

RESOLUTION NO. _____

RESOLUTION AUTHORIZING ISSUANCE, PRESCRIBING FORM AND DETAILS
AND PROVIDING FOR THE PAYMENT OF WATER IMPROVEMENTS REVENUE
REFUNDING BONDS, SERIES 2005

BE IT RESOLVED by the City Council of the City of Rapid City, South Dakota (the
“City”), as follows:

SECTION 1. RECITALS, AUTHORIZATION AND FINDINGS.

1.1. Recitals. The City currently operates a municipal water utility (the “Utility”), consisting of improvements or parts of improvements for the purpose of providing water and water supply for municipal, industrial and domestic purposes.

1.2. Authorization. Pursuant to South Dakota Codified Laws, Chapter 9-40 and a Resolution adopted by this Council on June 5, 1995, as amended by resolutions adopted June 19, 1995 and July 3, 1995 (as so amended, the “Series 1995 Resolution”), the Issuer has heretofore issued its Water Improvements Revenue Refunding Bonds, Series 1995, dated July 1, 1995 in the original principal amount of \$4,870,000 (the “Series 1995 Bonds”), which were issued to refund certain water improvement revenue bonds issued defray the cost of acquiring and constructing improvements to and extensions of the Utility (the “Improvements”), together with necessary appurtenances. The Issuer can achieve a debt service savings by issuing its Water Improvements Revenue Refunding Bonds, Series 2005 (the “Series 2005 Bonds”; the Series 2005 Bonds and any Additional Bonds issued hereunder are referred to together as the “Bonds”), the proceeds of which will be used, together with such other available funds of the Utility as may be required, to refund the callable maturities of the Series 1995 Bonds, outstanding in the aggregate principal amount of \$2,785,000 (the “Refunded Bonds”), in advance of their maturities, pursuant to South Dakota Codified Laws, Chapter 6-8B. The City is authorized to refund the Refunded Bonds, to issue water revenue bonds in order to defray the cost thereof and to make all pledges, covenants and agreements authorized by law for the protection of the owners of the revenue bonds, including, without limitation, those covenants set forth in Sections 9-40-16 and 9-40-17 of the Act. The Bonds are payable solely from the revenue or income derived from the operation of the Improvements and shall not constitute an indebtedness of the City within the meaning of any constitutional or statutory provisions or limitations.

1.3. Findings. It is hereby found, determined and declared to be in the best interests of the City to issue the Series 2005 Bonds in accordance with the Act and under the terms and conditions set forth in this resolution (the “Resolution”).

SECTION 2. SALE, BOND PURCHASE AGREEMENT AND OFFICIAL STATEMENT.

2.1. Sale. The Series 2005 Bonds authorized hereby shall be sold to Dougherty & Company LLC, of Minneapolis, Minnesota (the “Underwriter”) at a purchase price (exclusive of original issue discount) of not less than 99% of par and at an original issue discount not to exceed 2% of par, the Series 2005 Bonds to bear interest at a rate or rates per annum resulting in an average interest rate not greater than 4.00% per annum and to mature over a period not to exceed six (6) years. The principal amount of the Series 2005 Bonds shall not exceed the amount necessary to accomplish the refunding of the Refunded Bonds, to pay the costs of issuing the Series 2005 Bonds, including underwriter’s discount and any premium for bond insurance, and to provide for original issue discount. The Mayor and Finance Officer are hereby authorized and

directed to agree with the Underwriter upon the exact purchase price, principal amount, maturities, redemption provisions and interest rate or rates for the Series 2005 Bonds, within the parameters set forth in this Section 2.01.

2.2. Bond Purchase Agreement. The execution of a Bond Purchase Agreement setting forth such final terms by the Mayor and Finance Officer is hereby approved and authorized and such execution shall be conclusive evidence of such agreement and shall be binding upon the City. The provisions of the Bond Purchase Agreement as so executed, including all Exhibits and Appendices thereto, are incorporated herein by reference. The law firm of Dorsey & Whitney LLP, in Minneapolis, Minnesota, is hereby appointed as bond counsel and disclosure counsel for purposes of the Series 2005 Bonds.

2.3. Official Statement. The Finance Officer and other officers of the City, in cooperation with the Underwriter, are hereby authorized and directed to prepare a Preliminary Official Statement to be distributed by the Underwriter to potential purchasers of the Series 2005 Bonds. The Finance Officer is hereby authorized on behalf of the City to deem the Preliminary Official Statement a "final" official statement as of its date, in accordance with Rule 15c2-12(b)(1) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

SECTION 3. TERMS, EXECUTION AND DELIVERY.

3.1. Date, Maturities and Interest Rates. The Series 2005 Bonds shall be issued in the denomination of \$5,000 each, or any integral multiple thereof, shall mature on the dates and in the respective years and amounts, and shall bear interest from date of original issue until paid or duly called for redemption payable on the dates and at the respective annual rates stated opposite such maturity years as shown on Exhibit A to the Bond Purchase Agreement. The Series 2005 Bonds shall be issuable only in fully registered form. The interest thereon and, upon surrender of each Series 2005 Bond, the principal amount thereof, shall be payable by check or draft issued by the Registrar described herein.

3.2. Dates and Interest Payment Dates. Each Series 2005 Bond shall bear a date of original issue as of the first day of the month in which the Series 2005 Bonds are delivered to the Underwriter. Upon the initial delivery of the Series 2005 Bonds pursuant to Section 3.6 and upon any subsequent transfer or exchange pursuant to Section 3.5, the date of authentication shall be noted on each Series 2005 Bond so delivered, exchanged or transferred. The interest on the Series 2005 Bonds shall be payable on the interest payment dates specified in the Bond Purchase Agreement to the owner of record thereof as the close of business on the fifteenth day of the immediately preceding month, whether or not such day is a business day.

3.3. Redemption. The Series 2005 Bonds shall be subject to redemption prior to maturity, at the option of the City, in the years and at the redemption prices set forth in Exhibit A to the Bond Purchase Agreement in such order of maturities as may be designated by the City and, within any maturity, in \$5,000 principal amounts selected by the Registrar by lot, assigned in proportion to their principal amounts. The Finance Officer shall cause notice of the call for redemption of any Bonds to be published as and if required by law, and, at least thirty days prior to the designated redemption date, shall cause notice of the call thereof for redemption to be mailed, by first class mail (or, if applicable, by the bond depository in accordance with its customary procedures), to the registered owners of any Bonds to be redeemed at their addresses as they appear on the bond register described in Section 3.5 hereof, but no defect in or failure to give such mailed notice shall affect the validity of proceedings for the redemption of any Bond

not affected by such defect or failure. The notice of redemption shall specify the redemption date, redemption price, the numbers, interest rates and CUSIP numbers of the Bonds to be redeemed and the place at which the Bonds are to be surrendered for payment, which is the principal office of the Registrar. Official notice of redemption having been given as aforesaid, the Bonds or portions of Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the City shall default in the payment of the redemption price) such Bonds or portions of Bonds shall cease to bear interest. Upon partial redemption of any Bond, a new Bond or Bonds will be delivered to the registered owner without charge, representing the remaining principal amount outstanding.

3.4. Appointment of Initial Registrar. The City hereby appoints The First National Bank in Sioux Falls, Sioux Falls, South Dakota, as bond registrar, transfer agent and paying agent (the "Registrar") for the Bonds. The Mayor and the Finance Officer are authorized to execute and deliver, on behalf of the City, a contract with the Registrar. Upon merger or consolidation of the Registrar with another corporation, if the resulting corporation is a bank or trust company authorized by law to conduct such business, such corporation shall be authorized to act as successor Registrar. The City agrees to pay the reasonable and customary charges of the Registrar for the services performed. The City reserves the right to remove the Registrar upon thirty (30) days' notice and upon the appointment of a successor Registrar, in which event the predecessor Registrar shall deliver all cash and Bonds in its possession to the successor Registrar and shall deliver the bond register to the successor Registrar. No resignation or removal of the Registrar shall become effective until a successor Registrar has been appointed and has accepted such appointment.

3.5. Registration. The effect of registration and the rights and duties of the City and the Registrar with respect thereto shall be as follows:

(a) Register. The Registrar shall keep at its principal corporate trust office a bond register in which the Registrar shall provide for the registration of ownership of Bonds and the registration of transfers and exchanges of Bonds entitled to be registered, transferred or exchanged.

(b) Transfer of Bonds. Upon surrender for transfer of any Bond duly endorsed by the registered owner thereof or accompanied by a written instrument of transfer, in form satisfactory to the Registrar, duly executed by the registered owner thereof or by an attorney duly authorized by the registered owner in writing, the Registrar shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Bonds of a like aggregate principal amount and maturity, as requested by the transferor. The Registrar may, however, close the books for registration of any transfer after the fifteenth day of the month preceding each interest payment date and until such interest payment date.

(c) Exchange of Bonds. Whenever any Bonds are surrendered by the registered owner for exchange, the Registrar shall authenticate and deliver one or more new Bonds of a like aggregate principal amount, interest rate and maturity, as requested by the registered owner or the owner's attorney duly authorized in writing.

(d) Cancellation. All Bonds surrendered upon any transfer or exchange shall be promptly canceled by the Registrar and thereafter disposed of as directed by the City.

(e) Improper or Unauthorized Transfer. When any Bond is presented to the Registrar for transfer, the Registrar may refuse to transfer the same until it is satisfied that the endorsement on such Bond or separate instrument of transfer is valid and genuine and that the requested transfer is legally authorized. The Registrar shall incur no liability for the refusal, in good faith, to make transfers which it, in its judgment, deems improper or unauthorized.

(f) Persons Deemed Owners. The City and the Registrar may treat the person in whose name any Bond is at any time registered in the bond register as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of and interest on such Bond and for all other purposes, and all such payments so made to any such registered owner or upon the owner's order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

(g) Taxes, Fees and Charges. For every transfer or exchange of Bonds, the Registrar may impose a charge upon the owner thereof sufficient to reimburse the Registrar for any tax, fee or other governmental charge required to be paid with respect to such transfer or exchange.

(h) Mutilated, Lost, Stolen or Destroyed Bonds. In case any Bond shall become mutilated or be destroyed, stolen or lost, the Registrar shall deliver a new Bond of like amount, number, maturity date and tenor in exchange and substitution for and upon cancellation of any such mutilated Bond or in lieu of and in substitution for any such Bond destroyed, stolen or lost, upon the payment of the reasonable expenses and charges of the Registrar in connection therewith; and, in the case of a Bond destroyed, stolen or lost, upon filing with the Registrar of evidence satisfactory to it that such Bond was destroyed, stolen or lost, and of the ownership thereof, and upon furnishing to the Registrar of an appropriate bond or indemnity in form, substance and amount satisfactory to it, in which both the City and the Registrar shall be named as obligees. All Bonds so surrendered to the Registrar shall be canceled by it and evidence of such cancellation shall be given to the City. If the mutilated, destroyed, stolen or lost Bond has already matured or been called for redemption in accordance with its terms it shall not be necessary to issue a new Bond prior to payment.

3.6. Execution, Authentication and Delivery. The Series 2005 Bonds shall be prepared under the direction of the Finance Officer and shall be executed on behalf of the City by the signatures of the Mayor and the Finance Officer and countersigned by an attorney actually residing in the State of South Dakota and duly licensed to practice therein; provided that all signatures may be printed, engraved or lithographed facsimiles of the originals. In case any officer whose signature or a facsimile of whose signature shall appear on the Series 2005 Bonds shall cease to be such officer before the delivery of any Series 2005 Bond, such signature or facsimile shall nevertheless be valid and sufficient for all purposes, the same as if he had remained in office until delivery. Notwithstanding such execution, no Series 2005 Bond shall be valid or obligatory for any purpose or entitled to any security or benefit under this Resolution unless and until a certificate of authentication on such Series 2005 Bond has been duly executed by the Registrar by the manual signature of its authorized representative. Certificates of authentication on different Series 2005 Bonds need not be signed by the same representative. The executed certificate of authentication on each Series 2005 Bond shall be conclusive evidence that it has been authenticated and delivered under this Resolution. When the Series 2005 Bonds have been so prepared, executed and authenticated, the Finance Officer shall deliver the same to the

Underwriter thereof upon payment of the purchase price in accordance with the provisions of the Bond Purchase Agreement and the Underwriter shall not be obligated to see to the application of the purchase price. Upon delivery of the Series 2005 Bonds to the Underwriter, the Finance Officer shall file with the Secretary of State, on the form provided by the Secretary of State, the information required by SDCL, Section 6-8B-19.

3.7. Securities Depository. (a) For purposes of this section the following terms shall have the following meanings:

"Beneficial Owner" shall mean, whenever used with respect to a Bond, the person in whose name such Bond is recorded as the beneficial owner of such Bond by a Participant on the records of such Participant, or such person's subrogee.

"Cede & Co." shall mean Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to the Bonds.

"DTC" shall mean The Depository Trust Company of New York, New York.

"Participant" shall mean any broker-dealer, bank or other financial institution for which DTC holds Bonds as securities depository.

"Representation Letter" shall mean the Representation Letter pursuant to which the sender agrees to comply with DTC's Operational Arrangements.

(b) The Bonds shall be initially issued as separately authenticated fully registered bonds, and one Bond shall be issued in the principal amount of each stated maturity of the Bonds. Upon initial issuance, the ownership of such Bonds shall be registered in the bond register in the name of Cede & Co., as nominee of DTC. The Registrar and the City may treat DTC (or its nominee) as the sole and exclusive owner of the Bonds registered in its name for the purposes of payment of the principal of or interest on the Bonds, selecting the Bonds or portions thereof to be redeemed, if any, giving any notice permitted or required to be given to registered owners of Bonds under this resolution, registering the transfer of Bonds, and for all other purposes whatsoever; and neither the Registrar nor the City shall be affected by any notice to the contrary. Neither the Registrar nor the City shall have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or any Participant, or any other person which is not shown on the bond register as being a registered owner of any Bonds, with respect to the accuracy of any records maintained by DTC or any Participant, with respect to the payment by DTC or any Participant of any amount with respect to the principal of or interest on the Bonds, with respect to any notice which is permitted or required to be given to owners of Bonds under this resolution, with respect to the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Bonds, or with respect to any consent given or other action taken by DTC as registered owner of the Bonds. So long as any Bond is registered in the name of Cede & Co., as nominee of DTC, the Registrar shall pay all principal of and interest on such Bond, and shall give all notices with respect to such Bond, only to Cede & Co. in accordance with DTC's Operational Arrangements, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to the principal of and interest on the Bonds to the extent of the sum or sums so paid. No person other than DTC shall receive an authenticated Bond for each separate stated maturity evidencing the obligation

of the City to make payments of principal and interest. Upon delivery by DTC to the Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., the Bonds will be transferable to such new nominee in accordance with paragraph (e) hereof.

(c) In the event the City determines that it is in the best interest of the Beneficial Owners that they be able to obtain Bonds in the form of bond certificates, the City may notify DTC and the Registrar, whereupon DTC shall notify the Participants of the availability through DTC of Bonds in the form of certificates. In such event, the Bonds will be transferable in accordance with paragraph (e) hereof. DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving notice to the City and the Registrar and discharging its responsibilities with respect thereto under applicable law. In such event the Bonds will be transferable in accordance with paragraph (e) hereof.

(d) The execution and delivery of the Representation Letter to DTC by the Mayor or Finance Officer is hereby authorized and directed.

(e) In the event that any transfer or exchange of Bonds is permitted under paragraph (b) or (c) hereof, such transfer or exchange shall be accomplished upon receipt by the Registrar of the Bonds to be transferred or exchanged and appropriate instruments of transfer to the permitted transferee in accordance with the provisions of this resolution. In the event Bonds in the form of certificates are issued to owners other than Cede & Co., its successor as nominee for DTC as owner of all the Bonds, or another securities depository as owner of all the Bonds, the provisions of this resolution shall also apply to all matters relating thereto, including, without limitation, the printing of such Bonds in the form of bond certificates and the method of payment of principal of and interest on such Bonds in the form of bond certificates.

3.8. Form of Series 2005 Bonds. The Series 2005 Bonds shall be prepared in substantially the following form:

UNITED STATES OF AMERICA
STATE OF SOUTH DAKOTA
PENNINGTON COUNTY
CITY OF RAPID CITY

WATER IMPROVEMENTS REVENUE REFUNDING BOND
SERIES 2005

<u>Interest Rate</u>	<u>Maturity</u>	<u>Date of Original Issue</u>	<u>CUSIP</u>
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REGISTERED OWNER:

PRINCIPAL AMOUNT: DOLLARS

The City of Rapid City, Clay County, South Dakota (the "City"), acknowledges itself to be indebted and, for value received, hereby promises to pay solely from the revenues appropriated and pledged to the Revenue Bond Account of the Water Utility Fund of the City, to the registered owner named above, or registered assigns, upon presentation and surrender at the principal

corporate trust office of the Registrar hereinafter identified, the principal amount specified above, on the maturity date specified above, and to pay interest thereon from the date of original issue or from the most recent date to which interest has been paid or duly provided for, at the annual rate specified above. Interest hereon is payable on _____ 1 and _____ 1 in each year, commencing _____ 1, 200_ to the person in whose name this Bond is registered as of the close of business on the fifteenth day (whether or not a business day) of the immediately preceding month. The interest hereon and, upon presentation and surrender hereof, the principal hereof are payable in lawful money of the United States of America by check or draft of The First National Bank in Sioux Falls, Sioux Falls, South Dakota, as Registrar, Transfer Agent and Paying Agent (the "Registrar"), or its successor designated under the Resolution described herein.

This Bond is one of an issue in the aggregate principal amount of \$_____, issued to provide funds to refund certain outstanding water improvements revenue bonds of the City, originally issued for the purpose of refunding certain water improvement revenue bonds issued to defray the cost of the acquisition of certain improvements (the "Improvements") to the City's municipal water utility (the "Utility"). This Bond is issued pursuant to and in full conformity with the Constitution and laws of the State of South Dakota, including Chapters 6-8B and 9-40, South Dakota Codified Laws, as amended (the "Act"), ordinances of the City thereunto enabling and a Resolution duly adopted by the City Council on _____, 2005 (the "Resolution"). This Bond is subject to all of the provisions and limitations of the Act and Resolution and all of the provisions of the Act, the Resolution and amendments thereto are hereby made a part hereof the same as if herein set forth at length.

This Bond, and the interest hereon, is payable solely from the Net Revenues of the Improvements pledged to the Revenue Bond Account and, if necessary, from amounts on hand in the Reserve Account established for the security of the Bonds, within the Water Utility Fund of the City, and does not constitute a general obligation or pledge of the full faith, credit or taxing powers of the City and does not constitute an indebtedness of the City within the meaning of any constitutional or statutory provisions or limitations. The Improvements are a part of the municipal water utility of the City and the City has established and agreed to revised from time to time a special surcharge for the services provided by the Improvements sufficient to pay the costs of operation and maintenance of the Improvements and to produce Net Revenues sufficient to pay the principal of and interest on the Bonds when due and to restore any deficiency in the Reserve Account.

Bonds maturing on and after _____ 1, 20__, are subject to optional redemption and prepayment at the option of the City on _____ 1, 20__, or on any date thereafter, in such order of maturities as the City may select and within any maturity as selected by the Registrar by lot, at a price of par plus accrued interest to the date of redemption. Prior to the date specified for the redemption of any Bond prior to its stated maturity date, the City will cause notice of the call for redemption to be published as required by law, and, at least 30 days prior to the designated redemption date, will cause notice of the call thereof to be mailed by first class mail to the registered owner of any Bond to be redeemed at the owner's address as it appears on the bond register maintained by the Registrar but no defect in or failure to give such mailed notice of redemption shall affect the validity of proceedings for the redemption of any Bond not affected by such defect or failure. Upon partial redemption of any Bond, a new Bond or Bonds will be delivered to the owner without charge, representing the remaining principal amount outstanding.

[Bonds maturing on _____ 1, 20__ (the "Term Bonds") are subject to mandatory redemption and will be redeemed pursuant to mandatory sinking fund redemption at a redemption price equal to the stated principal amount thereof plus interest accrued thereon to the redemption

date, without premium. The Registrar shall select for redemption, by lot or other manner deemed fair, on _____ 1 in each of the following years the following stated principal amounts of Term Bonds:

<u>Year</u>	<u>Principal Amount</u>
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Notice of redemption shall be given as provided in the preceding paragraph.]

As provided in the Resolution and subject to certain limitations set forth therein, this Bond is transferable upon the books of the City at the principal office of the Registrar, by the registered owner hereof in person or by the owner's attorney duly authorized in writing upon surrender hereof together with a written instrument of transfer satisfactory to the Registrar, duly executed by the registered owner or the owner's attorney; and may also be surrendered in exchange for Bonds of other authorized denominations. Upon such transfer or exchange, the City will cause a new Bond or Bonds to be issued in the name of the transferee or registered owner, of the same aggregate principal amount, bearing interest at the same rate and maturing on the same date, subject to reimbursement for any tax, fee or governmental charge required to be paid with respect to such transfer or exchange.

Notwithstanding any other provisions of this Bond, so long as this Bond is registered in the name of Cede & Co., as nominee of The Depository Trust Company, or in the name of any other nominee of The Depository Trust Company or other securities depository, the Registrar shall pay all principal of and interest on this Bond, and shall give all notices with respect to this Bond, only to Cede & Co. or other nominee in accordance with the operational arrangements of The Depository Trust Company or other securities depository as agreed to by the City.

The City and the Registrar may deem and treat the person in whose name this Bond is registered as the absolute owner hereof, whether this Bond is overdue or not, for the purpose of receiving payment and for all other purposes, and neither the City nor the Registrar shall be affected by any notice to the contrary.

IT IS HEREBY CERTIFIED, RECITED, COVENANTED AND AGREED that the City has fixed and established and will collect reasonable rates and charges for the services and facilities afforded by the Improvements, and has created a special Water Utility Fund (the "Fund") into which the gross revenues of the Improvements, including all additions thereto and replacements and improvements thereof subsequently constructed or acquired, will be paid; and a separate and special Revenue Bond Account in the Fund, into which there shall be credited periodically, at least once in each calendar month, out of the Net Revenues of the Improvements then on hand, an amount equal to one-twelfth of the principal of and interest on all bonds payable from the Revenue Bond Account in the next twelve months as such principal and interest become due; there has also been created within the Fund, a Reserve Account, in which there has been established a reserve in the amount of \$_____, which Reserve Account shall thereafter be maintained by the transfer of additional Net Revenues whenever necessary; that the Bonds are payable from a separate debt redemption fund of the City and that the Revenue Bond Account will be used only to pay the principal of and interest on bonds issued pursuant to the authority herein recited, as such principal and interest respectively become due; that such rates and charges will from time to time be made and kept sufficient to provide gross income and revenues adequate for prompt payment of the reasonable and current expenses of operation and maintenance of the Improvements and to produce in each fiscal year Net Revenues, in excess of

such current expenses, sufficient to pay the principal of and interest and redemption premiums, if any, on all Bonds issued and made payable from the Net Revenues, including adequate reserves therefor, and sufficient also to provide for the replacement and depreciation of the Improvements; that the payments required to be made to the Revenue Bond Account constitute a first and prior lien and charge on the entire net income and revenues to be derived from the operation of the Improvements and of all future additions thereto and betterments thereof; that additional bonds may be issued and made payable from the Net Revenues of the Improvements on a parity with the Bonds for the purpose of (i) financing improvements or extensions to the Improvements or (ii) refunding outstanding Bonds, subject to the conditions and limitations set forth in the Resolution; that no other obligation will be incurred and made payable from the Net Revenues of the Improvements, whether or not such obligation shall also constitute a general obligation and indebtedness of the City, unless the lien thereof shall be expressly made subordinate to the lien of this Bond on such Net Revenues; that all provisions for the security of this Bond set forth in the Resolution will be punctually and faithfully performed as therein stipulated; that all acts, conditions and things required by the Constitution and laws of the State of South Dakota and the ordinances of the City and the Resolution to be done, to exist, to happen and to be performed in order to make this Bond a valid and binding special obligation of the City according to its terms have been done, do exist, have happened and have been performed as so required; and that the issuance of this Bond does not cause the indebtedness, whether general or special, of the City to exceed any constitutional or statutory limitation of indebtedness.

This Bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Resolution until the Certificate of Authentication hereon shall have been executed by the Registrar by the manual signature of one of its authorized representatives.

IN WITNESS WHEREOF, the City of Rapid City, Pennington County, South Dakota, by its City Council, has caused this Bond to be executed by the facsimile signatures of the Mayor and the Finance Officer, countersigned by the facsimile signature of an attorney actually residing in the State of South Dakota and duly licensed to practice therein and has caused this Bond to be dated as of the date of original issue set forth above.

(Facsimile Signature - Finance Officer)

(Facsimile Signature - Mayor)

Countersigned: (Facsimile Signature - Attorney)

CERTIFICATE OF AUTHENTICATION

This is one of the Bonds delivered pursuant to the Resolution mentioned within.

Date of Authentication: _____

THE FIRST NATIONAL BANK IN
SIOUX FALLS, Registrar

By _____
Authorized Representative

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[STATEMENT OF INSURANCE]

The following abbreviations, when used in the inscription on the face of this Bond shall be construed as though they were written out in full according to the applicable laws or regulations:

TEN COM -- as tenants in common	UTMA Custodian (Cust) (Minor)
TEN ENT -- as tenants by the entireties	under Uniform Transfers to Minors Act ... (State)
JT TEN -- as joint tenants with right of survivorship and not as tenants in common	

Additional abbreviations may also be used.

 ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers unto _____ the within Bond and all rights thereunder, and does hereby irrevocably constitute and appoint _____ attorney to transfer the said Bond on the books kept for registration of the within Bond, with full power of substitution in the premises.

Dated: _____

 NOTICE: The assignor's signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatsoever.

Signature Guaranteed:

 Signature(s) must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Registrar, which requirements include membership or participation in STAMP or such other "signature guaranty program" as may be determined by the Registrar in addition to or in substitution for STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE: _____

SECTION 4. USE OF PROCEEDS; REDEMPTION OF REFUNDED BONDS.

4.1. Use of Proceeds. A portion of the proceeds of the Series 2005 Bonds, together with moneys from the debt service fund and debt service reserve fund for the Series 1995 Bonds, are irrevocably appropriated for the payment of the principal and interest to become due on the Refunded Bonds to and including the Redemption Date (as hereinafter defined), and for the payment and redemption of the principal amount of the Refunded Bonds on said date. The Finance Officer is authorized, if deemed appropriate, to deposit the proceeds of the Series 2005 Bonds in escrow with The First National Bank in Sioux Falls, Sioux Falls South Dakota, as escrow agent (the "Escrow Agent"), such funds so deposited to be invested in securities

authorized for such purpose by Chapter 6-8B, South Dakota Codified Laws. The Mayor and Finance Officer may enter into an escrow agreement with the Escrow Agent establishing the terms and conditions for such escrow account in accordance with Chapter 6-8B, South Dakota Codified Laws. The remaining proceeds of the Series 2005 Bonds shall be applied to pay issuance expenses and shall be deposited in the Revenue Bond Account created in Section 5.4 hereof.

4.2. Redemption of Refunded Bonds. The Finance Officer is directed to call the Refunded Bonds for redemption and prepayment on November 1, 2005, or such later date as the Finance Officer may determine (the "Redemption Date"), and to give notice of redemption in accordance with the Series 1995 Resolution.

SECTION 5. WATER UTILITY FUND.

5.1. Parity Bonds; Bond Proceeds and Revenues Pledged and Appropriated. It is hereby found and determined that (a) the earliest maturity of the Series 2005 Bonds is subsequent to the last maturity of any Series 1995 Bonds which are not to be refunded out of proceeds of the Series 2005 Bonds, (b) the final maturity of the Series 2005 Bonds does not exceed the maturity of the Refunded Bonds, and (c) maximum annual debt service on the Series 2005 Bonds is not more than 125% of the maximum annual debt service on the Refunded Bonds. Therefore, the Bonds may be issued on a parity with the Refunded Bonds.

A fund to be designated as the Water Utility Fund (the "Fund") is established and shall be maintained as a separate and special bookkeeping account on the official books of the City until all Bonds payable from the Net Revenues of the Improvements, as provided in Section 6 hereof, have been fully paid, or the City's obligation with reference to the Bonds has been discharged as provided in this Resolution. All proceeds of the Bonds and all other funds hereafter received or appropriated for purposes of the Improvements are appropriated to the Fund. All gross revenues derived from the operation of the Improvements are irrevocably pledged and appropriated and shall be credited to the Fund as received. As described in Section 7.12 hereof, the City shall impose a separate surcharge for the availability, benefit and use of the Improvements as part of the Utility and shall aggregate the gross revenues derived from such surcharge and the Improvements, together with the expenses of operation and maintenance of the Improvements and shall account for them as provided in this Resolution; except as expressly stated in this Resolution, the pledges, appropriations, covenants and agreements of the City and the Accounts established within the Fund by the Resolution apply only to the Improvements, its operations, revenues and expenses. The City has found that acquisition and construction of the Improvements will benefit all present and future users of the Utility, therefore the surcharge described in Section 7.12 is being imposed on all current and future users of the Utility. Such gross revenues shall include all gross income and receipts from rates, fees, charges and rentals imposed for the availability, benefit and use of the Improvements as now constituted and of all replacements and improvements thereof and additions thereto, and from penalties and interest thereon, and from any sales of property acquired for the Improvements and all income received from the investment of such gross revenues; but not any taxes levied or amounts borrowed or received as grants for construction of any part of the Improvements. The Fund shall be subdivided into separate accounts as designated and described in Sections 5.2 to 5.7, to segregate income and expenses received, paid and accrued for the respective purposes described in those sections. The gross revenues received in the Fund shall be apportioned monthly or as soon as possible after the first day of each month, commencing the first calendar month following the delivery of the Series 2005 Bonds, which apportionment is hereinafter referred to as the "monthly apportionment."

5.2. Construction Account. The Construction Account shall be used only to pay as incurred and allowed costs which under generally accepted accounting principles are capital costs of such future reconstructions, improvements, betterments or extensions of the Improvements as may be authorized in accordance with law; including but not limited to payments due for work and materials performed and delivered under construction contracts, architectural, engineering, inspection, supervision, fiscal and legal expenses, the cost of lands and easements, interest accruing on Bonds during the first year following the date of their delivery, if and to the extent that the Revenue Bond Account is not sufficient for payment of such interest, reimbursement of any advances made from other City funds, and all other expenses incurred in connection with the construction and financing of any such undertaking. To the Construction Account shall be credited as received all proceeds of Bonds, except amounts appropriated to the payment of the principal and interest to become due on the Refunded Bonds to and including the Redemption Date and for the payment and redemption of the principal amount of the Refunded Bonds on said date under Section 4, the amounts appropriated to the Revenue Bond Account under Section 5.4 and any amounts to be deposited to the Reserve Account under Section 5.5, all other funds appropriated by the City for the improvement of the Improvements, and all income received from the investment of the Construction Account. The proceeds of any property insurance claim with respect to the Improvements, and all income received from the investment of the Construction Account. The proceeds of any property insurance claim with respect to the Improvements received pursuant to Section 7.3 hereof shall be deposited in the Construction Account and applied to the repair, replace and restoration of the Improvements; any proceeds in excess of the amount necessary for that purpose shall be transferred to the Revenue Bond Account.

5.3. Operating Account. On each monthly apportionment there shall first be set aside and credited to the Operating Account, as a first charge on the gross revenues of the Improvements, such amount as may be required over and above the balance then held in the Operating Account to pay the reasonable and necessary operating expenses of the Improvements which are then due and payable, or are to be paid prior to the next monthly apportionment. The term "operating expenses" shall mean the current expenses, paid or accrued, of operation, maintenance and current repair of the Improvements, calculated in accordance with generally accepted accounting principles, and shall include, without limitation, administrative expenses of the City relating solely to the Improvements, premiums for insurance on the properties thereof, labor and the cost of materials and supplies used for current operation and for maintenance, and charges for the accumulation of appropriate reserves for current expenses which are not recurrent monthly but may reasonably be expected to be incurred in accordance with generally accepted accounting principles. Such operating expenses shall not include any allowance for depreciation or renewals or replacements of capital assets of the Improvements and shall not include any portion of the salaries or wages paid to any officer or employee of the City, except such portion as shall represent reasonable compensation for the performance of duties necessary to the operation of the Improvements, nor any amount properly payable from any other account of the Fund. Moneys in the Operation Account shall be used solely for the payment of current operation expenses of the Improvements. The Net Revenues of the Improvements, as referred to in this Resolution, are hereby defined to include the entire amount of such gross revenues remaining after each such monthly apportionment, after crediting to the Operating Account the amount required hereby, including sums required to maintain the Operating Reserve.

5.4. Revenue Bond Account. On the date of delivery of the Series 2005 Bonds to the Underwriter, the accrued interest on the Series 2005 Bonds will be deposited to the Revenue Bond Account. Upon each monthly apportionment there shall be set aside and credited to the Revenue Bond Account, out of the Net Revenues of the Improvements, an amount equal to not less than one-twelfth of the total sum of the principal and interest to become due within the then

next succeeding twelve months on all Bonds and any Additional Bonds issued on a parity therewith. Moneys from time to time held in the Revenue Bond Account shall be disbursed only to meet payments of principal and interest on Bonds and any Additional Bonds issued on a parity therewith as such payments become due; provided, that on any date when all outstanding Bonds payable from the Revenue Bond Account are due or prepayable by their terms, if the amount then on hand in the Revenue Bond Account, together with the balance then on hand in the Reserve Account, is sufficient, with other moneys available for the purpose, to pay all Bonds payable from the Revenue Bond Account and the interest accrued thereon in full, it may be used for that purpose. If any payment of principal or interest becomes due when moneys in the Revenue Bond Account are temporarily insufficient therefor, such payment shall be advanced out of any Net Revenues theretofore segregated and then on hand in the Reserve Account, the Replacement and Depreciation Account or the Surplus Account. In the event that sufficient moneys are not available from the aforementioned sources, the City, to the extent it may at the time legally do so, may, but shall not be required to, temporarily advance moneys to the Revenue Bond Account either from other revenues of the Utility or from other funds of the City on hand and legally available for the purpose, but any such advance shall be repaid from Net Revenues of the Improvements within 24 months.

5.5. Reserve Account. On the date of delivery of the Series 2005 Bonds to the Underwriter, the required balance in the Reserve Account shall be recomputed, taking into account the defeasance of the Refunded Bonds and the issuance of the Series 2005 Bonds. If the balance on hand in the Reserve Account is less than the required balance, as so recomputed, the City will deposit, from Net Revenues on hand or from the proceeds of the Series 2005 Bonds, an amount equal to the deficiency; if the balance on hand in the Reserve Account is greater than the required balance, as so recomputed, the excess on hand in the Reserve Account shall be applied as described in Section 4 of this Resolution. Following such deposit or transfer, there shall be on hand and thereafter maintained, a balance in the Reserve Account equal to maximum debt service due in any future calendar year on the unrefunded portion of the Refunded Bonds and the Series 2005 Bonds. Said balance shall be maintained by such additional credits to the Reserve Account as may be necessary. Moneys on hand in the Reserve Account shall be used only to pay maturing principal and interest when other moneys in the Revenue Bond Account are insufficient therefor. In the event of the issuance of Additional Bonds on a parity with the Bonds, the balance on hand in the Reserve Account shall be increased, on the date of issuance of such Additional Bonds, through the deposit of bond proceeds or Net Revenues or a combination thereof, to an amount equal to the lesser of (i) 10% of the proceeds of, or (ii) the maximum annual debt service due in any future calendar year (during the term of the outstanding bonds), on, all bonds (including the Additional Bonds) payable from the Revenue Bond Account.

5.6. Replacement and Depreciation Account. There shall next be set aside and credited, upon each monthly apportionment, to the Replacement and Depreciation Account such portion of the Net Revenues, in excess of the current requirements of the Revenue Bond Account and the Reserve Account (which portion of the Net Revenues is referred to herein as Surplus Net Revenues), as the City Council shall determine to be required for the accumulation of a reasonable reserve for renewal of worn out, obsolete or damaged properties and equipment of the Improvements. Moneys in this account shall be used only for the purposes above stated or, if so directed by the City Council, to redeem Bonds which are prepayable according to their terms, to pay principal or interest when due thereon as required in Section 5.4 hereof, or to pay the cost of improvements to the Improvements; provided, that in the event that the City shall hereafter issue bonds for the purpose of financing the construction and installation of additional improvements or additions to the Improvements, but which additional bonds cannot, upon the terms and conditions provided in Section 6, be payable from the Revenue Bond Account, Surplus Net Revenues from

time to time received may be segregated and paid into one or more separate and additional accounts from the payment of such bonds and interest thereon, in advance of payments required to be made into the Replacement and Depreciation Account.

5.7. Surplus Account. Any amount of the Surplus Net Revenues from time to time remaining after the above required applications thereof shall be credited to the Surplus Account, and the moneys from time to time in that account, when not required to restore a current deficiency in the Revenue Bond Account as provided in Section 5.4 hereof, may be used for any of the following purposes and not otherwise:

- (a) To redeem and prepay Bonds when and as such Bonds become prepayable according to their terms;
- (b) To purchase Bonds on the open market, whether or not the Bonds so purchased or other such Bonds may then be prepayable according to their terms; and, if the Reserve Account is then funded to the full amount required to be maintained therein, and the balances in the Revenue Bond Account and the Replacement and Depreciation Account are sufficient to meet all payments required or reasonably anticipated to be made therefrom prior to the end of the current fiscal year, then;
- (c) To pay for repairs of or for the construction and installation of improvements or additions to the Improvements; and, if the Reserve Account is then funded to the full amount required to be maintained therein, and the balances in the Revenue Bond Account and the Replacement and Depreciation Account are sufficient to meet all payments required or reasonably anticipated to be made therefrom prior to the end of the then current fiscal year, then;
- (d) To be held as a reserve for redemption and prepayment of the Bonds which are not then but will later be prepayable according to their terms; or
- (e) To be used for any other authorized municipal purpose designated by the City Council.

No moneys shall at any time be transferred from the Surplus Account or any other account of the Fund to any other fund of the City, nor shall such moneys at any time be loaned to other municipal funds or invested in warrants, special assessment bonds or other obligations payable from other funds, except as provided in this section.

5.8. Deposit and Investment of Funds. The Finance Officer shall cause all moneys pertaining to the Fund to be deposited as received with one or more banks which are duly qualified public depositories under the provisions of Chapter 4-6A, SDCL, in a deposit account or accounts, which shall be maintained separate and apart from all other account of the City, so long as any of the Bonds and the interest thereon shall remain unpaid. Any of such moneys not necessary for immediate use may be deposited with such depository banks in savings or time deposits. No moneys shall at any time be withdrawn from such deposit accounts except for the purposes of the Fund as authorized in this Resolution; except that moneys from time to time on hand in the Fund may at any time, in the discretion of the City Council, be invested in securities permitted by the provisions of Section 4-5-6, SDCL; provided that moneys on hand in the Reserve Account may be invested only in direct, general obligations of the United States of America maturing and bearing interest at the times and in the amounts estimated to be required to provide cash when needed for the purposes of the respective accounts; provided, that the

Replacement and Depreciation Account and the Surplus Account may be invested in such securities maturing not later than ten years from the date of the investment; and provided further, that moneys in the Surplus Account may, in the discretion of the City Council, be invested in any securities which are direct, general obligations of the City. Income received from the deposit or investment of moneys shall be credited to the account from whose moneys and deposit was made or the investment was purchased, and handled and accounted for in the same manner as other moneys in that account. The investment of the moneys on deposit in the Revenue Bond Account is further restricted by the provisions of Section 10.1 hereof.

5.9. Additional Revenues or Collateral. The City reserves the right at any time to pledge additional moneys, revenues or collateral as security for the Series 2005 Bonds and any Additional Bonds. Such pledge shall not be effective unless and until the City receives, and provides to the Registrar an opinion of, nationally recognized bond counsel stating that such pledge will not adversely affect the validity or tax exemption of the Series 2005 Bonds and any Additional Bonds then outstanding.

SECTION 6. PRIORITIES AND ADDITIONAL BONDS.

6.1. Priority of Bond Payments. Each and all of the Bonds shall be equally and ratably secured by and payable out of the Net Revenues of the Improvements without preference or priority of any one Bond over any other by reason of serial number or otherwise; provided, that if at any time the Net Revenues of the Improvements are insufficient to pay principal and interest then due on all Bonds, any and all moneys then on hand shall be first used to pay the interest accrued on all outstanding Bonds, and the balance shall be applied toward payment of the maturing principal of Bonds in order of their maturities, the earliest maturing Bonds to be paid first, and pro-rata in payment of Bonds maturing on the same date.

6.2. Refunding Revenue Bonds. The City reserves the right and privilege of refunding any or all of the Bonds, but only subject to the following terms and conditions:

(a) Any matured Bonds may be refunded if moneys available for the payment thereof at maturity, within the limitation prescribed in Section 6.1 hereof, should at any time be insufficient to make such payment in full.

(b) Any Bonds may be refunded prior to maturity, as and when they become prepayable according to their terms.

(c) Provision may be made for the payment and refunding of any unmatured Bonds by the deposit with a duly qualified depository bank, as escrow agent, of a sufficient amount of cash, or of Bonds or other general obligations of the United States, or of securities whose principal and interest payments are guaranteed by the United States, to pay the principal amount of such outstanding Bonds with interest to the earliest subsequent date, if any, upon which the same may be called for redemption and prepayment, and with interest to the maturity of any such Bonds which are not subsequently prepayable.

(d) Any refunding revenue bonds issued for the above purposes may be made payable from the Net Revenues of the Improvements on a parity as to interest with all then outstanding Bonds, provided that (1) the maturity of each refunding revenue bond shall be subsequent to the last maturity of any then outstanding Bonds which are not refunded or to be refunded out of moneys on deposit with such escrow agent, and (2) no

bondholder shall be required to accept a refunding revenue bond in exchange for any Bond owned by him.

(e) So long as (i) the final maturity of the refunding bonds does not exceed the final maturity of the bonds being refunded, and (ii) maximum annual debt service on the refunding bonds is not more than 125% of the maximum annual debt service on the bonds being refunded, the refunding bonds need not meet the Net Income test for Additional Bonds set forth in Section 6.3.

6.3. Other Parity Bonds. The City reserves the right to issue Additional Bonds, payable from the Revenue Bond Account of the Fund, on a parity as to both principal and interest with the Series 2005 Bonds, if (i) no default has occurred and is continuing under this Resolution, and (ii) the Net Income of the Improvements, as defined herein, for the last complete fiscal year of the City preceding the issuance of such Additional Bonds has equaled at least 125% of the average annual principal and interest payable from the Revenue Bond Account in any subsequent calendar year during the term of the outstanding Bonds, on all Bonds then outstanding and on the Additional Bonds proposed to be issued. The Net Income of the Improvements is hereby defined to mean, for any fiscal year, the total operating revenues of the Improvements, less the total operating expenses thereof, to which shall be added investment income, depreciation and interest expense, all as determined in accordance with generally accepted accounting principles. For the purpose of the foregoing computation, the Net Income for the fiscal year preceding the issuance of Additional Bonds shall be the Net Income shown by the official books and records of the City, except that if the rates and charges for services provided by the Improvements have been changed since the beginning of such preceding fiscal year, then the rates and charges in effect at the time of issuance of the Additional Bonds shall be applied to the quantities of service actually rendered and made available during such preceding fiscal year to ascertain the gross revenues, from which there shall be deducted to determine the Net Income the actual operation and maintenance cost for the last complete fiscal year as shown by the official books and records of the City plus any additional annual costs of operation and maintenance which the engineer for the City estimates will be incurred because of the improvement or extension of the Improvements to be constructed from the proceeds of the Additional Bonds proposed to be issued. In no event shall any Additional Bonds be issued and made payable from the Revenue Bond Account if the City is then in default in any payment of principal or interest deficiency in the balances required by this Resolution to be maintained in any of the accounts of the Fund. Notwithstanding the provisions of Section 8 hereof requiring consent of the registered owners of all outstanding Bonds, the provisions of this section may, with respect to the issuance of Additional Bonds, be waived or amended with the written consent of the registered owners of not less than three-quarters in principal amount of the outstanding Bonds.

6.4. Subordinate Lien Bonds. Notwithstanding the above provisions of this Section 6, nothing contained in this Resolution or in the Bonds shall be construed to preclude the City from issuing bonds when necessary for the enlargement, improvement or extension of the Improvements, provided such bonds, whether constituting a general obligation of the City or payable solely from water revenues, are expressly made a charge on and are payable only from the Surplus Net Revenues of the Improvements as defined in Section 5.7 hereof and are not superior to or on a parity with the Series 2005 Bonds.

SECTION 7. COVENANTS.

7.1. General. The City covenants and agrees with the registered owners from time to time of all Bonds that the recitals contained in Section 1 are correct; and that, subject to Section 7.5 hereof, until all Bonds are fully discharged as provided in this Resolution, it will continue to hold, maintain and operate the Utility and the Improvements as a part thereof, as a public utility and convenience, free from all liens thereon or on the income therefrom other than the liens herein granted or provided for, will observe prudent utility practices, and will maintain, expend and account for the Fund and the several accounts therein as provided in Section 5, and will issue no Additional Bonds or other obligations constituting a lien or charge on the Net Revenues of the Improvements except upon the conditions and in the manner prescribed in Section 6, and will perform and cause all officers and employees of the City to perform and enforce each and all of the additional covenants and agreements set forth in this section.

7.2. Competing Service. The City will not establish or authorize the establishment of any other system for the public supply of service or services in competition with any or all of the services supplied by the facilities of the Utility or the Improvements.

7.3. Property Insurance. The City will cause all buildings, properties, fixtures and equipment constituting a part of the Utility or the Improvements to be kept insured with a reputable insurance carrier or carriers, qualified under the laws of South Dakota, or a qualified municipal insurance pool, in such amounts as are ordinarily carried, and against loss or damage by such hazards and risks as are ordinarily insured against by public utilities owning and operating properties of a similar character and size; provided that if at any time the City is unable to obtain insurance, it will obtain insurance in such amounts and against risks as are reasonably obtainable. The proceeds of all such insurance shall be available for the repair, replacement or reconstruction of damaged or destroyed property, and any proceeds attributable to the Improvements shall be deposited in the Construction Account and applied as provided in Section 5.2 hereof, and until paid out in making good such loss or damage, are pledged as security for the outstanding Bonds issued hereunder. All insurance proceeds received with respect to the Improvements in excess of the amount required for restoration of the loss or damage compensated thereby shall be and become part of the revenues appropriated to the Fund. If for any reason insurance proceeds are insufficient for the repair, replacement and reconstruction of the insured property constituting a part of the Improvements, the City shall supply the deficiency from revenues on hand in the Replacement and Depreciation Account and the Surplus Account, and may supply it from any other City funds, but is not obligated to the registered owners so to do unless the deficiency results from breach of the covenant in this section.

7.4. Liability Insurance and Surety Bonds. The City will carry insurance against liability of the City and its employees for damage to persons and property resulting from the operation of the Utility, and the Improvements as a part thereof, in amounts the City determines from time to time to be necessary or advisable by reason of the character and extent of such operation. It will also cause all persons handling money and other assets of the Utility and the Fund to be adequately bonded for the faithful performance of their duties and to account for and pay over such money to the City. All amounts received under such insurance and bonds shall be applied to the payment of the loss or damage covered thereby. The premiums for all insurance and bonds required by this section and by Section 7.3 constitute part of the Operating Expenses of the Improvements, but no insurance liabilities of the City in excess of amounts received under such insurance and bonds shall constitute a lien or charge on revenues or any other assets herein or otherwise pledged to the Revenue Bond Account. Such insurance may be obtained through a qualified municipal insurance pool.

7.5. Disposition of Property. The City will not mortgage, lease, sell or otherwise dispose of any real or personal properties of the Utility, unless:

(a) Prior to or simultaneous with such mortgage, lease, sale or other disposition, all of the outstanding Bonds shall be discharged as provided in Section 9; or

(b) The properties to be mortgaged, leased sold or otherwise disposed of are unserviceable, inadequate, obsolete or no longer required for use in connection with the Utility, and all proceeds of the mortgage, lease, sale or other disposition of such properties are deposited into the Fund.

7.6. Books and Records. The City will cause proper and adequate books of record and account to be kept showing complete and correct entries of all receipts, disbursements and other transactions relating to the Utility, and the Improvements as a part thereof, the gross revenues derived from the operation of the Improvements, and the segregation and application of the gross revenues in accordance with this Resolution, in such reasonable detail as may be determined by the City in accordance with generally accepted accounting practice and principles. It will cause such books to be maintained on the basis of a fiscal year commencing January 1 and ending December 31, or such other period as the City Council may determine, and to be audited annually. The audit will be completed within 270 days after the close of each alternate fiscal year by the Department of Legislative Audit or by an independent certified public accountant, who shall be an accountant or firm of such accountants duly licensed, registered and entitled to practice and practicing as such under the laws of the State of South Dakota, appointed and paid by the City, who or which is in fact independent and not under the domination of the City, does not have any substantial interest, direct or indirect, within the City, and is not connected with the City as an officer or employee but may be regularly retained to make annual or other periodic reports to the City. The report of the private auditor, in addition to whatever matters may be thought proper by the accountant to be included therein, shall include the following:

(a) A statement in detail of the income and expenditures of the Utility and the Improvements, which shall be separately stated, for the fiscal year then ended and the preceding fiscal year, identifying capital expenditures and separating them from operating expenditures;

(b) A balance sheet as of the end of the fiscal year then ended and the preceding fiscal year;

(c) The number of premises connected to the Utility and the Improvements at the end of the fiscal year;

(d) The amount on hand in each account of the Utility and the Fund at the end of the fiscal year;

(e) A list of the insurance policies and fidelity bonds in force at the end of the fiscal year, setting out as to each the amount thereof, the risks covered thereby, the name of the insurer or surety and the expiration date of the policy or bond; and

(f) A determination that the audit shows full compliance by the City with the provisions of this Resolution during the fiscal years covered thereby, including proper segregation of the capital expenditures from Operating Expenses, maintenance of the required balance of the Revenue Bond Account, and receipt of Net Income during each

fiscal year commencing after January 1, 2005, at least equal to 100% of (a) the principal and interest payable from the Revenue Bond Account in such year plus (b) the amount determined to be needed for the Replacement and Depreciation Account; or, if the audit should reveal that the Net Income has been insufficient for compliance with this Resolution, or that the methods used in account for such revenues and income were contrary to any provisions of this Resolution, the report of audit shall include a full explanation thereof, together with the accountant's recommendation for such change in rates or accounting practices or in the operation of the Improvements as may be required.

7.7. Cost of Insurance and Accounting. The insurance and fidelity bond premiums and the cost of the bookkeeping and audits herein provided for and of the billings and collection of the water utility rates, charges and rentals, with respect to the Utility, shall be payable from the Operating Account.

7.8. Handling of Funds. The employees of the City, under the direction and control of the Finance Officer, shall keep books of accounts, issue statements and collect bills for the rates, charges and rentals for the services and facilities provided by the Utility and the Improvements and for other money currently receivable on account thereof and shall, to the extent required by Section 6.10, provide for the discontinuance of service in case of nonpayment for services or noncompliance with regulations. All money collected with respect to the Utility shall be deposited daily with the Finance Officer. In the event of default on the part of the City in the payment of principal of or interest on any Bond promptly as each falls due, or in the keeping of any covenants herein contained, and if such default shall continue for a period of ninety days the Council will appoint a special superintendent for the Improvements, with the power and responsibility to operate the Improvements for the City, and to recommend to the Council such revisions of the rates and charges and operating policies as may be necessary to comply with this Resolution, and to assure that the Net Revenues will be sufficient to pay all principal of and interest on Bonds, and the special superintendent shall in all things so operate the Improvements as to comply fully with all the requirements and provisions of this Resolution. The right of the registered owners of the Bonds to require employment of such a superintendent shall not be exclusive, and in the event of a default as herein outlined, such registered owner or owners shall have the right to proceed at law or in equity to require the performance of the covenants herein contained, in any form of action which shall to them seem appropriate. The rights and obligations of this section shall be subject to the provisions of Section 9-40-33 of the Act.

7.9. Rules and Regulations. The rules and regulations for operation of the Utility and the Improvements and the use of water utility service from the Improvements shall be as provided in the existing ordinances and resolutions of the City, and any ordinances and resolutions subsequently adopted amendatory thereof or supplemental thereto.

7.10. Billings. The charges for water utility services will be billed at least monthly, and if the bill is not paid within sixty days of the date of billing, or if the customer fails to comply with all rules and regulations established for the Utility within sixty days after notice of violation thereof (which notice shall be given promptly upon discovery of any such violation), the service to the premises involved shall be discontinued and shall not be resumed until payment of all past-due bills for water utility service and compliance with all such rules and regulations. The City shall take all appropriate legal action to collect the unpaid charges.

7.11. Remedies. Any registered owner of any Bond shall have the right, either at law or in equity, by suit, action or other proceedings, to protect and enforce the rights of all registered owners of the Bonds and to compel the performance of any and all of the covenants required

herein to be performed by the City, and its officers and employees, including but not limited to the fixing and maintaining of rates, fees and charges and the collection and proper segregation of gross revenues and the application and use thereof. The registered owners of a majority in principal amount of outstanding Bonds shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the bondholders or the exercise of any power conferred on them, and the right to waive a default in the performance of any such covenant, and its consequences, except a default in the payment of the principal of or interest on any Bond when due. However, nothing herein shall impair the absolute and unconditional right of the registered owner of each Bond to receive payment of the principal of and interest on the Bond as such principal and interest respectively become due, and to institute suit for any such payment, any court having jurisdiction of the action may appoint a receiver to administer the Improvements on behalf of the City with power to charge and collect rates, fees and charges sufficient to provide for the payment of the operating expenses and for the payment of any bonds or obligations outstanding against the Improvements, and to apply the gross revenues in conformity with this Resolution and the laws of the State of South Dakota.

7.12. Rates and Charges. The City through the City Council will maintain, revise, charge and collect rates and other charges for service furnished and made available by the Improvements, according to schedules such that the gross revenues derived therefrom will be sufficient, when combined with other available funds, to pay when due all expenses of the operation and maintenance of the Improvements, and all principal of and interest on Bonds, to provide for the establishment and maintenance of adequate reserves therefor, and to provide an allowance adequate for recurring renewals and replacements of the Improvements, and to fulfill the terms of all other agreements with registered owners of the City's bonds. Such rates and charges shall at all times be sufficient to produce Net Revenues (as defined in Section 5.3) for each fiscal year at least equal to (i) 100% of the principal of and interest on the Bonds (including any parity lien Bonds hereafter issued) coming due in such fiscal year, and (ii) together with the balance in the Surplus Account carried over from the preceding Fiscal Year, 115% of the principal of and interest on the Bonds (including any parity lien Bonds hereafter issued) coming due in the fiscal year. The rates and charges with respect to the Improvements shall be in the form of a separately stated surcharge on the municipal utilities rate schedule; in calculating the surcharge the City and the Council shall allocate to the Improvements its share of the expenses of operation and maintenance and allowances for renewal and replacement as well as the requirements to pay principal of and interest on the Bonds to maintain the Reserve Account, and to repay the Utility or any other funds of the City for moneys advanced in accordance with Section 5.4 hereof.

SECTION 8. AMENDMENTS.

8.1. Amendments Without Bondholder Consent. The City may, by administrative resolution adopted prior to the delivery of the Bonds to the Underwriter, amend this Resolution, if such amendment is required by a bond rating agency as a condition to its release of a rating on the Bonds, or by a municipal bond policy insurer as a condition of its issuance of a bond insurance policy with respect to the Bonds. The City reserves the right to amend this Resolution, from time to time and at any time, for the purpose of (i) curing any ambiguity or of curing, correcting or supplementing any defective provision contained herein, or (ii) making such provisions with regard to matters or questions arising hereunder as the City may deem necessary or desirable and not inconsistent with this Resolution, and which shall not adversely affect the interests or security of the registered owners of outstanding Bonds, or (iii) adding to the covenants and agreements herein contained, or to the gross revenues herein pledged, other covenants and agreements thereafter to be observed and additional gross revenues thereafter appropriated to the Fund, or (iv)

surrendering any right or power herein reserved to or conferred upon the City, or (v) authorizing the issuance of Additional Bonds in the manner and subject to the terms and conditions prescribed in Section 6. Any such amendment may be adopted by resolution, without the consent of the registered owners of any of the Bonds.

8.2. Amendments With Bondholder Consent. With the consent of the registered owners of Bonds as provided in Section 8.3, the City may from time to time and at any time amend this Resolution by adding any provisions hereto or changing in any manner or eliminating any of the provisions hereof or of any amending resolution; provided, however, that no amending resolution shall be adopted at any time without the consent of the registered owners of all Bonds which are then outstanding, if it would extend the maturities of any Bonds, would reduce the rate or extend the time of payment of interest thereon, would reduce the amount or extend the time of payment of the principal or redemption premium thereof, would give to any Bond or Bonds any privileges over any other Bond or Bonds, would reduce the sources of gross revenues appropriated to the Fund, would authorize the creation of a pledge of said gross revenues prior to or on a parity with the Bonds (except as is authorized by Section 6), or would reduce the percentage in principal amount of such Bonds required to authorize or consent to any such amendment.

8.3. Notice and Consent. Any amendment adopted pursuant to Section 8.2 shall be made by resolution, mailed to each registered owner of a Bond affected thereby, and shall become effective only upon the filing of written consents with the Finance Officer, signed by the registered owners of not less than two-thirds in principal amount of the Bonds which are then outstanding or, in the case of an amendment not equally affecting all outstanding Bonds, by the registered owners of not less than two-thirds in principal amount of the Bonds adversely affected by such amendment. Any written consent to an amendment may be embodied in and evidenced by one or any number of concurrent written instruments of substantially similar tenor signed by registered owners in person or by agent duly appointed in writing, and shall become effective when delivered to the Finance Officer. Any consent by the registered owner of any Bond shall bind him and every future registered owner of the same Bond with respect to any amendment adopted by the City pursuant to such consent; provided that any registered owner may revoke his consent with reference to any Bond by written notice received by the Finance Officer before the amendment has become effective. In the event that unrevoked consents of the registered owners of the required amount of Bonds have not been received by the Finance Officer within one year after the mailing of notice of the amendment, the amendment and all consents theretofore received shall be of no further force and effect.

8.4. Proof. Proof of the execution of any consent, or of a writing appointing any agent to execute the same, or of the ownership by any person of Bonds, shall be sufficient for any purpose of this Resolution and shall be conclusive in favor of the City if made in the manner provided in this section. The fact and date of the execution by any person of any such consent or appointment may be proved by the affidavit of a witness of such execution or by the certification of any notary public or other officer authorized by law to take acknowledgment, certifying that the person signing it acknowledged to him the execution thereof. The amount of Bonds held by any person by or for whom a consent is given, and the distinguishing numbers of such Bonds, and the date of his holding the same, shall be proved by the bond register. The fact and date of execution of any such consent may also be proved in any other manner which the City Council may deem sufficient; but the City Council may nevertheless, in its discretion, require further proof in cases where it deems further proof desirable.

SECTION 9. DEFEASANCE.

9.1. General. When the liability of the City on all Bonds issued under and secured by this Resolution and all interest thereon has been discharged as provided in this section, all pledges, covenants and other rights granted by this Resolution to the registered owners of such Bonds shall cease.

9.2. Payment. The City may discharge its liability with reference to any Bonds which are due on any date by depositing with the Registrar for such Bonds on or before the date a sum sufficient for the payment thereof in full; or if any Bond shall not be paid when due, the City may nevertheless discharge its liability with reference thereto by depositing with the Registrar a sum sufficient for the payment thereof in full with interest accrued to the date of such deposit.

9.3. Redemption. The City may also discharge its liability with reference to any Bonds which are called for redemption on any date in accordance with their terms, by depositing with the Registrar on or before that date an amount equal to the principal, interest and redemption premium, if any, which are then due thereon, provided that notice of such redemption has been duly given as provided in this Resolution.

9.4. Escrow. The City may also at any time discharge its liability in its entirety with reference to any Bonds, subject to the provisions of law now or hereafter authorizing and regulating such action, by calling such Bonds for redemption on the next date when they may be prepaid in accordance with their terms, by giving the notice required for such redemption or giving irrevocable instructions to the escrow agent described below to give such notice, and by depositing irrevocably in escrow, with a bank qualified by law as an escrow agent for this purpose, cash or securities which are direct non-callable obligations of the United States and are authorized by law to be so deposited, bearing interest payable at such times and at such rates and maturing on such dates as shall be required, without reinvestment, to provide funds sufficient to pay all principal, interest and redemption premiums, if any, to become due on such Bonds on or before said redemption date. No defeasance shall be made pursuant to this section unless there has first been presented to the escrow agent (i) a verification report as to the adequacy of the escrow prepared by an independent nationally-recognized certified public accountant and (ii) a written opinion of nationally-recognized bond counsel that such defeasance shall not cause the interest on any outstanding Bonds to be included in the gross income of the registered owners thereof for federal income tax purposes.

SECTION 10. TAX MATTERS.

10.1. The Improvements. The Utility is and will be owned and operated by the City and used by the City to provide water services to members of the general public. No user of the Utility is granted any concession, license or special arrangement. The City shall not enter into any lease, use or other agreement with any non-governmental person relating to the use of the Utility or the Improvements or security for the payment of the Series 2005 Bonds which might cause the Series 2005 Bonds to be considered "private activity bonds" or "private loan bonds" within the meaning of Section 141 of the Internal Revenue Code of 1986, as amended (the "Code").

10.2. General Covenant. The City covenants and agrees with the registered owners from time to time of the Bonds that it will not take or permit to be taken by any of its officers, employees or agents any action which would cause the interest on the Series 2005 Bonds to become includable in gross income for federal income tax purposes under the Code and

applicable Treasury Regulations (the "Regulations"), and covenants to take any and all actions within its powers to ensure that the basic interest on the Series 2005 Bonds will not become includable in gross income for federal income tax purposes under the Code and the Regulations.

10.3. Certification. The Mayor and the Finance Officer, being the officers of the City charged with the responsibility for issuing the Series 2005 Bonds pursuant to this Resolution are hereby authorized and directed to execute and deliver to the Underwriter thereof a certificate in accordance with the provisions of Section 148 of the Code, and Section 1.148-2(b) of the Regulations, stating that on the basis of facts, estimates and circumstances in existence on the date of issue and delivery of the Series 2005 Bonds, it is reasonably expected that the proceeds of the Series 2005 Bonds will be used in a manner that would not cause the Series 2005 Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and the Regulations.

10.4. Arbitrage Rebate. The City acknowledges that the Series 2005 Bonds are subject to the rebate requirements of Section 148(f) of the Code. The City covenants and agrees to retain such records, make such determinations, file such reports and documents and pay such amounts at such times as are required under said Section 148(f) and applicable Regulations to preserve the exclusion of interest on the Series 2005 Bonds from gross income for federal income tax purposes, unless the Series 2005 Bonds qualify for an exception from the rebate requirement pursuant to one of the spending exceptions set forth in Section 1.148-7 of the Regulations and no "gross proceeds" of the Series 2005 Bonds (other than amounts constituting a "bona fide debt service fund") arise during or after the expenditure of the original proceeds thereof.

SECTION 11. CONTINUING DISCLOSURE.

The City acknowledges that the Series 2005 Bonds are subject to the continuing disclosure requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (17 C.F.R. § 240.15c2-12) (as in effect and interpreted from time to time, the Rule). The Rule governs the obligations of certain underwriters to require that issuers of municipal obligations enter into agreements for the benefit of the holders of the obligations to provide continuing disclosure with respect to the obligations. To provide for the public availability of certain information relating to the Bonds and the security therefore and to permit participating underwriters in the primary offering of the Bonds to comply with the Rule, which will enhance the marketability of the Bonds, the Mayor and Finance Officer are hereby authorized and directed to execute an Undertaking of Continuing Disclosure (the Undertaking), by which the City agrees to provide such information, either directly or through a disclosure agent. The City hereby covenants and agrees to observe and perform the covenants and agreements contained in the Undertaking, unless amended or terminated in accordance with the provisions thereof, for the benefit of the registered owners or beneficial owners from time to time of the outstanding Bonds as provided in the Undertaking.

SECTION 12. CONCERNING BOND INSURANCE.

The Underwriter is hereby authorized to make necessary applications for securing a municipal bond insurance policy to be issued by a bond insurer guaranteeing the payment of principal of and interest on the Series 2005 Bonds (the "Bond Insurance Policy"). The Mayor, Finance Officer and City Attorney are hereby authorized to furnish all necessary information required to secure the Bond Insurance Policy and the Mayor and/or Finance Officer are hereby authorized to execute on behalf of the City a commitment for the Bond Insurance Policy when received. If the City proposes to amend this resolution and such amendment would require the consent of the registered owners of the Series 2005 Bonds, then such amendment shall not be

made or such amending resolution shall not become effective without the prior written consent of the issuer of the Bond Insurance Policy, if it is not then in default under the Bond Insurance Policy which insures payment of the principal of and interest on the Series 2005 Bonds.

Dated this _____ day of September, 2005.

(SEAL)

Mayor

ATTEST:

Finance Officer

Adopted: _____, 2005.

Published: _____, 2005.

Effective Date: _____, 2005.