vocational Education Revenue Bonds, Series 2014B, of the Authority.

“Sinking Fund Installment” means, for any year prior to the maturity date of any term Bonds of like maturity, the principal amount of such term Bonds required to be redeemed by operation of a sinking fund pursuant to the Indenture.

“Sioux Falls” means Sioux Falls School District 49-5.

“Sixteenth Supplemental Indenture” means the Sixteenth Supplemental Indenture of Trust dated as of December 1, 2014, between the Trustee and the Authority, supplementing and amending the Original Indenture.

“Southeast” means the Southeast Technical Institute administered by Sioux Falls.

“S&P” means Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc., its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency with respect to the Bonds, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, by notice to the Trustee.

“State” means the State of South Dakota.

“*Subleases*” means the sublease agreements by which the Board has subleased all or any portion of the Facilities to a Qualified Participating Institution.

“*Supplemental Resolution*” means the Series Supplemental Resolution approved by the Authority in connection with the issuance and sale of a specific series of Bonds as provided in the Indenture.

“*Technical Institutes Facilities Fund*” means the post-secondary technical institutes facilities fund established by Section 13-39-69 of the South Dakota Codified Laws (and previously designated by statute as the Vocational Education Institutes Facilities Fund).

“*Tenant*” means a Qualified Participating Institution which is a party to a Sublease with the Board regarding a specific Project or Projects.

“*Treasurer*” means the Treasurer of the State of South Dakota.

“*Trust Fund Earnings*” means earnings on the Technical Institutes Facilities Fund.

“*Trustee*” means The First National Bank in Sioux Falls, or any successor thereto hereunder.

“*Trust Estate*” means all of the property described in the Granting Clauses of the Indenture but expressly excluding investment earnings required to be transferred to the Rebate Fund. In no event is the corpus of the Technical Institutes Facilities Fund to be deemed included as Trust Estate.

“*Tuition Subaccount*” means the Tuition Subaccount described in the Pledge Agreement.

“*Watertown*” means Watertown School District 14-4.

“*Western Dakota*” means the Western Dakota Technical Institute administered by Rapid City.

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The Indenture contains various covenants, security provisions, terms and conditions, certain of which are summarized below. Reference is made to the Indenture for a full and complete statement of its provisions.

While the Supplemental Indentures for each Series are separate and independent, the Fifth Supplemental Indenture and the Sixth Supplemental Indenture contain substantially similar provisions except for the use of the proceeds of the Bonds issued thereunder.

APPLICATION OF SERIES 2014B BOND PROCEEDS

The net proceeds of the Series 2014B Bonds, other than the amounts being deposited in the Escrow Fund and amounts providing working capital corresponding to the debt service savings resulting from the refunding, shall be deposited with the Trustee as provided in the Indenture.

The Indenture creates the following funds which are to be held by the Trustee:

1. The Project Fund;
2. The Debt Service Fund;

3. The Debt Service Reserve Fund;
4. The Cost of Issuance Fund; and
5. The Rebate Fund.

The Indenture also creates a “Debt Service Account” in the Debt Service Fund for each Series of Bonds.

PROJECT FUND

Upon sale of any series of Bonds, the Authority shall direct the Trustee to deposit all or a part of proceeds thereof, including the deposit of amounts in a Project Subaccount for use in acquiring, improving and equipping Projects for the Board in connection with such Series of Bonds, a deposit to provide for payment or discharge of any Bonds to be refunded, and the deposit of sufficient moneys out of Bond Proceeds or out of moneys furnished by the Board or the applicable Qualified Participating Institutions to the credit of the Cost of Issuance Fund or Debt Service Fund.

Moneys in the Project Fund and any subaccount shall be used only for the acquisition of Projects or otherwise as set forth in the Indenture, and pending such use, shall be invested as provided by the Indenture.

DEBT SERVICE FUND

From the proceeds of the sale of any series of Bonds, there shall be deposited in the Capitalized Interest Account or the Refunding Interest Account an amount, if any, specified in the Indenture. Moneys in the Capitalized Interest Account shall be used to pay interest on the Bonds as and when such interest is due and payable. Thereafter, the Indenture requires the Trustee to pay from the Debt Service Account on or before each Bond Payment Date (i) the amount required for the interest payable on all Outstanding Bonds on such Bond Payment Date, plus (ii) the amount, if any, required for the payment of the Principal Installments due on all Outstanding Bonds on such Bond Payment Date.

Amounts in the Debt Service Account for the payment of Sinking Fund Installments shall be applied by the Trustee to the redemption of Bonds of the Series and maturity for which such Sinking Fund Installment was established in amounts sufficient to retire such Bonds as hereinafter provided. As soon as practicable after the forty-fifth (45) day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption on such due date Bonds of the Series and maturity for which such Sinking Fund Installment was established in the unsatisfied balance of such Sinking Fund Installment reduced by the principal amount of Bonds of such Series and maturity theretofore delivered by the Authority to the Trustee to satisfy such Sinking Fund Installment. Such notice shall be given regardless of whether or not moneys therefore shall have been deposited in the Debt Service Fund and without any instructions from the Authority.

The Authority may deliver to the Trustee for cancellation, at least forty-five (45) days prior to the due date of such Sinking Fund Installment, Bonds of the Series and maturity for which such Sinking Fund Installment was established. Such Bonds shall be credited at the par amount thereof against each such Sinking Fund Installment thereafter to become due as described herein under the caption “THE BONDS—Redemption of Series 2014B Bonds”.

In the event of the refunding of one or more Series of Bonds or one or more maturities within a Series, the Trustee shall apply amounts in the Debt Service Fund pursuant to the written direction of the Authority.

In the event moneys in the Debt Service Fund are insufficient for whatever reason to pay principal or interest when due on the Bonds, then the Trustee shall promptly give notice of insufficiency to the Board and other parties as provided in the Pledge Agreement and Lease, and shall apply to the Debt Service Fund such amounts from such sources as listed in the following priority: *First*, from the Board any amounts received under or pursuant to the Lease, *Second*, from the Board any amounts received under or pursuant to the Pledge Agreement, *Third*, from the Debt Service Reserve Fund, *Fourth*, from the Cost of Issuance Fund, *Fifth*, from the Project Fund (pro rata from each Project Subaccount based upon a percentage derived by dividing the principal amount in each Project Subaccount by the total principal amount of all Project Subaccounts).

DEBT SERVICE RESERVE FUND

If on any Interest Payment Date the amount in the Debt Service Fund is insufficient to pay principal and interest on all Outstanding Bonds becoming due and payable on such Interest Payment Date, the Trustee is to transfer moneys from the Debt Service Reserve Fund to the Debt Service Fund to make good any deficiency.

If on September 15 of any Bond Year the amount in the Debt Service Reserve Fund exceeds the Debt Service Reserve Fund Requirement, the Trustee is to transfer such excess to the Debt Service Fund.

To the extent that the Debt Service Reserve Fund Requirement with respect to a Series of Bonds will be reduced as a result of a proposed redemption of Bonds, the Trustee is to transfer from the Debt Service Reserve Fund moneys equal to the amount of such reduction and apply such moneys to the scheduled redemption of Bonds.

In the event that a Series of Bonds is to be refunded by a Series of refunding Bonds, then the Authority may elect that, upon such refunding, amounts in the Debt Service Reserve Fund are to be transferred to the reserve fund which is established with respect to the refunding Bonds.

In the event that the Debt Service Reserve Fund is drawn upon to pay amounts due on the Bonds, the Pledge Agreement and the Lease each obligates the Board to replenish the Debt Service Reserve Fund out of any legally available moneys and, if necessary, the Board is required by the Pledge Agreement to seek a special appropriation from the State Legislature for such purpose. See “SUMMARY OF CERTAIN PROVISIONS OF THE LEASE—Non-Appropriation; Limited Obligation” herein for a discussion of the limitation on liability applicable to the Board in connection with this requirement.

COST OF ISSUANCE FUND

Moneys in the Cost of Issuance Fund shall be used to pay the costs of issuing the Bonds, including, but not limited to, all printing, legal or other fees or expenses in connection with the Authority’s issuance, sale and delivery of the Bonds, any fees or expenses of the Authority and the Trustee. Any funds remaining in the Cost of Issuance Fund after the date specified in a Supplemental Resolution, or if no such date is specified, after one year from the date of delivery of the related Series of Bonds, shall be transferred to the Debt Service Fund and shall be applied to proportionately reduce Lease Rentals to be paid by the Board under the related Lease. All earnings on moneys in the Cost of Issuance Fund shall be transferred as received to the Debt Service Fund and shall be similarly applied.

REBATE FUND

There shall be transferred into the Rebate Fund from the income earned by the Tuition Subaccount and all other Funds due to the investment thereof, such amounts as are described in Section 148(f) of the Code

for payment of the required rebate to the United States Treasury. Investment earnings on the Rebate Fund shall likewise be deposited therein. No later than 45 days and no earlier than 10 days prior to which a rebate payment is required to be paid to the United States of America from the Rebate Fund in accordance with the provisions of the Code, the Trustee, on behalf of the Authority, shall determine the amount then required to be paid and remit such sum. After the last required rebate payment is made, any balance remaining in any Rebate Fund is to be paid to the Board free and clear of the pledge and lien of the Indenture.

MONEYS TO BE HELD IN TRUST

Except for any amounts required to be rebated to the United States Treasury pursuant to Section 148 of the Code or any moneys subject to release from the Pledge Agreement as provided therein, all moneys required to be deposited with or paid to the Trustee for account of any Fund established under any provision of the Indenture shall be held by the Trustee in trust and shall, while held by the Trustee, constitute part of the Trust Estate and be subject to the security interest created. Upon exercise by the Trustee of any remedies specified in the Indenture, such Trust Estate shall be applied in accordance with the Indenture, except to the extent that the Trustee is holding in trust moneys and/or Government Obligations for the payment of any specified Bonds which are no longer deemed to be Outstanding under the provisions of the Indenture.

INVESTMENT OF MONEYS IN FUNDS

Moneys held as part of any Fund or account thereof shall be invested and reinvested by the Trustee at the direction of the Board in Eligible Investments. (Moneys held in the Tuition Subaccount shall be invested at the direction of the Board or otherwise as provided by the Pledge Agreement.) All Eligible Investments purchased shall mature or be redeemable or be subject to repurchase by another entity on a date or dates prior to the time when the moneys so invested will be required for expenditure. The Trustee may make any and all such investments through its investment department or through the investment department of any financial institution which is an affiliate of the Trustee and may trade with itself or any of its affiliates in doing so. Money in separate Funds, accounts or subaccounts may be commingled for the purpose of investment or deposit. Investments shall be made under prudent investment standards reasonably expected to produce the greatest investment yields, but investments shall only be made in Eligible Investments. If the Trustee complies with the investment standard contained in the Indenture and the standards of conduct set forth in the Indenture, any investment losses shall be borne by the Fund in which the lost moneys had been deposited. The Trustee shall sell and reduce to cash a sufficient amount of such investments in the respective Fund or account whenever the cash balance therein is insufficient to pay the amount contemplated to be paid therefrom. The Trustee is specifically authorized to enter into agreements with itself or any other person, which agreements guarantee the repurchase of Eligible Investments at specific prices.

ARBITRAGE

The Authority and the Trustee covenant for the benefit of each holder of the Bonds that no use will be made of the proceeds of the Bonds or of any moneys in the Funds and that no other action shall be taken which will cause the Bonds or any obligations subsequently issued by the Authority to be "arbitrage bonds" within the meaning of Sections 103(c) and 148 of the Code.

DISCHARGE OF INDENTURE

If the Authority shall pay or cause to be paid to the owners of all Bonds the principal of and interest due or to become due thereon at the times and in the manner stipulated therein, and shall pay or cause to be

paid to the Trustee and any paying agent all sums of money due or to become due according to the provisions of the Indenture, then the estate and rights thereby granted shall cease, determine and be void, whereupon the lien of the Indenture shall be cancelled and discharged, and all covenants, agreements and obligations of Authority to the owners of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

EVENTS OF DEFAULT

Events of Default are set forth in the Indenture. Such events of default include, among other things:

- (1) Default in the payment of the principal of or interest on any Bond after the principal or interest has become due, whether at maturity or upon call for redemption.
- (2) Default in the performance or observance of any covenant, agreement or condition on the part of the Authority contained in the Indenture or in the Bonds (other than defaults mentioned in (1) and (3) hereof) and failure to remedy the same after notice of the default pursuant to the Indenture.
- (3) If, while any Bonds are Outstanding, the State has limited or altered adversely to the interests of the Bondowners the rights of the Authority pursuant to the Act, as in force on the date of the Original Indenture, to fulfill the terms of any agreements made with the holders of Bonds or in any way impaired the rights and remedies of holders of Bonds.

Notwithstanding anything contained in the Lease to the contrary, a failure by the Board to pay when due any payment required to be made under the Lease or a failure by the Board to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Lease, resulting from a failure to appropriate moneys shall not constitute an event of default under the Lease.

NOTICE TO BONDOWNERS IF DEFAULT OCCURS

If the Trustee becomes aware of an Event of Default then the Trustee shall promptly give written notice by registered or certified mail to the Board, the Authority and the owners of all Bonds then Outstanding, shown by the registration books kept at the office of the Trustee.

REMEDIES; RIGHTS OF BONDOWNERS

Upon the occurrence of an Event of Default, the Trustee shall have the following rights and remedies:

- (1) The Trustee may pursue any available remedy at law or in equity or by statute to enforce the payment of the principal of and interest on the Bonds then Outstanding, including enforcement of any rights of the Authority or the Trustee under the Pledge Agreement, the Lease or the Collection Agreement;
- (2) The Trustee may by action or suit in equity require the Authority to account as if it were the trustee of an express trust for the owners of the Bonds and may then take such action with respect to the Pledge Agreement, the Collection Agreement, the Subleases or the Lease as the Trustee shall deem necessary or appropriate and in the best interest of the Bondowners;
- (3) Upon the filing of a suit or other commencement of judicial proceedings to enforce any rights of the Trustee and of the Bondowners under the Indenture, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the trust estate and of the Program Revenues, issues, earnings, income, products and profits thereof (other than amounts required to be rebated to the United

States Treasury under Section 148 of the Code), pending such proceedings, with such powers as the court making such appointment shall confer;

(4) Commence judicial proceedings to enforce the Indenture, and thereupon be entitled as a matter of right to the appointment of a receiver of any Project and the income and revenues therefrom (of which administrative costs, taxes, governmental and public service charges, indemnity payments and liability insurance proceeds shall be payable to the Authority) pending such proceedings, with such powers as the court making such appointment shall confer; or

(5) Terminate the Lease and while the Bonds remain unpaid, take possession of the Projects (including all books, papers and accounts pertaining thereto) in the name of and as agent for the Authority which shall retain title to such Projects, and hold, operate and manage the same, including (a) the making of repairs and improvements as the Trustee shall deem necessary, (b) the leasing of all or any part of the Facilities to another Governmental Unit or other person whose use and occupancy thereof will not adversely effect the exclusion from gross income of Bondowners for federal income tax purposes of interest paid on the Bonds, (c) collecting all income and revenues from the Projects (excluding administrative costs, taxes and governmental and public service charges, indemnity payments and liability insurance proceeds payable to the Authority) under the Lease, and (d) paying the reasonable costs and expenses of so taking, holding and managing the Projects (including compensation to the Trustee, its agents and counsel, and charges which the Trustee deems it advisable to pay and the costs of repairs and improvements) and applying the balance in accordance with the Indenture, for all of which the Trustee shall render monthly to the Authority a summarized statement of income and expenditures in connection therewith.

RIGHT OF BONDOWNERS TO DIRECT PROCEEDINGS

Anything in the Indenture to the contrary notwithstanding, the owners of a majority in aggregate principal amount of Bonds then Outstanding shall have the right, at any time during the continuance of an Event of Default, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings.

RIGHTS AND REMEDIES OF BONDOWNERS

No owner of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of the Indenture or for the execution of any trust or for the appointment of a receiver or any other remedy, unless (1) a default has occurred, (2) such default shall have become an Event of Default and the owners of not less than 25% in aggregate principal amount of Bonds then Outstanding shall have made written request to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted or to institute such action, suit or proceeding in its own name, (3) such owners of Bonds shall have offered to the Trustee indemnity as provided in the Indenture, and (4) the Trustee shall for 60 days after receipt of such request and indemnification fail or refuse to exercise the rights and remedies granted, or to institute such action, suit or proceeding in its own name; and such request and offer of indemnity are hereby declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trusts of the Indenture, and to any action or cause of action for the enforcement of the Indenture, or for the appointment of a receiver or for any other remedy provided in the Indenture.

FEES, CHARGES AND EXPENSES OF TRUSTEE AND PAYING AGENTS

The Trustee and any Paying Agent shall be entitled to payment and reimbursement for reasonable fees for its services rendered and all advances, counsel fees and other expenses reasonably and necessarily made or incurred by the Trustee and any Paying Agent in connection with such services but solely from moneys available pursuant to the Indenture. Upon an Event of Default, but only upon an Event of Default, the Trustee and any Paying Agent shall have a first lien with right of payment prior to payment on account of principal of or interest on any Bond upon the Trust Estate for the foregoing fees, charges and expenses incurred by it, respectively, provided that the Trustee and any Paying Agent shall have no lien with respect to any proceeds of the Pledge Agreement, which proceeds shall be used only to pay the principal of and interest on the Bonds.

SUPPLEMENTAL INDENTURES NOT REQUIRING CONSENT OF BONDOWNERS

The Authority and the Trustee may, without the consent of or notice to any of the Bondowners, but only with the consent of the Board, enter into any indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

- (1) To cure any ambiguity or formal defect or omission in the Indenture;
- (2) To grant to or confer upon the Trustee for the benefit of the Bondowners any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondowners or the Trustee, or to make any change which, in the judgment of the Trustee, is not to the material prejudice of the Bondowners;
- (3) To subject to the Indenture additional revenues, properties or collateral;
- (4) To modify, amend or supplement the Indenture or any indenture supplemental in such manner as to permit the qualification under the Trust Indenture Act of 1939 or any similar federal statute or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if they so determine, to add to the Indenture or any indenture supplemental such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute;
- (5) To evidence the appointment of a separate or Co-Trustee or the succession of a new Trustee or Paying Agent;
- (6) To issue Additional Bonds;
- (7) To increase the Debt Service Reserve Fund Requirement in connection with the issuance of Additional Bonds; and/or
- (8) To conform the Indenture with any provision of the Code in order to cause interest on the Bonds to retain its character as excludable from gross income of Bondowners for federal income tax purposes.

SUPPLEMENTAL INDENTURES REQUIRING CONSENT OF BONDOWNERS

Anything in the Indenture to the contrary notwithstanding, the owners of not less than two-thirds in aggregate principal amount of the Bonds then Outstanding which are affected, with the consent of the Board, shall have the right, from time to time, to consent to and approve the execution by the Authority and the Trustee of such other indenture or indentures supplemental thereto as shall be deemed necessary

and desirable by the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture; provided, however, that nothing shall permit, or be construed as permitting (1) without the consent of the holders of all then Outstanding Bonds, (a) an extension of the maturity date of the principal of or the interest on any Bond, or (b) a reduction in the principal amount of any Bond or the rate of interest thereon, or (c) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (d) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture, or (e) the creation of any lien other than a lien ratably securing all of the Bonds at any time Outstanding or (2) any modification of the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of the Trustee, without the written consent of the Trustee.

AMENDMENTS TO LEASE, PLEDGE AGREEMENT AND COLLECTION AGREEMENT

The Authority and the Trustee may, without the consent of or notice to the Bondowners, but only with the consent of the Board, consent to any amendment, change or modification of the Lease which does not reduce the amount of Lease Rentals thereunder if, in their respective judgment, such amendment, change or modification will not have a material adverse effect on the Bondowners. In addition, the parties to the Lease, the Pledge Agreement or the Collection Agreement may, without the consent of or notice to the Bondowners, amend the Pledge Agreement or Collection Agreement may, without the consent of or notice to the Bondowners, amend the Pledge Agreement or Collection Agreement as may be required (a) for the purpose of curing any ambiguity or formal defect or omission, (b) so as to add additional rights acquired in accordance with the provisions of such Pledge Agreement or Collection Agreement or (c) to permit a rating to be obtained for the Bonds which rating would not be less than the rating then applicable to Outstanding Bonds prior to such amendment; provided that the Trustee is first provided an opinion of Bond Counsel to the effect that such changes do not adversely affect the exclusion of interest paid on the Bonds from the gross income of Bondowners for federal income tax purposes; or (d) in connection with any other change therein which, in the judgment of the Trustee, is not to the material prejudice of the Trustee or the owners of the Bonds.

Neither the Authority nor the Trustee shall consent to any amendment, change or modification of the Lease, the Pledge Agreement or the Collection Agreement without the mailing of notice and the written approval or consent of the owners of not less than two-thirds in aggregate principal amount of the Bonds at the time Outstanding given and procured as provided in the Indenture, except that nothing shall permit, or be construed as permitting, a reduction of the aggregate principal amount of Bonds the owners of which are required to consent to any amendment, change or modification of the Lease, the Pledge Agreement or Collection Agreement or a reduction in, or a postponement of, the payments under any Bond without the consent of the owners of all of the Bonds then Outstanding.

SUMMARY OF CERTAIN PROVISIONS OF THE PLEDGE AGREEMENT

The Pledge Agreement contains various covenants and security provisions, certain of which are summarized below. Provisions of the Pledge Agreement summarized herein are qualified in their entirety by reference to the actual provisions set forth in such documents.

CREATION, PURPOSE AND PLEDGE AND ALLOCATION OF TUITION SUBACCOUNT

The Treasurer has established a special and irrevocable trust fund designated as the "Tuition Subaccount," such Tuition Subaccount being held and administered by the Escrow Holder pursuant to the Pledge Agreement and being otherwise subject to the terms and provisions of such Agreement. The Facility Fees, and any Optional Deposits shall be deposited into the Tuition Subaccount and transferred to the

Debt Service Fund to offset Lease Rental obligations and thereby pay principal of and interest on the Bonds. See “Disbursements for Lease Rental Payments” herein.

REPLENISHMENT OF DEBT SERVICE RESERVE FUND

In the event that the Debt Service Reserve Fund is drawn upon to pay amounts due on the Bonds, the Pledge Agreement obligates the Board to replenish the Debt Service Reserve Fund out of any legally available moneys, and, if necessary, the Board is required to take all actions necessary to obtain an appropriation and/or authorization for expenditure from the State Legislature for such purpose in the amount of such deficiency for payment to the Trustee and deposit in the Debt Service Reserve Fund. See “*SUMMARY OF CERTAIN PROVISIONS OF THE LEASE—Non-Appropriation; Limited Obligation*” herein for a description of the limitation of liability applicable to this obligation of the Board.

BONDS SUBJECT TO THE PLEDGE; ADDITIONAL BONDS

The only Bonds of the Authority that may be made subject to the benefits of the Pledge Agreement are those Bonds which are issued by the Authority, pursuant to the Indenture, and which are certified in writing by the Board, Treasurer, Authority and Escrow Holder to the Trustee as subject to the benefits of the Pledge Agreement. The Escrow Holder is directed by the Authority, the Board and the Treasurer to certify from time to time a Series of Bonds issued by the Authority, but only upon receipt of, among other things:

- (1) A written request of the Authority, the Board and the Treasurer that the Escrow Holder make such certification;
- (2) A copy of the Supplemental Resolution pursuant to which such Series of Bonds is being issued, certified by an authorized officer of the Authority; and
- (3) A written certification by or on behalf of the Board irrevocably designating such Series of Bonds as being secured by the Lease.

DISBURSEMENTS FOR LEASE RENTAL PAYMENTS

To initiate the payment process of Lease Rentals, no less than three days and no more than five days prior to any Interest Payment Date, the Trustee shall submit to the Treasurer and the Escrow Holder a certificate required pursuant to the provisions of the Pledge Agreement setting forth the amount of Lease Rentals and other amounts then due.

Upon receipt of any such certificate from the Trustee, the Treasurer shall, no less than two days prior to the next Interest Payment Date, pay the specified Lease Rentals and other amounts out of the Tuition Subaccount to the Trustee for deposit into the Debt Service Fund and/or other application in accordance with the terms of the Indenture. The obligation of the Treasurer to make such payments is a limited obligation to pay solely out of moneys on deposit in the Tuition Subaccount. If with respect to any such payment date, the sum of all Lease Rentals and other amounts set forth in the Escrow Holder’s certificate are greater than the amount on deposit in the Tuition Subaccount, the Treasurer shall disburse from the Tuition Subaccount the full amount on deposit therein to the Trustee and shall promptly notify the Board, the Authority and each Qualified Participating Institution of the amount of any insufficiency.

OTHER WITHDRAWALS FROM THE TUITION SUBACCOUNT

Within ninety (90) days after each August 1, the Board shall have the right to direct the Treasurer to withdraw any moneys remaining on deposit in the Tuition Subaccount if all other required transfers and payments have been made as of such date (including the disbursement for Lease Rentals described under the heading “Disbursements for Lease Rental Payments” above). To direct such withdrawal the Authority must first provide the Escrow Holder and the Treasurer an originally executed copy of a certificate that there is on deposit or there has otherwise been appropriated sufficient moneys to pay all amounts due or to become due within the next three months on the Lease. Upon delivery of such certificate, the Treasurer shall withdraw, or direct the Escrow Holder to withdraw, from the Tuition Subaccount such amounts as may be requested in writing by the Board and such amounts shall be withdrawn free and clear of the pledge and allocation of the Pledge Agreement. In addition to the withdrawals and disbursements described above, funds and/or investments in the Tuition Subaccount may be disbursed or transferred, as applicable, at the request of the Authority to the Trustee for deposit to any account or fund established under the Indenture at any time or from time to time upon the filing of a certificate signed by an authorized officer of the Authority which (1) certifies that the Board is presently in compliance with the rate covenant set forth in the Collection Agreement, (2) specifies the amount to be deposited and the fund or account to which the Trustee shall deposit such amount under the Indenture and (3) certifies that, following such disbursement there shall be no Event of Default existing under the Indenture or the Lease.

ACCEPTANCE OF ESCROW; AGREEMENT TO PERFORM OBLIGATIONS

The Treasurer has established the Tuition Subaccount with the Escrow Holder. The Tuition Subaccount shall receive the moneys deposited and to be deposited pursuant to the Pledge Agreement. The Escrow Holder shall perform all of the duties and obligations imposed upon it by the Pledge Agreement as well as those provisions of the Indenture.

INVESTMENTS

Any moneys held as part of the Tuition Subaccount shall be promptly invested and reinvested by the Escrow Holder upon the written direction (or telephone direction to be confirmed in writing) of the Board in any of the following investments, if and to the extent the same are not prohibited for investment of the Authority's moneys: one or more Eligible Investments as defined in the Indenture. Moneys in the Tuition Subaccount shall at all times be invested by the Trustee in investment securities having final maturities not later than 36 months or less; *provided, however*, that such moneys may be continuously invested in investment securities having no fixed maturities but which provide for the withdrawal of cash therefrom on demand. Investments may be made by the Escrow Holder through its own bond department, commercial banking department or commercial paper department.

Subject to any obligation to rebate earnings to the United States Treasury pursuant to Section 148 of the Code, all investment earnings and investment losses with respect to investment securities deposited in the Tuition Subaccount shall be credited to or against the Tuition Subaccount. The parties shall have no obligation to replace any investment losses sustained by the Tuition Subaccount. The Escrow Holder shall not be liable for any investment losses, other than as a result of gross negligence or willful default, provided that the Escrow Holder has complied with the investment directions given to it by the Authority.

LIMITED LIABILITY OF OBLIGATION

The pledge and allocation and benefits provided in the Pledge Agreement constitute an obligation which is exclusively an obligation of the Tuition Subaccount and not that of the Authority, the Board or the Treasurer or the State or any political subdivision of the State or the United States of America or any

agency or department thereof. Neither the faith and credit, taxing power, general credit nor any special credit or revenue of the Authority or the State or any political subdivision of the State or the United States of America or any agency or department thereof is pledged to the payment of the obligations created by such pledge and allocation.

NON-APPROPRIATION; LIMITED OBLIGATION

Notwithstanding anything in the Pledge Agreement to the contrary, the cost and expense of the performance by the Board of its obligations and the incurrence of any liabilities of the Board under the Pledge Agreement shall be subject to and dependent upon (1) moneys being appropriated from time to time by the State Legislature and/or (2) other appropriate authorization for the expenditure of legally available funds. See “SUMMARY OF CERTAIN PROVISIONS OF THE LEASE—Non-Appropriation; Limited Liability” for a description of the limitation of liability applicable to this obligation of the Board.

ARBITRAGE COVENANT

The parties covenant that no part of the moneys or funds at any time on deposit in the Tuition Subaccount shall be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any of the Bonds to be an “arbitrage bond” as defined in Section 103(c) or Section 148 of the Code. In addition, the Authority shall not use nor direct nor permit the use of any moneys in its possession or control, including the Tuition Subaccount, in any manner, which would cause any Bond to be an “arbitrage bond” within the meaning ascribed to such term in Section 103(c) or Section 148 of the Code. To this effect the Authority shall not fail to rebate amounts to the United States of America, which action or failure would cause any Bond to be an “arbitrage bond” within the meaning ascribed to such term in Section 103(c) or Section 148 of the Code.

LIABILITY OF ESCROW HOLDER

The Escrow Holder shall not be liable or responsible for any act done or step taken or omitted by it or any mistake of fact or law or for anything which it may do or refrain from doing, except for its own negligence or default. The Escrow Holder shall not be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect of the Pledge Agreement or to advance any of its own moneys unless properly indemnified.

REPORTS AND RECORDS OF ESCROW HOLDER

The Escrow Holder shall keep or cause to be kept proper books and accounts of all transactions made with respect to the Tuition Subaccount. Such books and all other books and papers of the Escrow Holder with respect to the Tuition Subaccount shall be subject at all times to the inspection of the Authority and the Trustee and the holders of Bonds owning an aggregate of not less than 5% in the aggregate of the principal amount of Bonds then Outstanding, or their representatives duly authorized in writing, except as may be otherwise provided by law.

The Escrow Holder, within 120 days after the close of each Fiscal Year of the Authority, shall prepare and shall file with the Authority and the Trustee, and otherwise as provided by law, a copy of a report or statement for such Fiscal Year with respect to the Tuition Subaccount, including statements in reasonable detail of income, expenses and changes in balances of the Tuition Subaccount for such period.

FEES OF ESCROW HOLDER

In consideration of the services rendered by the Escrow Holder under the Pledge Agreement, the Authority shall pay to the Escrow Holder its proper fees and expenses, to be paid annually. The Escrow Holder shall have no lien whatsoever upon and (except as otherwise expressly provided) shall not use any of the moneys or investment securities on deposit in the Tuition Subaccount for the payment of such proper fees and expenses; *provided, however*, that the Escrow Holder may, at the end of each Fiscal Year of the Authority, deduct the amount of its proper fees and expenses from the net investment income which has accrued to the Tuition Subaccount during such year, if any, and such deduction shall constitute a full discharge and payment of the Escrow Holder's fees and expenses to the extent of the amounts deducted. Extraordinary expenses of the Escrow Holder, including items other than its usual annual charge and transaction charges, may be deducted from any moneys in the Tuition Subaccount upon written authorization and approval of the Authority, but only if such net investment income is insufficient to cover such expenses and if such amounts to be so withdrawn are in excess of the Withdrawal Balance.

TERMINATION

The Pledge Agreement shall terminate as of the date on which there shall be no Bonds Outstanding under the Indenture.

AMENDMENTS

The Pledge Agreement shall not be repealed, revoked, rescinded, altered, amended or supplemented in whole or in part without (a) the written consent of the owners of 100% in principal amount of the Bonds Outstanding at the time such election is made, and (b) the written consent of the Escrow Holder; *provided, however*, that the Authority, the Board, the Treasurer and the Escrow Holder may, without the consent of, or notice to the owners of the Bonds, enter into such agreements supplemental to the Pledge Agreement for any one or more of the following purposes:

- (1) to cure or clarify an ambiguity, defect, omission, or inconsistency, or
- (2) to grant to or confer upon the Escrow Holder for the benefit of the owners of the Bonds any additional rights, remedies, powers, issues or security, or
- (3) to add to the covenants and agreements of the Authority, the Board or the Treasurer in the Pledge Agreement or to surrender any right or power reserved to or conferred upon the Authority, the Board or the Treasurer, or
- (4) to establish limitations on withdrawals from the Tuition Subaccount or for the issuance of Additional Bonds, or
- (5) to make alterations to the provisions of the Pledge Agreement to accommodate changes in the Code enacted subsequent to August 1, 1992 as are necessary and desirable and are not contrary or inconsistent with the Pledge Agreement as theretofore in effect, to ensure that the interest payable on any Bonds issued under, or to be issued under, the Indenture will not be includable in the gross income of the owners thereof for purposes of Federal income taxation, or
- (6) to make alterations to the provisions of the Pledge Agreement to accommodate the requirements of Section 148 of the Code as are necessary or desirable (whether or not inconsistent with the existing provisions of the Pledge Agreement), to ensure the issuance of Additional Bonds under the Indenture, the

interest on which will not be includable in the gross income of the owners thereof for purposes of Federal income taxation, or

(7) to vary the provisions with respect to the operation of the special trust fund created under the Pledge Agreement, to the extent determined by the Authority to be necessary or desirable (i) to better achieve the purposes of the Program or (ii) to more closely conform to the requirements of Sections 103(c) and 148 of the Code or any amendments thereof.

SUMMARY OF CERTAIN PROVISIONS OF THE COLLECTION AGREEMENT

The following is a summary of certain provisions of the Collection Agreement among the Treasurer, the Board, the Escrow Holder and the Qualified Participating Institutions, to which Collection Agreement reference is made for a complete recital of its terms.

PURPOSE OF AGREEMENT

The purpose of the Collection Agreement is to provide for the collection by each of the Qualified Participating Institutions of Facility Fees from enrolled students. The Facility Fees are required to be assessed for each quarterly term to all students who enroll at the Qualified Participating Institutions. The Facility Fees are non-refundable.

The Collection Agreement requires the Qualified Participating Institutions to collect Facility Fees and deposit them in an interest account pending the monthly payment of such Facility Fees to the Escrow Holder for deposit in the Tuition Subaccount. The monthly payments to the Escrow Holder are required to be made on the 15th day of each month so long as there are any Bonds Outstanding.

RATE COVENANT

In the Collection Agreement, the Board and each Qualified Participating Institution acknowledge and agree that the Qualified Participating Institutions shall charge, collect and pay over Facility Fees in each Academic Year which are estimated to be sufficient, together with the Appropriated Payments and any other Program Revenues projected to be available therefor, to equal or exceed one hundred three (103%) of scheduled Debt Service on all Outstanding Bonds required to be paid for the 12-month period commencing on August 1 in the next succeeding calendar year and program expenses. The Collection Agreement establishes a procedure and a timeline for making such calculations on an annual basis so that the Facility Fees can be adjusted as necessary to provide for sufficient time to impose and collect increased fees which are projected to be adequate to pay current scheduled debt service without assuming any increases in Appropriated Payments.

PLEDGE AND ALLOCATION

Pursuant to South Dakota law, the Board has irrevocably pledged, assigned and transferred, and the Treasurer has confirmed acceptance and agreement to such irrevocable pledge, assignment and transfer, of all the right, title and interest of the Board in and to the Facility Fees receivable under the Collection Agreement.

COVENANT TO SEEK APPROPRIATIONS

The Board covenants and agrees in the Collection Agreement provides that if at any time the Board is advised by the Authority or the Trustee or otherwise becomes aware or determines that the Facility Fees,

Appropriated Payments and other amounts available for payment of scheduled Debt Service may be deficient in any manner, the Board shall immediately seek from the Legislature an increase in Appropriated Payments in amounts and to be available on the dates required to remedy such a deficiency. The Board shall provide notice to the Authority and the Trustee of any action required to be taken pursuant to this covenant, and shall provide periodic updates to the Authority and the Trustee of progress made in connection therewith. **The South Dakota Legislature is under no obligation to approve such appropriations.**

Limited Liability of Obligation

The cost and expense of the performance by the Qualified Participating Institutions of their obligation under the Collection Agreement and the incurrence of any liabilities by each of the Qualified Participating Institutions thereunder shall be subject to and dependent upon moneys being made legally available from time to time by the Board upon its approval of the budget for each of the Qualified Participating Institutions for their vocational education programs. To effectuate the foregoing limitation, the Director of each Qualified Participating Institution is required to notify the Board in a timely manner of the appropriate fee or charge which should be included in the Qualified Participating Institution's budget for each fiscal year in order to provide for the performance of the obligations of the Qualified Participating Institutions under the Collection Agreement.

Neither the full faith and credit nor the taxing powers of any South Dakota School District (including any Qualified Participating Institution) is pledged for the payment of Facility Fees or any other amount under the Collection Agreement. The sole obligation of the Qualified Participating Institutions under the Collection Agreement is to assess, collect, deposit and pay over the Facility Fees as provided therein.

TERMINATION OF AGREEMENT

The Collection Agreement shall terminate no earlier than one business day after the date on which there are no Bonds Outstanding under the Indenture. Thereafter, the Collection Agreement shall be terminable at the option of the Board.

AMENDMENT

The Collection Agreement permits certain amendments thereto without the written consent or notice to Owners of the Bonds provided such amendments shall not adversely affect the rights of the Owners of the Bonds under the Indenture and shall not be inconsistent with the terms and the provisions of the Collection Agreement. Such amendments may be entered into for any one of several purposes, including for the purpose of curing ambiguities or formal defects or omissions, to grant or confer additional rights, remedies, powers, issues or security to the Escrow Holder for the benefit of Bondholders, to add to the covenants and agreements of the Board, the Qualified Participating Institutions or the Treasurer, to increase (but not reduce) the amount of Facility Fees or to accommodate amendments to the Code.

ESCROW HOLDERS; SUCCESSORS

The Escrow Holder under the Collection Agreement shall be the same institution acting as Escrow Holder under the Pledge Agreement and Trustee under the Indenture. The Escrow Holder under the Collection Agreement may be replaced by a successor institution in the same manner and subject to the same terms as set forth in the Indenture.

SUMMARY OF CERTAIN PROVISIONS OF THE LEASE

The following is a summary of certain provisions of the form of Lease to be entered into between the Authority and the Board to which reference is made for a complete recital of its terms.

REPRESENTATION BY THE BOARD

The Board represents it has authority to enter into the Lease and has duly authorized the execution and delivery of the Lease.

The Board represents that all of the proceeds of the Bonds made available to the Board will be used for the acquisition of land or capital improvements for use in the provision of post secondary vocational education, including costs associated with the cost of financing such Projects or the refunding of bonds or Bonds issued therefor; and that the Board will take no action which will impair the tax exempt status of the Bonds.

ACQUISITION OF PROJECTS

By the terms of the Lease the Board shall cause to be conveyed and transferred to the Authority fee simple title, subject only to Permitted Encumbrances, to the Projects, including the sites on which the Projects will be constructed. The Authority, in turn, leases such Projects to the Board for the Lease Term.

CONSTRUCTION AND INSTALLATION OF THE PROJECTS

The Board agrees, as agent for the Authority, to cause the Projects to be acquired, installed and constructed in accordance with plans approved by the Board.

The Board may not make, authorize or permit changes or amendments in the plans or construction contracts which will cause the total estimated cost of completing the Projects to exceed the amount on hand in the applicable Project Subaccounts plus the funds committed or reserved for such purpose (as certified by the Board to the Trustee); *provided, however*, that nothing in the Lease shall restrict or limit the power of the Board to make such changes as may be reasonably determined necessary or desirable.

The Board agrees that it will cause insurance and performance bonds to be maintained during the installation period in accordance with the provisions of the Lease and that it will complete installation of the Projects with all reasonable dispatch and in any event no later than three (3) years from the Closing Date, except only as completion may be delayed by any reason beyond a reasonable control of the Board for which a reasonable extension of the time of completion shall be granted as determined by the Trustee, provided that if the Projects are not completed by that date there shall be no resulting liability on the part of the Authority and no abatement or diminution in the payment required to be made by the Board under the Lease.

DEPOSIT OF BOND PROCEEDS

The proceeds of the Series 2014B Bonds will be disbursed as provided herein under "ESTIMATED APPLICATION OF SERIES 2014B BOND PROCEEDS AND OTHER FUNDS".

POSSESSION AND USE

The Authority shall deliver to the Board sole and exclusive possession of the Projects, subject to the rights of the Authority under the Lease, and covenants and agrees that it will not take any action other than pursuant to the Lease during the term of the Lease, and will, at the request and expense of the Board, cooperate with the Board to secure such possession and enjoyment. The Board accepts possession of the Projects on the date of the execution and acknowledgment of the Lease. Its right of possession shall continue until the term of the Lease expires or is terminated as provided in the Lease. The Board shall have the right to use the Projects throughout the term of the Lease, provided that all uses shall conform to the policies and purposes of the Act.

LEASE RENTAL PAYMENTS

Subject only to the limitations set forth under the heading “Non-Appropriation; Limited Obligation” herein, (i) commencing on the 28th day of each January and July so long as the Bonds are Outstanding, the Board covenants to pay or cause to be paid as a portion of the Lease Rentals under the Lease an amount equal to the interest due on all the Outstanding Bonds on the next February 1 or August 1, as applicable, and (ii) and on each January 28 and each July 28th so long as the Bonds are Outstanding, the Board also covenants to pay or cause to be paid as a portion of the Lease Rentals under the Lease an amount equal to one-half of the principal due on the next August 1 by reason of maturity or earlier redemption of any such Bonds (the amounts under (i) and (ii) above are collectively referred to as the “*Lease Rentals*”). Such Lease Rentals are required to be paid to the Trustee in the amounts and at the times indicated above for deposit to the Debt Service Fund so that on each February 1 and August 1 on which any payment is due with respect to the Outstanding Bonds, there shall be on deposit in the Debt Service Fund (after taking into account the other Program Revenues required or permitted to be transferred under the Indenture and the Pledge Agreement from the Tuition Subaccount to the Debt Service Fund) an amount which is fully sufficient to pay the principal of and premium and interest on such Outstanding Bonds on each Interest Payment Date.

Whenever Lease Rentals or other amounts are due and payable, the Trustee is required to first transfer, or cause the Treasurer or Escrow Holder to transfer, from the Tuition Subaccount to the Debt Service Fund the amount available to the extent necessary to pay such Lease Rentals or other amounts due, provided that if such amounts are for any reason insufficient, the Trustee shall promptly send written notice of such insufficiency to the Board, with copies of such notice to be given to the Escrow Holder, the Treasurer and the Authority and the Trustee shall proceed against the Board under the Lease.

NON-APPROPRIATION; LIMITED OBLIGATION

Notwithstanding anything in the Lease to the contrary, the cost and expense of the performance by the Board of its obligations under the Lease and the incurrence of any liabilities of the Board under the Lease, including, without limitation, the payment of all Lease Rentals and all other amounts required to be paid by the Board under the Lease, shall be subject to and dependent upon moneys being made legally available from time to time, including Appropriated Payments. In order to effectuate the foregoing, the Board has agreed in the Lease that the Secretary of the Department of Education shall include in the Board’s budget for the next occurring Fiscal Year an amount sufficient to pay all of the Lease Rentals and other amounts scheduled to become due in the next occurring Fiscal Year. The South Dakota legislature is under no obligation to approve such appropriations.

If, on April 1 of any Fiscal Year, sufficient funds or expenditure authority have not been made available, whether through appropriations of the State Legislature or from federal assistance or otherwise for the purpose of paying Lease Rentals and other amounts scheduled to be paid in the next occurring Fiscal

Year, the Board shall deliver written notice thereof (a “*notice of non-appropriation*”) to the Trustee, within 10 calendar days of such April 1. Upon the Trustee’s receipt of a notice of non-appropriation, the Lease Term for all of the Projects shall terminate, as of the end of the then current Fiscal Year; *provided, however*, such termination shall not become effective at the end of the then current Fiscal Year if, prior to the end of such Fiscal Year, the Board shall deliver to the Trustee a written statement to the effect that it reasonably expects sufficient funds for the next occurring Fiscal Year to be appropriated therefor, and in such event the Lease Term shall continue to the next Fiscal Year so long, but only so long, as there is an appropriation or other amounts become legally available for expenditure to pay all such Lease Rentals and other amounts scheduled to be paid in such next Fiscal Year.

In addition to the foregoing, and by way of further limitation, neither the faith and credit nor the taxing powers of the State is pledged for the payment of Lease Rentals or any other amount thereunder and the obligations of the Board under the Lease shall not be obligations of or enforceable against the State. The Board has no taxing powers.

A failure to pay Lease Rentals as to any Project shall constitute a failure to pay Lease Rentals as to all Projects.

ADDITIONAL PAYMENTS

Subject to the limitations expressed above under the heading “Non-Appropriation; Limited Obligation,” the Board agrees to pay to the Authority, upon demand, as payments under the Lease, all reasonable service fees incurred by the Authority in relation to the Projects which are not otherwise required to be paid by the Board under the terms of the Lease. The Board also agrees to pay to the Trustee and Escrow Holder as payments under the Lease, all reasonable fees and expenses incurred by the Trustee with regard to the performance of its duties under this Lease or the Indenture.

BOARD’S UNCONDITIONAL OBLIGATIONS

Subject in all events to the limitations described under “Non-Appropriation; Limited Liability” under this caption, the obligation of the Board to pay all Lease Rentals and other payments required under the Lease shall be otherwise absolute and unconditional. All Lease Rentals and other payments mentioned above shall be paid without notice or demand and without set off, counter claim, abatement, deduction or defeasance. The Board shall have no power to terminate the Lease for any cause, including, but not limited to, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Projects, eviction by paramount title, commercial frustration of purpose, bankruptcy or insolvency of the Authority or the Trustee, change in the tax or other laws or administrative rulings or actions of the United States of America or of the State or any political subdivision thereof, or failure of the Authority to perform and observe any agreement, whether express or implied, or any duty, liability, or obligation arising out of or connected with this Lease.

BOARD’S REMEDIES

If the Authority should fail to perform any of its agreements in the Lease, the Board may institute such action against the Authority as the Board may deem necessary so long as such action shall not violate the Board’s unconditional obligations. The Board may, at its own cost and expense and in its own name, prosecute or defend any action or proceeding against third parties or take any other action which the Board deems reasonably necessary in order to insure the acquisition, construction, and installation of the Projects and to secure or protect its right of possession and use of the Projects under the Lease. In such event, the Authority agrees to cooperate fully with the Board and to take all action necessary to effect the substitution of the Board for the Authority in any such action or proceeding if the Board shall so request

and agree to any and all costs and expenses and agree to indemnify the Authority and save it harmless against any risks, claims, or liabilities arising out of such action.

RATES AND CHARGES

Subject in all events to the limitations described above under “Non-Appropriation; Limited Liability” the Board covenants and agrees to use its best efforts, to operate the Projects in a manner so as to pay all necessary operating expenses and to pay all Lease Rentals due.

MAINTENANCE

During the term of the Lease, the Board will at its own expense keep the Projects in good repair and good operating condition and in as safe condition as its operations will reasonably permit, making all repairs thereto and renewals and replacements thereof which may be necessary for this purpose, so that the Projects will remain suitable and efficient for use in the operation of the Board’s programs.

MODIFICATIONS TO THE PROJECTS

The Board may, from time to time at its own expense, make any additions, modifications, or improvements to the Projects that it may deem desirable for its purposes and may remove Leased Equipment, provided that such additions, modifications, improvements, or replacements do not materially restrict the scope, character or operation of the Projects or impair the exemption of interest on the Bonds from Federal income taxes.

GOVERNMENTAL CHARGES AND UTILITY CHARGES

The Board will pay during the term of the Lease, as the same respectively become due, all governmental charges and utility charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Projects or other property acquired by the Board in substitution for, as a renewal or replacement of, or a modification, improvement, or addition to the Projects or Leased Equipment and other charges incurred in the operation, maintenance, use, and upkeep of the Projects.

INSURANCE REQUIREMENTS

The Board agrees to insure the Projects against fire, vandalism, malicious mischief and other perils covered under the usual extended coverage endorsement in an amount equal to the greater of (1) the replacement cost of the Projects or (2) the Outstanding principal amount of the Bonds, by means of policies issued by reputable insurance companies duly qualified to do such business in the State. As an alternative, the Board may insure the Projects under a blanket policy or policies which cover not only the Projects but other properties for the amounts specified in (1) above or such coverage as may be afforded through a builders risk policy. All policies evidencing insurance required shall be such as are acceptable to the Trustee, shall be carried in the names of the Board, the Authority and Trustee as their respective interests may appear and shall contain loss-payable clauses providing that all Net Proceeds of insurance resulting from claims for loss or damage covered thereby shall be paid to the Trustee as its interest appears.

PUBLIC LIABILITY INSURANCE

The Board agrees that it will carry public liability insurance with respect to its activities on the land with one or more reputable insurance companies in amounts acceptable to the Trustee and the Authority. The Authority shall be made an additional insured under such policies, or such policies may provide that all of

the lessors of and owners of property leased by the Board are insured in lieu of naming the Authority specifically. Such insurance may be by blanket insurance policy or policies. The Net Proceeds of insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which such insurance proceeds may be paid.

ADDITIONAL PROVISIONS RESPECTING INSURANCE

Each insurance policy provided for in the Lease shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interest of the Authority or Trustee without first giving written notice thereof to the Authority and Trustee at least thirty (30) days in advance of such cancellation or modification. Such policies may provide for reasonable deductible amounts but may not provide for coinsurance. As an alternative to any insurance coverage required, the Board may, with notice to the Authority and Trustee, participate in certain risk pool coverage programs.

ADVANCES

The Lease contains provisions for the advance of moneys in the Project Subaccount to pay for costs of the Related Project subject to certain conditions precedent, including a certificate as to completion of improvements, the absence of unsatisfied claims for labor or materials and compliance with plans, specifications and laws applicable to the Projects.

REPAIR, REPLACEMENT, OR RESTORATION

If the Project is partly destroyed or damaged, or condemned or taken by eminent domain, all Net Proceeds of any insurance award in connection with such damage or destruction shall be paid directly to the Trustee who will: (1) apply such Net Proceeds to the payment of the costs of repair, replacement, or restoration upon such items as it may reasonably require and (2) apply any balance of the Net Proceeds remaining after payment of all costs of any repair, replacement, or restoration to reduce the principal of the Series 2014B Bonds. If the Net Proceeds are not sufficient to pay the costs of repair, replacement or restoration in full, the Board will nonetheless complete the same and will pay that portion of the cost thereof in excess of the amount of the Net Proceeds.

In the event any Project is totally destroyed or taken in its entirety by condemnation or eminent domain, the Lease Term shall be terminated and all Net Proceeds of any insurance claim or condemnation award shall be paid to the Trustee to be applied by the Trustee as a credit against the Purchase Option Price applicable to such Project.

The Board shall not, by reason of any damage, destruction or condemnation or the payment of any costs of repair, replacement or restoration, be entitled to any reimbursement from the Authority or any abatement or diminution of the Lease Rentals payable under the Lease or the other sums payable by the Board.

INSPECTION AND ACCESS

The Board agrees that the Authority, the Trustee and their duly authorized agents shall have the right at all reasonable times to examine and inspect the Projects and shall have such rights of access as may reasonably be necessary in order to satisfy themselves that the provisions of the Lease are being complied with, and further, to have access sufficient to cause the Projects to be properly maintained in accordance with the Lease in the event of failure by the Board to perform its obligations thereunder.

BOARD'S ASSURANCE OF TAX EXEMPTION

In order to assure that the interest on any series of tax-exempt Bonds shall at all times not be included in gross income for Federal income tax purposes, the Board represents and covenants with the Authority, the Trustee and all holders of Bonds that it will not perform any acts or enter into any agreements that shall have the effect of causing the Bonds or any Series thereof to become private activity bonds within the meaning of Section 144 of the Code.

PARTIAL PREPAYMENT OF RENTS AND BONDS

The Board may, at any time on which the Indenture for such Series permits a corresponding prepayment of Series 2014B Bonds, transmit funds to the Trustee, in addition to amounts, if any, otherwise required to be paid at that time pursuant to the Lease, and direct that said money be utilized for the prepayment or redemption of the Series 2014B Bond of such Series or installments thereof which are then or will be redeemable; and, in the event of mandatory redemption of the Series 2014B Bonds of such Series under the terms of the Indenture for such Series, the Board shall transmit funds to the Trustee as necessary to comply with the terms of such redemption.

TERMINATION OF LEASE TERM

The Lease Term will terminate upon the earliest of any of the following events:

- (1) In the event of non-appropriation of funds as contemplated by the Lease;
- (2) The payment by the Board of the then applicable Purchase Option Price as contemplated in the Lease; or
- (3) The payment by Board of all Lease Rentals and other amounts scheduled to be paid during the entire Lease Term.

RETURN OF PROJECTS

Upon the termination of the Lease Term (i) prior to the payment of all Lease Rentals scheduled therefor and (ii) without the payment of the Purchase Option Price, the Board shall convey its interests in the Projects to the Authority subject to any Permitted Encumbrances, at the Board's expense, in the condition, repair, appearance and working order required under the Lease within ten days of such termination in accordance with the instructions of the Trustee; and the Board shall deliver to the Authority and the Trustee all necessary documents to evidence such conveyance. Upon receipt of such conveyance, the Authority may re-let the same in such manner as permitted under the Lease, and the Board shall have no further rights whatsoever with respect thereto; except that, in the event that such Project shall be re-let or sold by the Authority and the amount received from such re-letting or sale, less all costs thereof, shall be greater than the then applicable amount necessary to pay the Purchase Option Price with respect to all of the Outstanding Related Amount of Bonds, then any balance of such amounts in excess shall be paid to the Board.

EFFECT OF TERMINATION

Upon the termination of the Lease Term for the reason referred to in (1) above under the heading "Termination of Lease Term," the Board shall not be responsible for the payment of any additional Lease Rentals scheduled to become due in any succeeding Fiscal Year, except to the extent that moneys are legally available for such purpose, except that if the Board has not delivered possession of any Project to

the Authority in accordance with the provisions of the Lease described above under the heading “Return of Projects,” the termination of such Lease Term shall nevertheless be effective, but the Board shall be responsible for the payment of damages in an amount equal to the amount of the Lease Rentals which would have accrued for such Project, when calculated on a daily basis, for the period during which the Board fails to return such Project and for any other loss suffered by the Authority as a result of the Board’s failure to take such actions as required.

Upon the termination of the Lease Term for the reason stated in (2) above under the heading “Termination of Lease Term,” the Board shall be responsible for the payment of an amount equal to the then applicable Purchase Option Price. If no “Event of Default” has occurred and is continuing under the Indenture, the Board may elect to terminate the Lease Term applicable to one or more Projects by the payment of the Purchase Option Price with respect to any such Project or Projects. To implement this provision, the Board shall designate in writing to the Authority any such Project and the related Purchase Option Price applicable thereto and direct the Authority to redeem the Related Amount of Series Bonds on the first date on which such Bonds are subject to redemption pursuant to the Indenture.

TERMINATION UPON RETIREMENT OF BONDS

At any time when no principal of the Bonds remains outstanding and arrangements satisfactory to the Trustee and Authority have been made for the discharge of all other accrued liabilities under the Lease, the Board may, at its option, terminate this Lease by giving written notice thereof to the Authority and purchase the Facilities in the manner provided for in the Lease.

EVENTS OF DEFAULT

Board shall be deemed in default when:

- (1) The Board fails to pay in full any Lease Rentals or other payments required to be paid at the time and in the manner specified in the Lease; or
- (2) The Board fails to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the Lease, for a period of ten (10) days after written notice specifying such failure and requesting that it be remedied is given to Board by the Trustee, unless the Trustee shall agree in writing to an extension of such time prior to its expiration.

REMEDIES ON DEFAULT

Whenever any event of default shall have happened and be continuing, the Authority or the Trustee shall have the right, without any further demand or notice, to take one or any combination of the following remedial steps:

- (1) Terminate, effective as of the next Lease Rental payment date, the Lease Term and upon such termination the Board shall be responsible for certain payments required by the Lease (as described above under “Effect of Termination”);
- (2) Take whatever action at law or in equity may appear necessary or desirable to collect the Lease Rentals or other payments then due, or to enforce performance and observance of any obligation, agreement or covenant of Board under the Lease (but subject to the limitations herein set forth under “Non-Appropriation; Limited Obligation”);

- (3) Exercise any rights to which it is entitled as a secured party with respect to all or any part of the Projects;
- (4) Require the Board to furnish copies of all books and records of the Board pertaining to the Facilities;
- (5) Enforce the Pledge Agreement and apply amounts received thereunder in accordance with the Pledge Agreement;
- (6) Exclude the Board from possession or use of any or all of the Projects;
- (7) Take whatever action at law or in equity may appear necessary or appropriate to collect the Lease Rentals, Purchase Option Price and Appropriated Payments then due, or to enforce performance and observance of any obligation, agreement, or covenant of the Board under and subject to all terms and conditions of the Lease; and
- (8) Terminate the Lease and re-let the Projects to another governmental unit or such other person the use of the Projects by which will not adversely effect the exclusion of interest paid on the Bonds from the gross income of the owners thereof for federal income tax purposes.

ASSIGNMENT AND SUBLEASING BY AUTHORITY

The Lease may be assigned in whole or in part, and the Projects may be subleased as a whole or in part, by the Board upon certain further conditions including:

- (1) No assignment or subletting shall relieve the Board from primary liability for any of its obligations, and in the event of any such assignment or subletting the Board shall continue to remain primarily liable for the payment of the Lease Rentals specified in the Lease and for performance and observance of the other agreements on its part provided to be performed and observed by it; and
- (2) Any assignment or sublease from the Board must retain for the Board such rights and interests as will permit it to perform its obligations under the Lease, and any assignee from the Board shall assume the obligations of the Board to the extent of the interest assigned.

ASSIGNMENT BY THE AUTHORITY

The Authority may assign its rights and grant a security interest under its interest in, and pledge any moneys receivable under or pursuant to, the Lease to the Trustee pursuant to the Indenture as security for payment of the principal of and interest on the Bonds.

RESTRICTIONS ON TRANSFER AND ENCUMBRANCES OF PROJECTS BY THE AUTHORITY

The Authority agrees that, except as otherwise provided in the Lease or contemplated by the Indenture, it will not sell, assign, transfer, convey or otherwise dispose of the Projects or any portion thereof during the term of the Lease and that it will not, to the extent permitted by law, create or suffer to be created any debt, lien or charge thereon or make any pledge or assignment of or create any lien or encumbrance upon the rents, revenues and receipts derived from the sale, lease or other disposition of the Projects other than as provided in the Lease.

AMENDMENTS, CHANGES AND MODIFICATIONS

Except as otherwise provided in the Lease, until the Indenture is satisfied and discharged with respect to the Bonds in accordance with its terms, the Lease may not be effectively amended, changed, modified, altered, or terminated except as provided in the Indenture.

TAX EXEMPTION

GENERAL

The Internal Revenue Code of 1986, as amended (the “Code”), contains a number of requirements and restrictions that apply to the Series 2014B Bond from and after the date of issuance of the Series 2014B Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of Series 2014B Bond proceeds and the facilities financed or refinanced therewith, and certain other matters. The Authority, the Board and the Qualified Participating Institutions have covenanted to comply with all requirements of the Code that must be satisfied in order for interest on the Series 2014B Bonds to be excludable from gross income. Failure to comply with certain of such requirements could cause interest on the Series 2014B Bonds to become includable in gross income retroactive to the date of issuance of the Series 2014B Bonds.

Subject to the condition that the Authority, the Board and the Qualified Participating Institutions comply with the above-referenced covenants, under present law, in the opinion of Bond Counsel, interest on the Series 2014B Bonds is excluded from gross income of the owners thereof for federal income tax purposes. Interest on the Series 2014B Bonds will not be included as an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Series 2014B Bonds will be included in “adjusted current earnings” of certain corporations for purposes of computing the alternative minimum tax for such corporations.

In rendering its opinion, Bond Counsel will rely upon certifications of the Authority, the Board, the Qualified Participating Institutions 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 2014B Bonds, the application of the proceeds of the Series 2014B Bonds and certain other matters pertinent to the tax exemption of the Series 2014B Bonds.

Ownership of the Series 2014B 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 2014B Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

BOND PREMIUM

An amount equal to any excess of the purchase price of a Series 2014B Bond over the principal amount payable at maturity of such Series 2014B Bonds constitutes amortizable Series 2014B Bond premium that may not be deducted for federal income tax purposes. A purchaser of a Series 2014B Bond must amortize any premium over such Series 2014B Bond’s term using constant yield principles, based on the Series 2014B Bond’s yield to maturity. As Series 2014B Bond premium is amortized, the purchaser’s basis in such Series 2014B Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to such purchaser. This reduction will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on the sale

or disposition of such Series 2014B Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of any Series 2014B Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the federal, state and local tax consequences of owning such Series 2014B Bonds.

MARKET DISCOUNT

If a Series 2014B Bond is purchased at any time (other than in the initial public offering) for a price that is less than the Series 2014B Bond's stated redemption price at maturity, the purchaser may be treated as having purchased a Series 2014B Bond with market discount subject to the market discount rules of the Code (unless a statutory *de minimis* rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Series 2014B Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Series 2014B Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Series 2014B Bonds.

PENDING AND FUTURE LEGISLATION; OTHER CONSIDERATIONS

From time to time, there are Presidential proposals and legislative proposals in Congress that, if enacted into law, could eliminate or reduce the exclusion of the interest on the Series 2014B 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 2014B Bonds. No prediction can be made as to whether any such provisions will be enacted as proposed or concerning other future legislation which, if passed, might affect the tax treatment of interest on the Series 2014B Bonds. Prospective purchasers should consult with their own tax advisors regarding pending or proposed federal income tax legislation.

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

RATINGS

Fitch Ratings, Inc. ("*Fitch*") and Moody's Investor Service ("*Moody's*") have assigned the Series 2014B Bonds ratings of "____" and "____," respectively. Such credit ratings reflect only the views of such credit rating agencies. An explanation of the significance of such rating by Fitch may be obtained from Fitch Ratings, Inc., One State Street Plaza, New York, New York 10004 and an explanation of the significance of such rating by Moody's may be obtained from Moody's Investor Service, 7 World Trade Center, 250 Greenwich Street, New York, NY 10007.

There is no assurance that either of such ratings will continue for any given period of time or will not be revised downward or withdrawn entirely by either or both rating agencies, if in their respective judgment circumstances so warrant. Any revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2014B Bonds. Such ratings are not to be construed as a recommendation of the rating agency to buy, sell, or hold the Series 2014B Bonds, and the rating assigned by a rating agency should be evaluated independently.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Series 2014B Bonds by the Authority are subject to the approval of Bond Counsel, Perkins Coie LLP, Chicago, Illinois, whose approving opinions will be delivered with the Series 2014B Bonds. Certain matters will be passed upon for the Authority by its General Counsel, Murphy, Goldammer & Prendergast, L.L.P., Sioux Falls, South Dakota. Certain legal matters will be passed upon for the Board and the Treasurer by the South Dakota Attorney General. Certain legal matters will be passed upon for the Underwriter by Perkins Coie LLP, Chicago, Illinois.

LITIGATION

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series 2014B Bonds or questioning or affecting the validity of the Series 2014B Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence, nor the titles of a quorum of the present members or other officers of the Authority to their respective offices is being contested or questioned. There is no litigation pending which in any manner questions the right of the Authority to enter into the Indenture, the Pledge Agreement or the Lease or to secure the Series 2014B Bonds in the manner provided in the Indenture and the Act.

CONTINUING DISCLOSURE

The Board will enter into a Continuing Disclosure Undertaking with respect to the Series 2014B Bonds, to assist the Underwriter in complying with Rule 15c2-12(b)(v) of the Securities and Exchange Commission (the “Rule”). The form of the Undertaking is included as APPENDIX C hereto. The Undertaking will be for the benefit of the holders and Beneficial Owners of the Series 2014B Bonds. Under the Undertaking, the Board will be obligated to send certain information annually and to provide notice of certain events to certain information repositories pursuant to the requirements of the Rule, all as described therein. In the past five years, the Board believes that it has not failed to comply, in any material respect, with any previous disclosure undertaking in a written contract or agreement entered into under the Rule. Failure to comply with the terms of the Undertaking will not constitute an Event of Default under the Indenture, the Lease or the Subleases.

The delivery of the Continuing Disclosure Undertaking is a condition precedent to the obligation of the Underwriter to purchase the Series 2014B Bonds.

The disclosure required by the Continuing Disclosure Undertakings is in addition to and does not replace notices to be given to, or documents or information to be made available to or subject to the inspection of, Bondholders as required by the Indenture.

Certain of the outstanding series of Bonds of the Authority (the “*Insured Bonds*”) are insured by monoline bond insurance companies, namely, Ambac Assurance, Assured Guaranty, Ltd., and their successors (collectively, the “*Bond Insurers*”), as shown in the following table:

Insured Bonds	Bond Insurer
Vocational Education Program Revenue Bonds, Series 2004 and 2007	Ambac Assurance
Vocational Education Program Revenue Bonds, Series 2008	Assured Guaranty, Ltd.

Beginning in 2008 and continuing through the present, the rating on the Insured Bonds has been downgraded and upgraded from time to time. No notice of the rating agency actions was filed with EMMA by the Authority or the Board at the time such actions were publicly announced by the rating agencies. The Authority filed a notice with EMMA on September 9, 2014 disclosing such rating agency actions.

In addition, the long-term rating by Fitch of certain of the Authority's Bonds was upgraded and recalibrated from "AA-" to "AA" in April 2010. No notice of these changes was filed with EMMA by the Authority or the Board at the time such changes were publicly announced by Fitch. The Authority filed a notice with EMMA on September 9, 2014 disclosing this information.

UNDERWRITING

The Series 2014B Bonds are being purchased by Dougherty & Company LLC (the "*Underwriter*"). The Underwriter has agreed to purchase the Series 2014B Bonds at a purchase price of \$_____, reflecting an Underwriter's discount of \$_____ and a reoffering premium of \$_____. The Underwriter may make offers and sales to dealers (including dealers depositing Series 2014B Bonds into investment trusts) and others, and may deposit Series 2014B Bonds into investment trusts under its control, at prices or yields lower than the initial public offering prices stated on the cover page hereof. The Underwriter reserves the right to join with, and offer to sell to, dealers and other underwriters in offering the Series 2014B Bonds to the public. The initial public offering prices may be changed from time to time by the Underwriter.

MISCELLANEOUS

The references herein to the Act, the Indenture, the Pledge Agreement, the Collection Agreement, the Lease and the Subleases are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and for full and complete statements of such provisions reference is made to the Act, the Indenture, Pledge Agreement, the Collection Agreement, the Lease and the Subleases.

The agreement of the Authority with the holders of the Series 2014B Bonds is fully set forth in the Indenture, and neither any advertisement of the Series 2014B Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Series 2014B Bonds. Statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as such and not as representations of facts. Copies of the documents mentioned under this heading are on file at the offices of the Authority and following delivery of the Series 2014B Bonds will be on file at the offices of the Trustee.

The attached Appendices are an integral part of this Official Statement and should be read together with all foregoing statements.

The execution and delivery of this Official Statement has been duly authorized by the Authority.

SOUTH DAKOTA BOARD OF EDUCATION

By _____
Secretary, Department of Education

APPENDIX A

SOUTH DAKOTA TECHNICAL INSTITUTES

The State Board of Education has the responsibility for overall program coordination and oversight of curriculum for all four postsecondary technical institutes in the State of South Dakota (Lake Area Technical Institute, Mitchell Technical Institute, Southeast Technical Institute, Western Dakota Technical Institute). Approximately one-half of the operating budgets of each of the Institutes are derived by or through moneys furnished by the State Board of Education. The local Boards of Education have final approval of operating budget and program fee increases. Tuition increases and facility fee increases must have final State Board of Education approval. Subject to the budgetary and curricular approvals described above, the State Board of Education has designed four local school districts as the responsible entities for day-to-day operation of the respective Institutes.

FULL TIME EQUIVALENT (30 credit hours)

	LATI	MTI	STI	WDT	
School Year	Watertown	Mitchell	Sioux Falls	Rapid City	Total
<i>Est. 2014-2015</i>	<i>1663</i>	<i>1217</i>	<i>2197</i>	<i>923</i>	<i>6000</i>
2013-2014	1659	1,228	2,197	946	6030
2012-2013	1598	1118	2343	964	6023
2011-2012	1555	1127	2326	984	5992
2010-2011	1496	1215	2290	1163	6164
2009-2010	1388	1086	2373	1161	6008
2008-2009	1256	786	2000	932	4974
2007-2008	1182	798	1940	999	4919
2006-2007	1174	820	1955	1022	4971
2005-2006	1147	810	2091	1030	5078
2004-2005	1086	843	2191	915	5035
2003-2004	1055	759	2127	910	4851
2002-2003	1159	780	2028	902	4869
2001-2002	1069	785	1983	939	4776
2000-2001	1038	896	1898	942	4774
1999-2000	1127	879	1877	922	4805
1998-1999	1130	814	1801	913	4658
1997-1998	1117	741	1635	834	4327
1996-1997	1044	690	1430	886	4050
1995-1996	1035	693	1314	842	3884
1994-1995	1023	722	1275	863	3883
1993-1994	912	660	1107	910	3589
1992-1993	818	601	919	822	3160
1991-1992	821	550	855	746	2972

STUDENT FACULTY RATIO

Calculation: $\frac{\text{\# Credit hours in each semester}}{30 \text{ (Full Time Equivalent)}} : \frac{\text{\# Hours Taught}}{30 \text{ (Full Time Equivalent)}}$

SCHOOL YEAR		LATI		MTI		STI		WDT
13-14		16:1		16:1		19:1		16:1
12-13		17:1		16:1		22:1		15:1
11-12		17:1		17:1		20:1		16:1
10-11		17:1		19:1		22:1		16:1
09-10		16:1		21:1		24:1		22:1
08-09		15:1		16:1		20:1		14:1
07-08		15:1		15:1		24:1		15:1
06-07		16:1		16:1		15:1		15:1
05-06		17:1		16:1		15:1		15:1
04-05		17:1		16:1		15:1		15:1
03-04		15:1		16:1		20:1		13:1
02-03		17:1		16:1		20:1		15:1
01-02		15:1		16:1		20:1		18:1
00-01		14:1		17:1		20:1		15.5:1
99-00		14.6:1		18:1		20:1		18:1
98-99		15.5:1		19:1		20:1		18:1
97-98		15:1		21:1		22:1		16.3:1
96-97		15:1		17:1		23:1		15:1
95-96		15.6:1		17:1		24:1		15:1
94-95		15:1		15:1		22:1		15:1
93-94		14:1		15:1		19:1		15:1
92-93		11:1		14:1		16:1		14:1

DIPLOMAS AWARDED

SCHOOL YEAR	LATI	MTI	STI	WDT	Total
13-14	669	478	1062	323	2532
12-13	591	422	935	326	2274
11-12	633	455	916	324	2328
10-11	504	450	872	419	2243
09-10	495	408	741	334	1988
08-09	499	262	646	269	1676
07-08	471	297	699	314	1781
06-07	478**	264	812	335	1889
05-06	430	302	833	295	1860
04-05	390	319	919	338	1966
03-04	400	315	934	308	1242
02-03	399	335	817	357	1908
01-02	354	367	747	327	1795
00-01	396	331	645	336	1708
99-00	419	323	696	336	1772
98-99	434	322	596	340	1692
97-98	438	336	457	321	1552
96-97	374	263	420	300	1357
95-96	415	295	393	338	1441
94-95	354	284	311	288	1237
93-94	366	303	293	277	1239
92-93	386	273	305	296	1260
91-92	351	272	295	248	1166
90-91	342	221	215	235	1013
89-90	399	293	211	197	1100
88-89	390	315	211	179	1095

(2013-2014 SCHOOL YEAR)

A-4

APPENDIX B

THE STATE OF SOUTH DAKOTA

This Appendix sets forth certain information with respect to the state's financial condition and economy.

The State Government

The state of South Dakota entered the Union on November 2, 1889 as the 39th state. The state has a strong governor-bicameral legislative form of government. The Governor may be elected for two consecutive four-year terms. The Governor appoints all heads of state departments, as well as the Commissioner of Finance and Management, who serve at the pleasure of the Governor. The state legislature is composed of a 35-member Senate and a 70-member House of Representatives. Legislators are elected for two-year terms. In addition, the state government consists of seventeen departments.

The State Budget Process and Fiscal Management

State law requires annual preparation and approval of the state's budget. Departments of state government must prepare budget requests for the upcoming fiscal year and submit them to the Bureau of Finance and Management by September. The bureau, headed by the Commissioner of Finance and Management, reviews the budget requests, endorses the level requested or proposes alternate amounts, and presents its recommendations to the Governor for approval.

The Governor presents the annual budget to the state legislature by the first Tuesday after the first Monday in December. The state legislature is required to approve a budget by the end of the legislative session. There is no provision for a continuing resolution. In 2012, a constitutional amendment was passed to further clarify the state's balanced budget requirement. With the passage of the amendment, the State Constitution clearly requires that the Governor shall propose and the Legislature must adopt a balanced budget. Accumulated general fund balances may be drawn down to balance an annual budget, as long as the general fund balance remains positive. The Governor has the power to veto individual line items in the budget approved by the state legislature.

The state budget must remain in balance through the end of the fiscal year. Accordingly, state departments cannot encumber more funds than they have been authorized to spend. The Bureau of Finance and Management operates the state's computerized budget, accounting, payroll, and management information systems. Through these systems, the bureau monitors expenditures as well as revenues on a weekly basis. Periodic reports are made to the Governor. During the year, the Governor may authorize intradepartmental transfers of funds, as long as total appropriation levels are not exceeded.

The state has also taken steps to improve its financial practices. In 2014, a new provision was passed into law requiring independent revenue projections from the Bureau of Finance and Management and the Legislative Research Council during the legislative session and prior to July 30th each year. If either of the estimates project a budget shortfall in excess of two and one-half percent of the general fund appropriated budget, measures shall be proposed to the Governor and the Legislature to eliminate the shortfall. Additional policies and procedures are being implemented to improve state practices regarding timely financial statements, periodic reports of actual receipts and expenditures, and longer term financial planning.

State law provides for a Budget Reserve Fund into which shall be deposited unobligated general fund cash up to an amount equal to ten percent of the general fund appropriation through the General Appropriations Act for the prior fiscal year. Expenditures from the Budget Reserve Fund shall only be by special appropriation of the legislature and shall only redress such unforeseen expenditure obligations, or such unforeseen revenue shortfalls, as may constitute an emergency pursuant to Section 1, Article III of the State Constitution. State law also provides for a Property Tax Reduction Fund, into which are deposited receipts from video lottery, sixty percent of the revenue collected from a four percent tax upon the gross receipts of telecommunication services, a 33% portion of the revenue in excess of \$35 million dollars generated from the tobacco taxes, and a portion of the wind energy taxes. The Commissioner of the Bureau of Finance and Management may transfer dollars from the Property Tax Reduction Fund to the general fund for the purpose of providing property tax relief through the state aid to education formula. Any unobligated cash remaining at year-end, after the transfer to the Budget Reserve Fund, is transferred to the Property Tax Reduction Fund if the amount in the Property Tax Reduction Fund does not exceed fifteen percent of the general fund appropriation in the General Appropriations Act for the previous fiscal year.

In 2014, a new provision was passed into law that changes how unobligated cash is directed at the end of the fiscal year. If the combined balance of the Budget Reserve Fund and the Property Tax Reduction Fund are at least ten percent of the general fund appropriation in the General Appropriations Act for the prior fiscal year, then an amount of unobligated cash is dedicated to the Building South Dakota Fund for economic development purposes under certain circumstances. However, the combined balance of the Budget Reserve Fund and the Property Tax Reduction fund may not be less than ten percent of the general fund appropriation in the General Appropriations Act for the previous fiscal year for any such transfer to occur.

Financial Management and Controls

Internal financial controls have been established by the state to provide reasonable assurance that unauthorized expenditures are not made, that revenues due to the state are paid, and that financial records are materially accurate and reliable. As previously discussed, the Bureau of Finance and Management operates computerized budget and accounting systems. The bureau is able to monitor revenues and expenditures on a weekly basis to detect excess expenditures or shortfalls in revenues. The State Treasurer is an elected official that receives all state funds and assures funds are deposited accurately. The State Auditor, an elected official, must approve all expenditures and is responsible for issuing warrants. The Department of Revenue periodically audits retail establishments to assure their payment of sales and excise taxes. Field agents for the Department of Revenue keep retailers informed of changes in tax requirements and have an accounts payable system to handle delinquent establishments. The Department of Revenue also employs law enforcement officers who investigate suspected criminal revenue violations. Nonpayment of sales and excise taxes are punishable by revocation of a retailer's sales tax license, effectively halting the retailer's business operation.

The integrity of financial records of the state is monitored by the Auditor General through annual independent financial and compliance audits. This official is appointed for a term of eight years by the state legislature and can only be removed for cause.

A financial management system, implemented by the state July 1, 1986, facilitates preparation of annual consolidated financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP). These statements are independently audited by the state Auditor General or other independent certified public accounting firms in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. The audited financial report includes the auditor's opinion, as well as comprehensive disclosure notes covering such items as a summary of significant accounting policies, status of pension

plans, lease obligations if applicable, contingent liabilities, and any pending litigation, etc. Statements within the report are presented on a cash, modified accrual, or full accrual basis as dictated by GAAP.

STATE REVENUES AND EXPENDITURES

Summary of Revenues and Expenditures

The state's largest sources of revenues are sales and service taxes. The largest categories of expenditures are general bill expenditures for state aid to primary and secondary education; property tax relief payments made by the state to local government units through state aid to education; the state's share of the cost of Medicaid, corrections, and higher education; operation, maintenance and improvement of facilities for state government; and, state salaries. The state is required to operate with a positive general fund balance. It may not incur general obligation debt on either a short or long-term basis to balance its budget.

The table on the following page sets forth revenues and expenditures of the state's general fund for each fiscal year since the year ending June 30, 2012, through the Legislative Adopted budget for the fiscal year ending June 30, 2015.

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GENERAL FUND CONDITION STATEMENT

	ACTUAL FY2012	ACTUAL FY2013	ACTUAL FY2014	REV. ADOPTED FY2015
RECEIPTS				
Sales and Use Tax	\$ 744,413,638	\$ 776,095,539	\$ 823,401,593	\$ 851,345,413
Property Tax Reduction Fund ^{A, B}	102,441,742	107,261,166	106,529,196	107,821,172
Contractor's Excise Tax	82,991,355	84,466,868	90,409,495	95,378,299
Insurance Company Tax	65,076,133	70,291,028	75,110,734	77,967,813
Unclaimed Property Receipts	13,865,906	13,912,329	59,761,191 ^C	60,200,000 ^C
Bank Franchise Tax ^D	29,688,991	17,537,046	10,782,035	8,711,612
Other ^{E, F, G, H, I}	197,426,132	188,613,241	187,803,001	190,412,124
One-Time Receipts	26,326,591 ^J	29,931,989 ^K	77,590,390 ^L	-
Transfer from Budget Reserves	20,155,015 ^M	-	-	-
Transfer from Property Tax Reserves	-	-	19,626,221 ^N	-
Obligated Cash Carried Forward	-	75,655,964 ^{W,X}	25,216,171 ^{W,X}	9,876,349 ^W
TOTAL RECEIPTS	\$1,282,385,503	\$1,363,765,170	\$1,476,230,027	\$1,401,712,782
EXPENDITURES				
General Bill Excl. State Aid to Education ^{O, P, Q}	\$ 811,329,252	\$ 849,777,970	\$ 897,015,578	\$ 986,285,410 ^R
State Aid to Education	335,465,599	371,944,344	388,886,137	402,671,180
Special Appropriations	27,845,256	27,806,110	5,183,800	-
Emergency Special Appropriations	24,693,972	31,990,554	141,217,725	-
Continuous Appropriations ^S	2,395,460	2,435,167	2,617,916	2,879,843
Expenditure Transfers	5,000,000 ^T	6,745,000 ^U	7,200,000 ^V	-
TOTAL EXPENDITURES	\$1,206,729,539	\$1,290,699,145	\$1,442,121,156	\$1,391,836,433
TRANSFERS				
Budget Reserve Fund ^W	\$ -	\$ 47,849,854	24,232,522	9,876,349
TOTAL TRANSFERS	\$ -	\$ 47,849,854	\$ 24,232,522	\$ 9,876,349
Beginning Unobligated Cash Balance	\$ -	\$ -	\$ -	\$ -
Net (Receipts less Expend./Transfers)	\$ 75,655,964	\$ 25,216,171	\$ 9,876,349	\$ -
OBLIGATIONS AGAINST CASH				
Budget Reserve Fund ^W	(47,849,854)	(24,232,522)	(9,876,349)	-
Cash Committed for Following Budget ^X	(27,806,110)	(983,649)	-	-
Total Obligations Against Cash	(75,655,964)	(25,216,171)	(9,876,349)	-
Ending Unobligated Cash Balance ^W	\$ -	\$ -	\$ -	\$ -

SOURCE: State of South Dakota Bureau of Finance and Management

NOTE: This document was prepared on a cash basis for budgeting purposes and reflects obligations against cash. The totals may not add due to rounding.

NOTES FOR RECEIPTS SECTION

^A SB 225, passed during the 1996 legislative session, requires the state's proceeds from video lottery to be deposited into the Property Tax Reduction Fund (PTRF). In addition, the bill provides that the Commissioner of the Bureau of Finance and Management may transfer monies available from the PTRF to the general fund necessary to provide property tax relief through state aid to education. HB 1104,

passed by the 2003 Legislature, imposes a tax of 4% upon the gross receipts of telecommunication services. Sixty percent of the revenue collected from this tax is deposited into the PTRF. Initiated Measure 2, adopted by the voters in November of 2006, increased the cigarette tax on a 20 pack of cigarettes by \$1.00 and the tax on a 25 pack of cigarettes by \$1.25. In addition, the wholesale tax on other tobacco products increased from 10% to 35% of the wholesale purchase price. The PTRF receives a 33% share of any revenue generated by the tobacco tax which is in excess of \$35 million. The PTRF's share of the tobacco tax was \$7.4 million in FY2012, \$7.8 million in FY2013, \$8.1 million in FY2014, and is estimated to be \$7.6 million for FY2015.

- ^B In November of 2010, the voters of South Dakota approved Referred Law 12, which extended the statewide smoking ban to nearly all public places including restaurants, bars, and casinos. This change in law caused a sharp decline in video lottery revenue of approximately 18% for the first year. Video lottery revenue continues to be below its previous peak of \$111.1 million, which was reached in FY2008. The PTRF's share of video lottery revenue was \$87.3 million in FY2012, \$91.4 million in FY2013, \$91.6 million in FY2014 and is estimated to be \$92.8 million in FY2015.
- ^C Due to consolidation in the banking industry and changes in regulations, some large banks have moved their home office to South Dakota. This increased ongoing unclaimed property receipts to \$59.8 million in FY2014. In FY2015, collections from unclaimed property are estimated at \$60.2 million.
- ^D The national recession combined with federal regulation changes in the financial sector, most notably the credit card industry, caused bank franchise tax collections to the general fund to decline substantially during and after the economic recession. Improvements in economic conditions increased collections to \$29.7 million in FY2012. However, due to consolidation within the banking industry and new financial regulations, the allocation of taxable income to South Dakota decreased collections in FY2013 and FY2014 to \$17.5 million and \$10.8 million, respectively. Bank franchise tax collections are expected to continue to trend below historical levels with collections budgeted at \$8.7 million in FY2015.
- ^E Includes \$7.1 million in FY2012, \$6.5 million in FY2013, \$5.8 million in FY2014, and \$5.2 million in FY2015 derived from annuity contract payments related to the 1986 sale-leaseback transaction.
- ^F Includes receipts of \$2.1 million in FY2012, \$2.0 million in FY2013, \$2.1 million in FY2014, and \$2.3 million in FY2015 due to legislation allowing the Department of Game, Fish, and Parks to make lease payments to the Building Authority. These are used to retire revenue bonds issued for the renovation and modernization of infrastructure at Custer State Park, the renovation and modernization of fish hatchery facilities, the Sioux Falls Outdoor Learning Center, stabilization of the Cedar Shore Resort marina and improvements to the Angostura sanitary sewer system.
- ^G Includes receipts of \$0.7 million in each fiscal year due to legislation passed in 2007 allowing the Board of Regents to make lease payments to the Building Authority. These are used to retire revenue bonds issued for critical maintenance and repair projects for the Board of Regents.
- ^H Includes \$18.3 million in FY2012, \$17.9 million in FY2013, \$18.4 million in FY2014, and \$20.0 million in FY2015 in interest proceeds from the Education Enhancement and Health Care Trust Funds. The market values of the Education Enhancement and Health Care Trust Funds are calculated using a 16 quarter moving average of the prior 16 quarters as of December 31st.
- ^I The Health Care Tobacco Tax Fund and the Education Enhancement Tobacco Tax Fund, created by the 2007 Legislature, receive a 34% share and 33% share of the revenue, respectively, generated by the tobacco tax in excess of \$35 million. The transfer from the Health Care Tobacco Tax Fund to the general fund was \$7.6 million in FY2012, \$8.0 million in FY2013, \$8.3 million in FY2014 and is

estimated to be \$7.8 million in FY2015. The transfer from the Education Enhancement Tobacco Tax Fund to the general fund was \$7.4 million in FY2012, \$7.8 million in FY2013, \$8.1 million in FY2014 and is estimated to be \$7.6 million in FY2015.

- ^J Included in FY2012 one-time receipts is \$1.0 million transferred from the Tobacco Prevention and Reduction Trust Fund to the general fund due to HB 1251 passed by the 2011 Legislature. In addition, a reallocation of bank income from previous tax years increased the bank franchise tax collections by \$14.3 million on a one-time basis in FY2012. Also included are \$0.4 million from CREP savings, \$0.4 million from a securities settlement, \$0.4 million from refinancing gains, and \$9.8 million for unexpended carryovers and special appropriations.
- ^K Included in FY2013 one-time receipts are \$17.4 million in one-time unclaimed property receipts, \$2.4 million from miscellaneous national settlements, and \$1.7 million from refinancing gains. In addition, the 2013 Legislature passed HB 1060 which transferred \$4.1 million from the Tax Relief fund and \$1.8 million from the Budgetary Accounting fund to help offset the shortfall in the state employee health insurance. Also included in the one-time receipts is \$1.0 million transferred from the Tobacco and Prevention Reduction Trust fund, which was offset by a corresponding expense transfer, along with \$1.2 million from a one-time bank franchise tax correction from a prior fiscal year, and \$0.3 million from unexpended carryovers and special appropriations.
- ^L Included in FY2014 one-time receipts is \$54.0 million of one-time unclaimed property receipts. HB 1270, passed by the 2012 Legislature, changed the dormancy period for unclaimed property from 5 years to 3 years. Also included is a transfer of \$19.4 million of available cash from the large project refund liability account and \$4.2 million from unexpended carryovers and special appropriations.
- ^M HB 1269, passed by the 2012 Legislature, transferred \$20.2 million from the Budget Reserve Fund to the general fund to pay for 2011 flood and other disaster costs and for pine beetle suppression in the Black Hills through the Emergency and Disaster Fund and the Fire Suppression Fund.
- ^N In FY2014, the Legislative adopted budget utilized one-time funds to pay off higher interest bonds to reduce future ongoing expenses. Included in the FY2014 budget as part of the bond reduction plan was a transfer of \$19.6 million from the Property Tax Reserves to the general fund.

NOTES FOR EXPENDITURES, TRANSFERS, AND OBLIGATIONS AGAINST CASH SECTIONS

- ^O Includes \$7.1 million in FY2012, \$6.5 million in FY2013, \$5.8 million in FY2014, and \$5.4 million in FY2015 as appropriated to the Bureau of Administration and to the Bureau of Finance and Management to make lease payments pursuant to the leases entered into with the South Dakota Building Authority dated December 1, 1986.
- ^P Includes expenditures of \$2.1 million in FY2012, \$2.0 million in FY2013, \$2.1 million in FY2014, and \$2.3 million in FY2015 due to legislation allowing the Department of Game, Fish, and Parks to make lease payments to the Building Authority. These are used to retire revenue bonds issued for the renovation and modernization of infrastructure at Custer State Park, the renovation and modernization of fish hatchery facilities, and for the Sioux Falls Outdoor Learning Center, stabilization of the Cedar Shore Resort marina and improvements to the Angostura sanitary sewer system.
- ^Q Includes expenditures of \$0.7 million in each fiscal year due to legislation passed in 2007 allowing the Board of Regents to make lease payments to the Building Authority. These are used to retire revenue bonds issued for critical maintenance and repair projects for the Board of Regents.

- ^R As part of the debt reduction plan which was adopted by the 2014 Legislature, a savings of \$6.3 million has been incorporated in the FY2015 adopted budget. Reducing long-term debt with one-time funds allows the state to eliminate South Dakota Building Authority generally funded bond payments beginning in FY2015.
- ^S Includes continuous appropriations for fire premium tax refunds (SDCL 10-44-9.1), the payment of special assessments (SDCL 5-14-20) and allocations to the critical teaching needs scholarship program and needs-based matching program (SDCL 4-5-29.2). Included is \$2.3 million in FY2012, \$2.4 million in FY2013, \$2.5 million in FY2014, and \$2.7 million in FY2015 for fire premium tax refunds, \$80,000 each fiscal year for payment of special assessments, and \$109,652 in FY2015 for the critical teaching needs scholarship program and needs-based matching program.
- ^T HB 1137 and SB 48, both passed during the 2012 legislative session, transferred \$1.0 million to the Cement Plant Retirement fund to reduce the liability shortfall and \$4.0 million to the Railroad Trust Fund for railroad projects in FY2012.
- ^U SB 197, passed during the 2012 legislative session, transferred \$0.2 million from the general fund to the Teen Court Grant Program Fund. HB 1060 and SB 90, which both passed during the 2013 Legislative session, amended the FY2013 General Appropriations Act and transferred \$6.6 million from the general fund for the following purposes: \$2.0 million to the Cement Plant Retirement Fund to reduce the liability shortfall, \$2.0 million to the Future Fund for economic development projects, \$1.0 million to the Department of Corrections Local & Endowment Fund for the Criminal Justice Initiative, \$1.0 million to the Tobacco Prevention and Reduction Trust Fund, \$0.5 million to Research Proof-of-Concept Fund for research commerce grants, and \$0.1 million to the Boxing Commission Fund for the South Dakota Athletic Commission.
- ^V HB 1185, which is the General Appropriations Act for FY2014, transferred \$7.0 million from the general fund for the following purposes: \$2.0 million to the Cement Plant Retirement Fund to reduce the liability shortfall, \$2.0 million to the SD Science and Technology Authority to rehabilitate the Ross shaft, \$2.0 million to the Future Fund for economic development projects, and \$1.0 million to the Railroad Trust Fund for railroad projects. SB 237, passed by the 2013 Legislature, authorized \$0.2 million to be transferred to the Board of Regents for the need-based matching program.
- ^W HB 1287, passed during the 1991 legislative session, provided that on July 1, 1991, \$20.0 million of the general fund ending unobligated cash balance from FY1991 be transferred into the Budget Reserve Fund. The maximum level of cash in the Budget Reserve Fund is limited to 10% of the general funds appropriated for the prior year in the General Appropriations Act. At the end of FY2012 and FY2013, \$47.8 million and \$24.2 million of unobligated general fund cash was obligated to the Budget Reserve Fund and transferred at the beginning of FY2013 and FY2014. At the end of FY2014, \$9.9 million of ending unobligated cash was transferred to the Budget Reserve fund at the beginning of FY2015.
- ^X SB 192, passed during the 2012 legislative session, obligated \$27.8 million of FY2012 cash and carried it forward to FY2013 to fund one-time special appropriations in FY2013. SB 90, passed during the 2013 legislative session, obligated \$1.0 million of FY2013 cash and carried it forward to FY2014. This obligated cash is reflected as a one-time receipt in FY2013 and FY2014.

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Sources of State Revenues

Sales and use taxes provide approximately 60% of the state's general fund revenue. The following table sets forth sales and use tax receipts from FY1990 through FY2014.

Sales and Use Tax Receipts

<u>Fiscal Year</u>	<u>Total Sales and Use Tax Receipts</u>
1990	\$235,003,923
1991	\$255,923,319
1992	\$263,088,306
1993	\$279,086,691
1994	\$307,699,601
1995	\$320,350,077
1996	\$341,432,921
1997	\$364,795,953
1998	\$389,033,994
1999	\$406,382,186
2000	\$432,084,154
2001	\$452,326,675
2002	\$457,950,970
2003	\$475,956,210
2004	\$508,241,448
2005	\$534,196,029
2006	\$576,899,817
2007	\$603,185,287
2008	\$644,596,998
2009	\$659,735,445
2010	\$652,115,527
2011	\$710,196,255
2012	\$744,413,638
2013	\$776,095,539
2014	\$823,401,593

Source: South Dakota Bureau of Finance and
Management

Other significant sources of revenue are the Property Tax Reduction Fund (video lottery revenues), bank franchise tax, insurance company tax, and contractor's excise tax. The following table sets forth the state's general fund receipts by category with a description of each source.

GENERAL FUND RECEIPTS

	ACTUAL FY2012	ACTUAL FY2013	ACTUAL FY2014	REV. ADOPTED FY2015
ONGOING RECEIPTS				
Sales and Use Tax	\$ 744,413,638	\$ 776,095,539	\$ 823,401,593	\$ 851,345,413
Property Tax Reduction Fund	102,441,742	107,261,166	106,529,196	107,821,172
Contractor's Excise Tax	82,991,355	84,466,868	90,409,495	95,378,299
Insurance Company Tax	65,076,133	70,291,028	75,110,734	77,967,813
Unclaimed Property Receipts	13,865,906	13,912,329	59,761,191	60,200,000
Licenses, Permits, and Fees	48,402,362	48,775,456	52,203,471	52,273,316
Net Transfers In	31,015,337	31,003,732	32,133,057	31,173,505
Trust Funds	30,345,686	27,235,040	28,436,564	30,782,266
Cigarette Tax	30,000,000	30,000,000	30,000,000	30,000,000
Bank Franchise Tax	29,688,991	17,537,046	10,782,035	8,711,612
Alcohol Beverage Tax	10,186,442	10,456,399	10,790,053	11,143,578
Charges for Goods and Services	10,203,592	11,144,224	10,461,221	10,844,148
Lottery	7,834,332	7,735,976	6,296,600	7,800,696
Severance Taxes	10,441,940	7,690,588	5,424,019	6,260,231
Sale-Leaseback	7,111,219	6,465,087	5,838,681	5,236,813
Investment Income and Interest	10,394,581	6,459,192	4,528,811	2,860,000
Alcohol Beverage 2% Wholesale Tax	1,490,640	1,647,547	1,690,523	2,037,571
SUBTOTAL (ONGOING RECEIPTS)	<u>\$1,235,903,897</u>	<u>\$1,258,177,217</u>	<u>\$1,353,797,245</u>	<u>\$1,391,836,433</u>
ONE-TIME RECEIPTS				
One-time Unclaimed Property Receipts	0	17,397,006	54,013,610	0
Transfer from Large Project Liability Account	0	0	19,424,586	0
Transfer from Tax Relief Fund	0	4,133,192	0	0
Misc. Settlements	418,500	2,366,100	0	0
Transfer from Budgetary Accounting Fund	0	1,839,990	0	0
Refinancing Gains	396,295	1,738,786	0	0
Transfer from Tobacco Prev. & Red. Trust Fund	1,000,000	1,000,000	0	0
One-time Bank Franchise Tax	14,336,418	1,153,334	0	0
CREP Savings	400,000	0	0	0
Unexpended Carryovers and Specials	9,775,378	303,580	4,152,194	0
Transfer from Property Tax Reserves	0	0	19,626,221	0
Transfer from Budget Reserves	20,155,015	0	0	0
Obligated Cash Carried Forward	0	75,655,964	25,216,171	9,876,349
SUBTOTAL (ONE-TIME RECEIPTS)	<u>\$ 46,481,606</u>	<u>\$ 105,587,953</u>	<u>\$ 122,432,782</u>	<u>\$9,876,349</u>
GRAND TOTAL	<u>\$ 1,282,385,503</u>	<u>\$ 1,363,765,170</u>	<u>\$ 1,476,230,027</u>	<u>\$ 1,401,712,782</u>

NOTE: The totals may not add due to rounding.

EXPLANATION OF ONGOING GENERAL FUND RECEIPTS

Sales and Use Tax (SDCL 10-45 and 10-46): A tax of 4% is imposed upon the gross receipts from selling, leasing, and renting tangible personal property and the sale of services. Starting January 1, 2006, all items subject to the state sales tax are taxed at 4% to conform to the Streamlined Sales Tax Project. A use tax of the same rate as the sales tax is imposed on goods and services that are used, stored, or consumed in South Dakota on which South Dakota sales tax was not paid. SB 262, passed by the 1994 Legislature, created the Sales and Use Tax Fund into which a portion of the sales tax is deposited to cover the Department of Revenue's cost of administering the tax. SB 63, passed by the 2003 Legislature, broadened the sales tax to include interstate telecommunication services. HB 1081, passed by the 2006 Legislature, exempted maintenance items used on agricultural machinery and equipment from the sales and use tax. HB 1154, passed by the 2006 Legislature, imposed an excise tax of 4% on the gross receipts

from the sale of farm machinery, farm attachment units, and irrigation equipment. Municipal tax no longer applies to these sales.

Property Tax Reduction Fund: The Property Tax Reduction Fund (PTRF) was created to fund property tax relief in South Dakota. SB 225, passed during the 1996 legislative session, provides that the Commissioner of the Bureau of Finance and Management may transfer monies available from the PTRF to the General Fund to provide property tax relief through state aid to education. Revenues deposited in the PTRF come from five sources: 1) 49.5% of video lottery net machine income; 2) 60% of the revenue from the 4% tax on the gross receipts of telecommunication services, which is imposed by HB 1104 passed by the 2003 Legislature; 3) 33% share of revenue generated from the tobacco tax in excess of \$35 million; 4) transfer from the wind energy tax fund per SDCL 10-35-22; and, 5) unobligated cash remaining at the end of a fiscal year after the transfer into the Budget Reserve Fund, if the amount in the PTRF does not exceed 15% of the general fund appropriations in the General Appropriations Act for the previous fiscal year.

Contractor's Excise Tax (SDCL 10-46A and 10-46B): An excise tax of 2% is imposed on the gross receipts of all prime contractors on construction projects. Subcontractor's gross receipts are not subject to the 2% tax if subcontractors are furnished a valid prime contractor's exemption certificate by the prime contractor for each specific job performed. The gross receipts of both prime contractors and subcontractors providing construction services or realty improvement projects for qualifying utilities are subject to a 2% excise tax.

Insurance Company Tax (SDCL 10-44): A tax of 2.5% of premiums on policies insuring risks located in South Dakota is imposed on insurance companies. In addition, the insurer must also pay a tax of 0.5% of the gross premium receipts on all fire insurance business done in the state. The tax imposed on insurance companies for life insurance policies is 2.5% of premiums on the first \$100,000 of annual life premiums per policy, and 0.08% for that portion of the annual life premiums per policy exceeding \$100,000. A life insurance policy (other than credit life as defined in SDCL 58-19) of a face amount of \$7,000 or less is taxed at the rate of 1.25% of premiums. The tax imposed on insurance companies for annuities is 1.25% of the consideration for annuity contracts on the first \$500,000 of annual consideration per annuity contract, and 0.08% for that portion of the annual consideration per annuity contract exceeding \$500,000. Farm mutual insurers and fraternal benefit societies are exempt from insurance company taxes.

Unclaimed Property Receipts (SDCL 43-41B): Receipts to the general fund from unclaimed property are the result of all funds in excess of \$50,000 that are receipted into the Unclaimed Property Trust Fund. Property is considered abandoned after it has been unclaimed by the rightful owner for three years in South Dakota and must be submitted to the State Treasurer's office per state law. These unclaimed funds are a perpetual liability of the state of South Dakota and if the owner of such funds is identified, they must be paid to the rightful owner.

Licenses, Permits, and Fees: This receipt classification includes revenues received from the sales of a broad variety of licenses, permits, and filing fees that are assessed to defray administrative costs. State agencies collecting these revenues include the Departments of Agriculture, Health, Labor and Regulation, Public Safety, Social Services, Revenue, the Unified Judicial System, and the Secretary of State.

Net Transfers In: Receipts included in this category are general fund reimbursements by the Highway Fund; receipts from the Department of Game, Fish, and Parks; receipts from the Motor Vehicle Fund; the state's share of the Deadwood gaming revenue; the transfer from the Health Care Tobacco Tax Fund and the Education Enhancement Tobacco Tax Fund; lease payments to retire revenue bonds from various state agencies; and other miscellaneous receipts.

Trust Funds (SDCL 4-5-29.1, SDCL 4-5-29.2, and Article 13, Sections 20 and 21 of the State Constitution): Receipts included in this category are transfers from the Health Care Trust Fund, the Education Enhancement Trust Fund, and the Dakota Cement Trust Fund. Four percent of the market value is transferred from the Health Care Trust Fund and the Education Enhancement Trust Fund to the general fund as long as the principal of the trust funds is not invaded. The earnings from the Health Care Trust Fund are to be used for health care related programs, and the earnings from the Education Enhancement Trust Fund are to be used for education enhancement programs. Due to the passage of Constitutional Amendment O in the 2012 election, the transfer from the Dakota Cement Trust Fund to the general fund was changed from \$12 million each fiscal year to four percent of the market value, similar to the transfers from the Health Care Trust Fund and the Education Enhancement Trust Fund. This change took effect for the FY2013 transfer from the Dakota Cement Trust Fund.

Cigarette Tax (SDCL 10-50): In November 2006, the voters of South Dakota adopted Initiated Measure 2 which increased the cigarette tax on a 20 pack of cigarettes from \$0.53 to \$1.53. In addition, the tax on other tobacco products increased from 10% of the wholesale purchase price to 35% of the wholesale purchase price. The tax increase became effective January 1, 2007. The first \$30 million generated from this tax is deposited into the General Fund. The next \$5 million collected annually is deposited in the Tobacco Prevention and Reduction Trust Fund. Any tobacco tax revenue in excess of \$35 million is divided among the Property Tax Reduction Fund (33% share), the Education Enhancement Tobacco Tax Fund (33% share), and the Health Care Tobacco Tax Fund (34% share).

Bank Franchise Tax (SDCL 10-43): An annual tax is imposed on banks, financial institutions, and savings and loan associations based upon net income assignable to South Dakota. The tax rates are as follows: 1) 6% on net income of \$400 million or less; 2) 5% on net income exceeding \$400 million but equal to or less than \$425 million; 3) 4% on net income exceeding \$425 million but equal to or less than \$450 million; 4) 3% on net income exceeding \$450 million but equal to or less than \$475 million; 5) 2% on net income exceeding \$475 million but equal to or less than \$500 million; 6) 1% on net income exceeding \$500 million but equal to or less than \$600 million; 7) 0.5% on net income exceeding \$600 million but equal to or less than \$1.2 billion; and, 8) 0.25% on net income exceeding \$1.2 billion. Ninety-five percent of the taxes paid defined as credit card banks are deposited in the General Fund, and five percent of the taxes collected are returned to the county where the bank or financial institution is located. Twenty-six and two-thirds percent of all other revenues collected from the tax are deposited in the General Fund and seventy-three and one-third percent are remitted to the county where the bank or financial institution is located.

Alcohol Beverage Tax (SDCL 35-5): This tax is computed and levied on all alcoholic beverages purchased, received, or imported from a distiller, manufacturer, or foreign wholesaler for sale to a retail dealer. The taxation rates are as follows: 1) \$8.50 per 31 gallon barrel (or a prorata share thereof) on malt beverages; 2) all light wines and diluted beverages (except sparkling wines and cider) having more than 3.2% and not more than 14% alcohol by weight, 93¢ per gallon; 3) all wines (except sparkling wines) having more than 14% and not more than 20% alcohol by weight, \$1.45 per gallon; 4) all wines (except sparkling wines) having more than 20% and not more than 24% alcohol by weight, and all sparkling wines containing alcohol, \$2.07 per gallon; 5) all cider having not more than 10% alcohol by weight, 28¢ per gallon; and, 6) all other alcoholic beverages, \$3.93 per gallon. The state receives 75% of the total tax collected, and 25% of the collections are returned to the municipalities.

Charges for Goods and Services: Receipts included in this category are from charges made by institutions under the Department of Social Services; audit charges made by the Auditor General to state and local governments; child support collections paid back to the state received by the Department of Social Services; 35% of fines, penalties, and forfeitures collected on county, township, or municipal

offenses; and other miscellaneous charges. Also, any receipts from the Inheritance and Estate Tax are included in the Charges for Goods and Services category.

Lottery (SDCL 42-7A): Receipts under this classification include the general fund's share of revenues from the sale of instant and on-line lottery tickets. All of the net proceeds from the sale of instant lottery tickets are deposited in the General Fund. The first \$1.4 million of the net proceeds from the sale of online lottery tickets are deposited in the General Fund, and the remaining net proceeds are deposited in the Capital Construction Fund.

Severance Taxes (SDCL 10-39 and 10-39A): A severance tax is imposed at the rate of \$4 per ounce of gold severed in South Dakota as well as an additional per ounce tax if the price of gold is in excess of \$800 per ounce. In addition, there is a tax of 10% of the net profits from the sale of precious metals severed. For persons severing precious metals that were in business in the state prior to January 1, 1981, 100% of the revenues collected are deposited in the General Fund. For persons permitted on or after January 1, 1981, for the purpose of severing precious metals, 80% of the revenues collected are deposited in the General Fund, and 20% are remitted to the county in which the precious metals were severed. Owners or operators of energy minerals must pay a tax equal to 4.5% of the taxable value of any energy minerals severed. One-half of the energy mineral severance taxes received are returned to the county where the energy minerals were severed and one-half are credited to the General Fund.

Sale-Leaseback: Receipts under this classification are derived from the annuity contract purchased with the proceeds from the sale of certificates of participation associated with the December 1986 sale-leaseback transaction.

Investment Income and Interest: Revenues included in this category are from interest and the investment earnings of the general fund and nonparticipating funds in the Cash Flow Fund.

Alcohol Beverage 2% Wholesale Tax (SDCL 35-5-6.1): This tax is in addition to the tax imposed by SDCL 35-5-3, and is levied at the rate of 2% of the purchase price upon the purchase of alcoholic beverages, except malt beverages, by a wholesaler from a distiller, manufacturer, or supplier.

EXPLANATION OF ONE-TIME GENERAL FUND RECEIPTS

One-time Unclaimed Property Receipts (FY2013 and FY2014): Mergers within the banking industry resulted in a large one-time increase of unclaimed property in FY2013, of which \$17.4 million is expected to be one-time. HB 1270, passed by the 2012 Legislature, changed the dormancy period for most unclaimed property from 5 years to 3 years. This change will result in 3 years of unclaimed property collections in FY2014, of which the one-time portion was to be \$54.0 million.

Transfer from Tax Refund Construction Liability account (FY2014): HB 1040, passed by the 2014 Legislature, transferred \$19.4 million from the Tax Refund Construction Liability account to help pay for outstanding bonds to reduce future ongoing expenses.

Transfer from Tax Relief Fund (FY2013): SB 196, passed by the 2010 Legislature, transferred \$1.0 million from the Tax Relief Fund to the general fund in FY2011 to help balance the budget. HB 1060, passed by the 2013 Legislature, transferred \$4.1 million from the tax relief in FY2013 to help fund the shortfall in the state health insurance program.

Misc. National Settlements (FY2012 and FY2013): This represents South Dakota's allocation of miscellaneous one-time national securities settlements in FY2012 and FY2013.

Transfer from Budgetary Accounting Fund (FY2013): HB 1060, passed by the 2013 Legislature, transferred \$1.8 million from the Budgetary Accounting Fund to the General Fund in FY2013 to help fund the shortfall in the state health insurance program.

Refinancing Gains (FY2012 and FY2013): This represents refunding gains from the South Dakota Building Authority by refinancing bonds.

Transfer from the Tobacco Prevention and Reduction Trust Fund (FY2012 and FY2013): HB 1251, passed by the 2011 Legislature, transferred \$1.0 million from the Tobacco Prevention and Reduction Trust fund to the General Fund to help balance the budget. In FY2013, a \$1.0 million transfer from the Tobacco Prevention and Reduction Trust Fund was transferred to the general fund but was offset by an equal transfer out of the general fund.

One-time Bank Franchise Tax (FY2012 and FY2013): This represents a one-time receipt of bank franchise tax due to a reallocation of bank income over prior tax years which were deemed allowable by the IRS. The reallocation of income caused a one-time increase in South Dakota's bank franchise tax of \$14.3 million in FY2012. In FY2013, a one-time \$1.2 million receipt of bank franchise tax was realized due to a prior period adjustment in bank franchise allocations.

CREP Savings (FY2012): This represents a one-time transfer from the South Dakota Building Authority as the Conservation Reserve Enhancement Program (CREP) bonds have been paid in full and these funds are no longer needed for the CREP program as the program is scheduled to end in November of 2013.

Unexpended Carryovers (FY2012, FY2013, and FY2014): Unexpended balances that revert to the General Fund from prior years for special appropriations and carryovers are reflected in receipts as unexpended carryovers and specials.

Transfer from Property Tax Reserves (FY2014): This represents a one-time transfer of \$19.6 million from the Property Tax Reserves to help pay outstanding bonds in order to reduce future ongoing expenses.

Transfer from Budget Reserve Fund (FY2012): HB 1269, passed by the 2012 Legislature, transferred \$20.2 million from the Budget Reserve fund to the General Fund to cover emergency 2011 flood expenses and other outstanding disaster costs, as well as fund pine beetle suppression in Custer State Park and other privately owned land in the Black Hills.

Obligated Cash Carried Forward: This is the amount of prior year cash carried forward to meet obligations that existed at the end of the previous year. SB 192, passed by the 2012 Legislature, obligated \$27.8 million of FY2012 cash which was used to fund FY2013 one-time expenses. In addition, \$47.8 million of FY2012 cash was obligated and transferred to the Budget Reserve Fund in FY2013 as required by state law. The \$75.7 million total of FY2012 obligated cash was carried forward to FY2013 as one-time revenue. SB 90, passed by the 2013 Legislature, obligated \$1.0 million of FY2013 cash and carried it forward to FY2014. In addition, \$24.2 million of FY2013 cash was obligated and transferred to the Budget Reserve Fund in FY2014 per state law. This \$25.2 million of FY2013 cash was carried forward to FY2014 as one-time revenue. In FY2014, \$9.9 million of FY2014 cash was obligated and transferred to the Budget Reserve fund at the beginning of FY2015.

TRUST FUNDS

The Dakota Cement Trust Fund was established and ratified by the voters of South Dakota on April 10, 2001. It exists as a result of the sale of the State Cement Plant. Assets in the trust fund are invested by the South Dakota Investment Council, and up to four percent of the market value from the trust is transferred annually into the state general fund and is dedicated for education related programs. The fair market value of the Dakota Cement Trust Fund was \$302.4 million as of June 30, 2014.

The Health Care Trust Fund was established by the 2001 legislature and ratified by the voters of South Dakota on April 10, 2001. It exists as a result of the state taking advantage of the difference between the Medicaid payment and the Medicare upper limits maximum allowable reimbursement for nursing homes. Moneys in the Health Care Trust Fund are invested by the South Dakota Investment Council. Expenditures from the trust are to be made by an appropriation by the legislature and are to be limited to health care related programs. The fair market value of the Health Care Trust Fund was \$136.0 million as of June 30, 2014.

The Education Enhancement Trust Fund (formerly the People's Trust Fund) was established by the 2001 legislature and ratified by the voters of South Dakota on April 10, 2001. It is composed of the state's share of the proceeds from the Master Settlement Agreement entered into by the nation's tobacco manufacturers, as well as cash that previously existed in the state's Youth at Risk Trust Fund. Moneys available in the trust are invested by the South Dakota Investment Council, and expenditures from the trust are to be appropriated by the legislature for education-related programs. The fair market value of the Education Enhancement Trust Fund was \$503.4 million as of June 30, 2014.

THE RETIREMENT SYSTEM

The South Dakota Retirement System provides retirement benefits for state employees and those employees of local governments that participate in the system. Employers and employees contribute equal amounts in the form of a percentage of employee compensation that are fixed in state statute.

The funding ratio held steady at 100% in FY2013 and 100% in FY2014. The funding ratio is the ratio of the actuarial value of the assets of the system to the actuarial accrued liabilities of the system as of the date of calculation. The unfunded actuarial accrued liability (AAL) as a percent of covered payroll decreased from 15.8% in FY2005 to 0% in FY2014.

In 2013, the South Dakota Retirement System Board of Trustees took action to transfer funds from the cushion to the actuarial value of assets in order to eliminate the system's unfunded AAL. As a result, the unfunded AAL as of June 30, 2013 is \$0 and no funding period is applicable. As of June 30, 2014, SDRS is fully funded with an actuarial value funded ratio of 100% and a preliminary estimated market value funded ratio of 114%. At their September 2014 meeting, the SDRS Board of Trustees adopted a generational mortality table effective June 30, 2014, which adjusted plan liabilities to recognize current and anticipated increases in life expectancies. This change reduced the market value funded ratio to 107% as of June 2014.

In FY 2014, SDRS experienced an estimated 18.91% money-weighted market return net of investment expenses, significantly more than the assumed rate of return of 7.25%. Plan assets at market value in FY2014 are over \$10 billion compared to plan assets in FY2005 of \$6.1 billion.

The assets of the system are valued at their market value. The system is in full compliance with the standards of the Governmental Accounting Standards Board and has received the Government Finance

Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the last seventeen years. The system is subject to an annual actuarial valuation and an annual audit performed by an independent audit firm.

STATE BONDING OBLIGATIONS

The State Constitution prohibits the state from having general obligation indebtedness in excess of \$100,000. The following authorities or nonprofit corporations have the power to issue debt.

The South Dakota Health and Educational Facilities Authority is an independent public instrumentality of the state created for the purpose of assisting nonprofit health and educational institutions in the construction, acquisition, financing, and refinancing of projects to be undertaken relative to programs for health care and higher education. As of June 30, 2014, the Health and Educational Facilities Authority had revenue bonds or notes outstanding in the aggregate principal amount of \$1,180,151,747.

The South Dakota Building Authority is a public instrumentality of the state created for the purpose of building or otherwise providing facilities for use by the State. To finance such projects, the Authority is empowered to issue and sell bonds as the Legislature by law declares to be in the public interest. Amounts issued by the Authority shall not be deemed to constitute a debt of the State of South Dakota or any political subdivision thereof. As of June 30, 2014 the South Dakota Building Authority had bonds outstanding in the aggregate principal amount of \$255,886,951.

The South Dakota Housing Development Authority is an independent public instrumentality of the state that is authorized to issue bonds and notes to obtain funds to purchase mortgage loans from mortgage lenders, to make mortgage loans for permanent financing of single or multi-family housing, and to purchase from mortgage lenders securities guaranteed by an instrumentality of the United States government that finances mortgage loans. The Housing Development Authority had revenue bonds outstanding in the aggregate principal amount of \$1,200,453,687 as of June 30, 2014.

The South Dakota Economic Development Finance Authority is a public instrumentality of the state organized to promote and assist the growth and development of business concerns. The Economic Development Finance Authority had revenue bonds outstanding in the aggregate principal amount of \$44,837,465 as of June 30, 2014.

The debt of such issuers is not funded with moneys from the general fund. Certain obligations of the South Dakota Housing Development Authority and the South Dakota Economic Development Finance Authority are secured by capital reserve funds that may be restored to the applicable capital reserve fund requirement by an appropriation of funds by the state legislature. The legislature is legally authorized, but is not legally obligated, to appropriate moneys to such capital reserve funds.

The South Dakota Railroad Authority is an independent public instrumentality of the state created for the purpose of developing and improving railroads and related facilities. The Railroad Authority had revenue bonds outstanding in the aggregate principal amount of \$15,125,000 as of June 30, 2002. All of the outstanding bonds were tendered and bondholders were paid in August of 2002. The Railroad Authority had no revenue bonds outstanding as of June 30, 2014.

The South Dakota Conservancy District is a public instrumentality of the state organized to promote and assist the construction of water resource facilities for the conservation, storage, distribution, and treatment of water. The South Dakota Conservancy District had revenue bonds outstanding in the aggregate principal amount of \$253,250,000 as of June 30, 2014.

The Educational Enhancement Funding Corporation is an instrumentality of, but separate and apart from the state, and was created for the purpose of selling a portion or all of the state's rights, title and interest in the proceeds of the Tobacco Master Settlement Agreement. The state gave up its rights to any proceeds from the Tobacco Master Settlement Agreement while the bonds are outstanding, or over the term of the bonds, whichever is shorter. The Educational Enhancement Funding Corporation had bonds outstanding in the amount of \$136,850,000 as of June 30, 2014.

The South Dakota Science and Technology Authority was created to foster and facilitate scientific and technological investigation, experimentation, and development. The South Dakota Science and Technology Authority had no revenue bonds outstanding as of June 30, 2014.

The South Dakota Energy Infrastructure Authority was created to diversify and expand the state's economy by developing the energy production facilities and the energy transmission facilities necessary to produce and transport energy to markets within South Dakota and outside of the state. The South Dakota Energy Infrastructure Authority had no revenue bonds outstanding as of June 30, 2014.

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CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION

Population

According to the 2010 census, the state comprises 75,885 square miles of land area and the population of South Dakota was approximately 814,180. There are 11 principal cities in the state, with the five largest being Sioux Falls, Rapid City, Aberdeen, Brookings, and Watertown. The 2010 population of these five cities are Sioux Falls, 153,888; Rapid City, 67,956; Aberdeen, 26,091; Brookings, 22,056; and Watertown, 21,482. Most of the state's business activity occurs in these cities, as well as along the Interstate 29 corridor located in the eastern part of South Dakota that runs from the southern border to the northern border.

The following table represents the population trends for South Dakota and the United States:

Calendar Year	South Dakota Population	% Change From Prior Year	United States Population (millions)	% Change From Prior Year
2003	763,729	0.5%	290.1	0.9%
2004	770,396	0.9%	292.8	0.9%
2005	775,493	0.7%	295.5	0.9%
2006	783,033	1.0%	298.4	1.0%
2007	791,623	1.1%	301.2	1.0%
2008	799,124	0.9%	304.1	1.0%
2009	807,067	1.0%	306.8	0.9%
2010	816,211	1.1%	309.3	0.8%
2011	823,772	0.9%	311.6	0.7%
2012	834,047	1.2%	313.9	0.7%
2013	844,877	1.3%	316.1	0.7%

Source: U.S. Census Bureau population estimates

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Economy

The state has a stable economy, dominated by wholesale and retail trade, and agriculture. Total gross business sales grew from \$10.5 billion in calendar year 1984 to \$67.7 billion in calendar year 2013. In 2013, retail and wholesale trade represented 41.3% and 24.0% of total gross sales, respectively.

Gross Sales By State Sales Tax Licensees (\$ millions)

	<u>CY2010</u>		<u>CY2011</u>		<u>CY2012**</u>		<u>CY2013**</u>	
	<u>Sales</u>	<u>% of Total Sales</u>	<u>Sales</u>	<u>% of Total Sales</u>	<u>Sales</u>	<u>% of Total Sales</u>	<u>Sales</u>	<u>% of Total Sales</u>
Agriculture, Forestry, and Fishing*	\$ 472.6	0.8	\$ 526.7	0.8	\$ 581.4	0.9	\$ 647.1	1.0
Mining	180.9	0.3	200.0	0.3	284.7	0.4	143.4	0.2
Construction	33.9	0.1	36.1	0.1	39.9	0.1	45.8	0.1
Manufacturing	6,873.5	12.2	8,264.6	13.3	8,439.6	13.1	8,627.9	12.8
Transportation and Public Utilities	3,101.4	5.5	3,221.8	5.2	3,301.3	5.1	3,496.3	5.2
Wholesale Trade	13,627.5	24.1	14,902.2	24.0	15,704.3	24.4	16,256.5	24.0
Retail Trade	22,354.3	39.6	25,472.5	41.1	26,386.1	41.0	27,951.8	41.3
Finance, Insurance, and Real Estate	330.0	0.6	441.3	0.7	522.3	0.8	609.2	0.9
Services	9,475.8	16.8	8,931.2	14.4	9,072.1	14.1	9,877.9	14.6
Public Administration	2.3	0.0	2.5	0.0	4.5	0.0	3.6	0.0
State Total	<u>\$56,452.2</u>	<u>100</u>	<u>\$61,998.9</u>	<u>100</u>	<u>\$64,336.3</u>	<u>100</u>	<u>\$67,659.4</u>	<u>100</u>

* Does not include sales of agricultural crops and livestock.

** Includes adjustments due to a significant tax return adjustment that spanned years 2012 and 2013.

Source: "Statistical Reports", South Dakota Department of Revenue

Note: Numbers may not add due to rounding.

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In calendar year 2012, the South Dakota farm economy produced cash receipts of \$10.3 billion. Crops generated \$6.4 billion, or 62.2% of total cash receipts, and livestock generated \$3.6 billion, or 34.6% of cash receipts. The state does not offer any farm subsidy programs.

Cash Receipts from Farm Marketing and Government Payments
(\$ millions)

Calendar Year	Crops	Livestock	Government Payments	Total
2002	1,739.0	2,045.8	335.0	4,119.8
2003	2,060.5	2,131.9	549.1	4,741.5
2004	2,154.9	2,434.8	400.6	4,990.3
2005	2,243.3	2,589.9	808.7	5,641.9
2006	2,085.1	2,638.4	411.7	5,135.2
2007	3,237.8	2,683.0	317.1	6,237.9
2008	4,973.3	2,698.3	400.7	8,072.3
2009	5,041.6	2,338.4	256.4	7,636.4
2010	4,452.2	3,022.7	401.1	7,876.0
2011	5,735.0	3,459.5	303.4	9,497.9
2012	6,438.5	3,574.9	330.8	10,344.2

Source: Economic Research Service, United States Department of Agriculture.

Business Expansion

The state government has taken steps to encourage further diversification of the economy. In 1981, changes were made in South Dakota banking laws that have attracted credit card processing firms. The largest of these is Citibank of South Dakota, N.A., which processes more than 10 million credit cards and employs 2,800 persons.

Just as the upgrading of the banking laws brought business to the state, the upgrading of technology has continued the trend of growth and diversification. South Dakota continues to target industries that have historically found success in the state and new, emerging industries to further diversify the state's economy. This review and re-focusing now has the state targeting the following industries: advanced manufacturing, bioscience, energy including wind, solar and business services in support of the Bakken oil region, the shooting, hunting & outdoors industry, professional business services, financial services and the value added agriculture industry.

Sitting at the top of the list of largest private employers in South Dakota is Avera and Sanford Health in Sioux Falls. Avera when teamed with Sanford Health accounts for more than 20,000 employees in the state.

South Dakota is considered to have an attractive business climate. According to the Small Business Survival Foundation, South Dakota offers the best economic environment for entrepreneurship in the nation. The state has no income tax, personal or corporate, competitive unemployment insurance and workers compensation rates, and boasts one of the lowest property crime rates in the nation.

The following table depicts the number of expanded and new manufacturers and amount of capital spending that has taken place in recent years.

South Dakota's Expanded and New Manufacturing Industry

Calendar Year	Business Expansions:		New Businesses:		Total	
	Capital Investment Number	\$ Millions	Capital Investment Number	\$ Millions	Capital Investment Number	\$ Millions
2003	496	191.5	21	206.0	517	397.5
2004	476	169.5	21	72.3	497	241.8
2005	344	221.0	16	54.1	360	275.1
2006	461	263.6	13	143.9	474	407.5
2007	528	733.4	8	2.7	536	736.1
2008	522	342.3	13	59.5	535	401.8
2009	398	215.5	9	0.0	407	215.5
2010	323	111.2	12	0.3	335	111.5
2011	367	276.5	4	0.9	371	277.4
2012	406	403.3	3	0.0	409	403.3
2013	283	278.6	8	204.7	291	483.3

Source: Survey, Governor's Office of Economic Development

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Nonfarm Wage and Salaried Workers

The following table illustrates the industry mix in the state's economic structure. Government, educational and health services, and retail trade are the sectors that employ the most workers. Currently, no single sector employs more than 20% of all nonfarm workers.

Nonfarm Wage and Salaried Workers by Industry
(Thousands of Workers)

Calendar Year	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Mining, Logging and Construction	20.7	21.9	22.8	23.2	23.3	21.8	21.0	21.1	21.1	21.3
Manufacturing	38.9	39.8	41.6	42.1	42.7	37.7	36.9	39.2	41.2	41.6
Wholesale Trade	17.1	17.6	18.2	18.4	18.7	18.3	18.6	19.0	19.5	19.8
Retail Trade	48.5	49.3	49.2	49.9	50.2	49.6	49.5	50.2	51.0	51.0
Transportation and Utilities	11.5	12.1	12.7	12.9	13.2	12.8	12.5	12.6	12.5	12.5
Information	6.7	6.8	6.9	7.1	6.9	6.7	6.5	6.4	6.2	6.1
Financial Activities	27.8	28.5	29.5	30.9	31.0	30.4	28.9	28.1	28.6	29.7
Professional and Business Services	24.2	24.5	25.7	27.6	28.0	26.9	27.5	28.7	29.2	29.4
Educational and Health Services	56.5	57.4	58.5	60.1	62.0	63.2	64.5	65.3	67.1	68.0
Leisure and Hospitality	40.7	41.7	42.5	43.1	43.2	42.9	43.0	43.4	44.3	44.4
Government	75.0	75.3	75.3	75.5	76.2	77.8	78.7	78.0	77.5	77.4
Other Services	15.9	15.5	15.6	15.8	15.9	15.7	15.6	15.6	15.8	16.0
Total	383.7	390.1	398.6	406.5	411.4	403.7	403.2	407.5	414.0	417.1

Source: Labor Market Information Center, South Dakota Department of Labor

Note: Numbers may not add due to rounding.

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Largest Private Employers in South Dakota

Listed in Alphabetical Order

<u>Employer</u>	<u>Community</u>
Adams Thermal Systems Inc.	Canton
Aramark Campus LLC	Statewide
Avera	Statewide
Capital One Services	Statewide
Citibank NA	Sioux Falls
Dakota Provisions	Huron
Daktronics Incorporated	Brookings
Esurance	Sioux Falls
Evangelical Good Samaritan Society	Sioux Falls
Hy-Vee Inc.	Statewide
John Morrell & Company	Sioux Falls
LSI Inc.	Alpena
Lewis Drugs Inc.	Statewide
Menard Inc.	Statewide
Midcontinent Communications	Statewide
Minnesota Mining & Manufacturing	Aberdeen & Brookings
Premier Bankcard LLC	Statewide
Rapid City Regional Hospital Inc.	Rapid City
Raven Industries Inc.	Sioux Falls
Sanford Health	Statewide
Terex Telelect Inc.	Watertown
Twin City Fan Companies LTD	Statewide
United Parcel Services Inc.	Statewide
Wal-Mart	Statewide
Wells Fargo Bank	Statewide

Sources: Labor Market Information Center, SD Department of Labor and Regulation.

Unemployment

The state's unemployment rate has been significantly lower than the unemployment rate of the United States and is expected to remain lower in the future.

Unemployment Rates

<u>Calendar Year</u>	<u>South Dakota %</u>	<u>United States %</u>
2003	3.5	6.0
2004	3.7	5.5
2005	3.7	5.1
2006	3.1	4.6
2007	2.9	4.6
2008	3.0	5.8
2009	5.2	9.3
2010	5.1	9.6
2011	4.7	8.9
2012	4.2	8.1
2013	3.8	7.4

Source: Bureau of Labor Statistics, U.S. Department of Labor

Low Income Assistance

The state's expenditures for low income assistance are very low. The state provides assistance through its Temporary Assistance to Needy Families (TANF) Program, which receives one-third of its funding from general fund appropriations and two-thirds of its funding from the federal government. The following table indicates the number of cases under the TANF Program and the level of general fund appropriations for the grant program. A case generally includes from two to three persons.

TANF Program

<u>Fiscal Year</u>	<u>Cases</u>	<u>General Fund Expenditures</u>
2004	2,759	\$5,030,029
2005	2,758	\$5,017,236
2006	2,829	\$4,938,413
2007	2,916	\$5,199,937
2008	2,876	\$4,696,077
2009	2,931	\$4,637,347
2010	3,197	\$5,450,630
2011	3,266	\$6,564,479
2012	3,258	\$6,824,620
2013	3,206	\$7,417,294
2014	3,149	\$5,984,361

Source: South Dakota Bureau of Finance and Management

FY1998 was the first full year South Dakota was under the TANF Program, which replaced the Aid to Families with Dependent Children (AFDC) Program. Under the TANF Program, states could potentially be penalized if work requirements are not met. October 1, 1997 was the first time states were required to submit their percentage of case loads engaged in work. South Dakota is above the required 50% of case loads engaged in work.

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Personal and Per Capita Income

Personal income in the state has grown from \$7.1 billion in calendar year 1983 to \$38.5 billion in calendar year 2013. Nonfarm personal income comprised 91.84% of total income in 2013. Per capita personal income in the state has grown from \$10,293 in 1983 to \$45,558 in 2013.

South Dakota Personal Income (\$ millions)

<u>Calendar Year</u>	<u>Nonfarm</u>	<u>Farm</u>	<u>Total</u>
2003	22,217	1,505	23,722
2004	23,292	1,834	25,126
2005	24,342	1,598	25,940
2006	25,950	611	26,560
2007	27,732	1,707	29,439
2008	29,439	2,816	32,256
2009	29,436	2,186	31,622
2010	30,917	2,232	33,149
2011	32,579	4,028	36,607
2012	34,718	3,377	38,096
2013	35,300	3,597	38,897

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Personal Income Comparisons

<u>Calendar Year</u>	<u>South Dakota Personal Income (\$ billions)</u>	<u>% Change From Prior Year</u>	<u>United States Personal Income (\$ billions)</u>	<u>% Change From Prior Year</u>
2003	23.7	9.1	9,479.8	3.6
2004	25.1	5.9	10,043.2	5.9
2005	25.9	3.2	10,605.6	5.6
2006	26.6	2.4	11,376.4	7.3
2007	29.4	10.8	11,990.1	5.4
2008	32.3	9.6	12,429.2	3.7
2009	31.6	(2.0)	12,080.2	(2.8)
2010	33.1	4.8	12,417.6	2.8
2011	36.6	10.4	13,189.9	6.2
2012	38.1	4.1	13,873.2	5.2
2013 p	38.9	2.1	14,151.4	2.0

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Per Capita Personal Income
(Dollars)

Calendar Year	<u>South Dakota</u>	<u>% Change</u>	<u>Plains Region</u>	<u>% Change</u>	<u>United States</u>	<u>% Change</u>
2003	31,061	8.6	31,794	4.0	32,677	2.8
2004	32,615	5.0	33,320	4.8	34,300	5.0
2005	33,450	2.5	33,329	3.0	35,888	4.6
2006	33,920	1.4	36,070	5.1	38,127	6.2
2007	37,188	9.6	38,073	5.6	39,804	4.4
2008	40,364	8.5	40,131	5.4	40,873	2.7
2009	39,181	(3.0)	38,836	(3.3)	39,379	(3.7)
2010	40,613	3.7	39,490	1.8	40,144	2.0
2011	44,439	10.5	42,231	6.7	42,332	5.3
2012	45,676	1.2	44,265	3.7	44,200	3.4
2013	46,039	0.4	44,796	2.2	44,765	1.8

Source: Bureau of Economic Analysis, U.S. Department of Commerce

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APPENDIX C

\$ _____

South Dakota Health and Educational Facilities Authority Vocational Education Program Refunding Revenue Bonds, Series 2014B

Official Statement dated: _____, 2014

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “*Disclosure Agreement*”) is executed and delivered by the South Dakota Board of Education (the “*Board*”) in connection with the issuance by the South Dakota Health and Educational Facilities Authority (the “*Authority*”) of its \$ _____ Vocational Education Program Refunding Revenue Bonds, Series 2014B (the “*Series 2014B Bonds*”).

The Series 2014B Bonds are being issued pursuant to an Indenture of Trust dated as of August 1, 1988 as most recently supplemented by a Sixteenth Supplemental Indenture of Trust dated as of December 1, 2014 (as now or hereafter amended or supplemented, the “*Indenture*”) between the Authority and The First National Bank in Sioux Falls, as trustee (the “*Trustee*”). Terms not defined herein shall have the meanings given thereto in the Indenture. Reference is hereby made to the Indenture for a description of the rights, duties and obligations of the Authority, the Trustee and the owners of the Bonds and the terms upon which the Bonds are issued and secured.

The Bonds shall be secured by the Lease (as defined in the Indenture) between the Authority and the Board.

In consideration of the issuance of the Bonds by the Authority and the purchase of such Bonds by the registered or beneficial owners thereof, the Board covenants and agrees as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Board for the benefit of the Beneficial Owners of the Bonds and in order for the underwriter referred to in the Official Statement to be in compliance with SEC Rule 15c2-12(b)(5) (the “*Rule*”). The Board is the only “obligated person” within the meaning of the Rule. The financial information and operating data forming the basis of the annual reporting requirements of Sections 3 and 4 of this Disclosure Agreement are derived from the Official Statement. As required by the Rule, this Disclosure Agreement is enforceable by Beneficial Owners of the Bonds pursuant to Section 12 of this Disclosure Agreement.

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement, the following capitalized terms shall have the following meanings:

“*Annual Report*” shall mean the Annual Report provided by the Board pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“*Beneficial Owner*” shall mean any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories.

“*Disclosure Representative*” shall mean such officer or employee as the Board shall designate in writing to the Authority and the Dissemination Agent from time to time.

“*Dissemination Agent*” means an agent, if any, designated as such in writing by the Board and which has filed with the Board a written acceptance of such designation, and such agent’s successors and assigns.

“*EMMA*” shall mean the Electronic Municipal Market Access System, and any successor designated under the Rule as a Nationally Recognized Municipal Securities Information Repository, accessible at <http://emma.msrb.org/default.aspx>.

“*Exchange Act*” means the Securities and Exchange Act of 1934, as amended.

“*Listed Events*” shall mean any of the events with respect to the Bonds listed in Section 5(a) of this Disclosure Agreement.

“*MSRB*” shall mean the Municipal Securities Rulemaking Board established in accordance with the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934 (“*Exchange Act*”).

“*National Repository*” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The present National Repositories are listed on the attached SCHEDULE A.

“*Official Statement*” shall mean the official statement of the Authority delivered in connection with the offering of the Bonds and dated January 20, 2012.

“*Repository*” shall mean each National Repository and each State Repository.

“*Rule*” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (“*SEC*”) under the Exchange Act.

“*State Repository*” shall mean any public or private repository or entity as may be designated by the State as a state repository for the purpose of the Rule. As of the date of this Disclosure Agreement, there is no State Repository.

Section 3. Provision of Annual Reports. (a) Subject to Section 7 and Section 10 of this Agreement, the Board hereby covenants that it will disseminate or cause to be disseminated its Annual Report in compliance with the requirements of Section 4 of this Disclosure Agreement. The Board may comply with the requirements of this Section 3 and with Section 4 hereof by the use of a Dissemination Agent.

(b) The Board shall cause the Annual Report to be delivered to each Repository on or before 180 days after the last day of the Board's fiscal year. The Board shall provide copies of the Annual Report to the Authority at the same time such information is provided to the Repositories pursuant to this Section 3(b).

Section 4. Content of Annual Reports. (a) The Board's Annual Report shall contain or incorporate by reference the following:

(1) data of the kind contained on page 6 of the Official Statement under the caption "VOCATIONAL EDUCATION FACILITIES PROGRAM SCHEDULE OF RECEIPTS AND PAYMENTS";

(2) data of the kind contained in APPENDIX A to the Official Statement;

(3) data of the kind contained in APPENDIX B to the Official Statement.

(b) Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Board is an "obligated person" (as defined by the Rule), which have been filed with the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Board shall clearly identify each such other document so incorporated by reference.

(c) The information provided pursuant to paragraph (a) shall be provided for, and as of the end of, the preceding fiscal year.

(d) The Board reserves the right to modify from time to time the format or the presentation, but not the substantive content, of the information provided pursuant to Section 4(a), to the extent necessary or appropriate in the judgment of the Board, provided that the Board agrees that any such modification will be effected in a manner consistent with the Rule and the purposes of this Disclosure Agreement.

(e) If any change to the information described in Section (4)(a) is made pursuant to Section 10 hereof, the Board shall disseminate a notice of such change to each Repository forthwith.

(f) The Board shall determine, in the manner it deems appropriate, the names and addresses of the then existing Repositories and SID each time it is required to file information with such entities. As of July 1, 2009, EMMA became the sole Nationally Recognized Municipal Securities Information Repository and no filings will be required with a SID.

(g) The Board covenants that audited financial statements of the Board and audited financial statements of the State shall, if available, be filed with EMMA at the same time as the Annual Report. If audited financial statements of the Board or audited financial statements of the State are not available when the Annual Report is filed, the Board shall disseminate such audited financial statements of the Board or audited financial statements of the State, as the case may be, when and if they become available.

Section 5. Reporting of Listed Events. (a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds:

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 Bonds, or other material events affecting the tax-exempt status of the Bonds;
7. Modifications to rights of security holders, if material;
8. Bond calls, if material, and tender offers (except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event);
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 obligated person;
13. The consummation of a merger, consolidation, or acquisition involving the obligated person or the sale of all or substantially all the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such 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.

(b) Subject to Section 7 and Section 10 of this Agreement, the Board hereby covenants that it will disseminate or cause to be disseminated in a timely manner (not in excess of ten business days after the occurrence of the Listed Event) notice of the occurrence of any of the Listed Events either (1) to each Repository, with copies of such notice to the Authority and any Dissemination Agent and (2) to EMMA. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any Bonds or defeasance of any Bonds need not be given under this Disclosure Agreement any earlier than the notice (if any) of such redemption or defeasance is given to the holders of Bonds pursuant to the Indenture.

Section 6. Discussion of Items Disclosed in Annual Reports or as Significant Events. If an item required to be disclosed in the Annual Report under Section 4, or as a Listed Event under Section 5, would be misleading without discussion, the Board shall additionally provide a

statement clarifying the disclosure in order that the statement made will not be misleading in the context in which it is made.

Section 7. Termination of Reporting Obligation. The Board's obligations under this Disclosure Agreement shall terminate upon the prior redemption or payment in full of all of the Bonds. If the obligations of the Board under this Disclosure Agreement are assumed in full by some other entity, such entity shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Board and the original Board shall have no further responsibility pursuant to this Disclosure Agreement. The Board shall give notice to EMMA in a timely manner if this is applicable (other than because of payment of all the Series 2014B Bonds at stated maturity).

Section 8. Dissemination Agent. (a) The Board may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Dissemination Agent with or without appointing a successor Dissemination Agent. The Initial Dissemination Agent shall be The First National Bank in Sioux Falls. The Dissemination Agent may resign by giving written notice to the Board, the Authority and each Repository at least 30 days prior to the effective date of such resignation.

(b) Any Dissemination Agent shall have no liability to any Beneficial Owner of the Bonds or any other person (i) by reason of any statement or omission contained in any report or notice prepared by the Board and furnished hereunder, (ii) for compliance with any instruction of the Board to furnish any report or notice or to not disclose any report or notice pursuant to the express terms hereof or (iii) for any determination or exercise of discretion hereunder or in connection hereof if such determination or exercise of discretion is made in good faith and pursuant to the terms hereof.

Section 9. Substitution of Obligated Person. The Board shall not transfer its obligations under the Lease unless the transferee agrees to assume all the obligations of the Board under this Disclosure Agreement.

Section 10. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Board, by resolution authorizing such amendment or waiver, may amend this Disclosure Agreement as to it, and any provision of this Disclosure Agreement may be waived as to it, if and only if:

(a) 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 Board, or type of business conducted;

(b) The amendment or waiver does not materially impair the interests of the beneficial owners of the Series 2014B Bonds, as determined either by parties unaffiliated with the Authority or the Board (such as the Trustee), or by approving vote of Series 2014B Bondholders pursuant to the terms of the Indenture at the time of the amendment; and

(c) Such amendment or waiver is supported by an opinion of counsel expert in federal securities laws, acceptable to the Board and parties unaffiliated with the Authority and Board (such as the Trustee) to the effect that such amendment or waiver would not, in and of itself, cause the

undertakings herein to violate the Rule taking into account any subsequent change in or official interpretation of the Rule.

Section 11. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Board from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Board chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Board shall have an obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 12. Default. (a) In the event of a failure of Board to provide the Annual Report as undertaken by the Board in this Disclosure Agreement, the Beneficial Owner of any Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Board to comply with its obligations to provide Annual Reports under this Disclosure Agreement.

(b) Notwithstanding the foregoing, no Beneficial Owner of the Bonds shall have the right to challenge the content or adequacy of the information provided pursuant to Section 3, 4 or 5 of this Disclosure Agreement by mandamus, specific performance or other equitable proceedings unless Beneficial Owners of Bonds representing at least 25% aggregate principal amount of outstanding Bonds shall join in such proceedings.

(c) A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture or the Lease, and the sole remedy under this Disclosure Agreement in the event of any failure of the Board to comply with this Disclosure Agreement shall be an action to compel performance.

Section 13. Beneficiaries. Except as expressly stated elsewhere herein, this Disclosure Agreement shall inure solely to the benefit of the Board and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 15. Governing Law. This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of South Dakota, the Exchange Act and the Rule.

Section 16. Notice to Disclosure Representative. Any notice provided to the Disclosure Representative pursuant to this Disclosure Agreement shall be addressed to:

South Dakota Board of Education
c/o Department of Education
MacKay Building
800 Governors Drive
Pierre, South Dakota 57501

Dated as of _____, 2014

SOUTH DAKOTA BOARD OF EDUCATION

By: _____
Secretary, Department of Education

SCHEDULE A

Nationally Recognized Municipal Securities Information Repositories (NRMSIRs)

The Electronic Municipal Market Access System, and any successor designated under the Rule as a Nationally Recognized Municipal Securities Information Repository.

APPENDIX D

Form of Opinion of Bond Counsel

_____, 2014

South Dakota Health and
Educational Facilities Authority
P.O. Box 846
Pierre, South Dakota

We have acted as Bond Counsel in connection with the issuance and sale of \$_____ Vocational Education Program Refunding Revenue Bonds, Series 2014B (the “*Series 2014B Bonds*”) issued by the South Dakota Health and Educational Facilities Authority (the “*Authority*”). The Series 2014B Bonds are dated the date of original issue.

The Series 2014B Bonds are issued pursuant to a Sixteenth Supplemental Indenture of Trust dated as of December 1, 2014 (the “*Sixteenth Supplemental Indenture*”) supplementing and amending the Indenture of Trust dated as of August 1, 1988 as heretofore supplemented and amended (the “*Original Indenture*”), by and between the Authority (the “*Authority*”) and The First National Bank in Sioux Falls (the “*Trustee*”). The Original Indenture as supplemented and amended by the Sixteenth Supplemental Indenture is hereinafter referred to as the “*Indenture*.”

We have examined such certified proceedings, documents and certifications of public officials as we deem necessary to render this opinion, including the form of the Series 2014B Bonds and the Indenture.

Based upon our examination and under existing statutes, regulations and court decisions, we are of the opinion, as of the date hereof, as follows:

1. The Series 2014B Bonds are valid and binding obligations of the Authority issued under the authority of Chapter 1-16A, South Dakota Codified Laws.
2. The Indenture has been duly authorized, executed and delivered by the Authority in accordance with its terms.
3. Subject to the condition that the Authority, the South Dakota Board of Education and the Qualified Participating Institutions (as defined in the Indenture) to comply with certain covenants made to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended (the “*Code*”), under present law, interest on the Series 2014B Bonds is excluded from the gross income of the owners thereof for federal income tax purposes. Interest on the Series 2014B 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 “adjusted current earnings” of certain corporations for purposes of computing the alternative minimum tax for such corporations. Failure to comply with certain of those covenants could cause interest on the Series 2014B Bonds to be included in gross income, in some cases retroactively to the date of issuance of the Series 2014B Bonds. Ownership of the Series 2014B 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 2014B Bonds.

In rendering this opinion, we have relied upon certifications of the Authority, the South Dakota Board of Education, the Qualified Participating Institutions 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 2014B Bonds, the application of the proceeds of the Series

2014B Bonds and certain other matters pertinent to the tax-exempt status of the Series 2014B Bonds.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

It is understood that the right of the holders of the Series 2014B Bonds and the enforceability of the Series 2014B Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of law.

Very truly yours,

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