

ELEVENTH SUPPLEMENT TO SUBLEASE AGREEMENT
BETWEEN
SOUTH DAKOTA BOARD OF EDUCATION
AND
WATERTOWN SCHOOL DISTRICT NO. 14-4

Dated as of December 1, 2014

Amending and supplementing a Sublease Agreement Dated as of August 1, 1988
Between the South Dakota Board of Education and Watertown School District
No. 14-4, as most recently amended and supplemented by a Tenth Supplement to
Sublease Agreement dated as of February 1, 2012.

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(Not a part of the Sublease)

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EXHIBITS

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THIS ELEVENTH SUPPLEMENT TO SUBLEASE AGREEMENT (herein being referred to as the “Supplemental Sublease”) dated as of December 1, 2014, between the **SOUTH DAKOTA BOARD OF EDUCATION** (herein, the “Board”) and **WATERTOWN SCHOOL DISTRICT NO. 14-4**, a South Dakota School District (the “District”);

PRELIMINARY STATEMENT

The South Dakota Health and Educational Facilities Authority (the “Issuer”) and the Board have heretofore entered into a Lease Purchase Agreement dated as of August 1, 1988 (the “Original Lease”), as supplemented by a First Supplement to Lease Purchase Agreement (Watertown) dated as of August 1, 1989, a First Supplement to Lease Purchase Agreement (Mitchell) dated as of March 1, 1990, a Second Supplement to Lease Purchase Agreement dated as of May 1, 1990, a Third Supplement to the Lease Purchase Agreement dated as of October 1, 1991, a Fourth Supplement to Lease Purchase Agreement dated as of December 15, 1992 a Fifth Supplement to Lease Purchase Agreement dated as of August 1, 1993, a Sixth Supplement to Lease Purchase Agreement dated as of August 1, 1993, a Seventh Supplement to Lease Purchase Agreement dated as of December 1, 1997, an Eighth Supplement to Lease Purchase Agreement dated as of May 1, 1998, a Ninth Supplement to Lease Purchase Agreement dated as of June 1, 1999, a Eleventh Supplement to Lease Purchase Agreement dated as of December 1, 2004, an Eleventh Supplement to Lease Purchase Agreement dated November 1, 2007, a Twelfth Supplement to Lease Agreement dated September 1, 2008, a Thirteenth Supplement to Lease Purchase Agreement dated as of July 1, 2010, a Fourteenth Supplement to Lease Purchase Agreement dated as of November 1, 2010, certain Omnibus Amendments dated as of May 1, 2011, a Fifteenth Supplement to Lease Purchase Agreement dated as of August 1, 2011, a Sixteenth Supplement to Lease Purchase Agreement dated as of February 1, 2012, and a Seventeenth Supplement to Lease Purchase Agreement dated as of June 1, 2014 (collectively, all of the foregoing are referred to as the “Lease”).

Pursuant to the Lease, as amended and supplemented from time to time, the Board is leasing with an option to purchase certain facilities the acquisition of which was financed or refinanced with the proceeds derived from the issuance and sale by the Issuer of its Vocational Education Program Revenue Bonds, Series 1988 in the original principal amount of \$11,120,000 (the “Series 1988 Bonds”), its Vocational Education Program Revenue Bonds, Series 1990 in the original principal amount of \$1,315,000 (the “Series 1990 Bonds”), its Vocational Education Program Revenue Bonds, Series 1992 in the original principal amount of \$8,785,000 (the “Series 1992 Bonds”), its Vocational Education Program Revenue Bonds, Series 1993 in the original principal amount of \$9,780,000 (the “Series 1993 Bonds”), its Vocational Education Revenue Bonds, Series 1997 in the original principal amount of \$10,365,000 (the “Series 1997 Bonds”), its Vocational Education Revenue Bonds, Series 1998A in the original principal amount of \$4,705,000 (the “Series 1998A Bonds”), its Vocational Education Revenue Bonds, Series 1999 in the original principal amount of \$7,135,000 (the “Series 1999 Bonds”), its Vocational Education Revenue Bonds, Series 2004 in the original principal amount of \$6,265,000 (the “Series 2004 Bonds”), its Vocational Education Program Revenue Refunding Bonds, Series 2007 in the original principal amount of \$8,805,000 (the “Series 2007 Bonds”), its Vocational Education Program Revenue Bonds, Series 2008 in the original principal amount of \$19,465,000 (the "Series 2008 Bonds"), its Taxable Vocational Program Revenue Bonds, Series 2010A and Series 2010B in the original principal amount of \$23,590,000 (the “Series 2010AB Bonds”), its

Taxable Vocational Program Revenue Bonds, Series 2010C in the original principal amount of \$12,605,000 (the "Series 2010C Bonds"), its Vocational Education Program Revenue Bonds, Series 2011A in the original principal amount of \$20,140,000 (the "Series 2011A Bonds"), its Vocational Education Program Revenue Bonds, Series 2012A in the original principal amount of \$18,810,000 (the "Series 2012A Bonds"), and its Vocational Education Program Revenue Bonds, Series 2014A in the original principal amount of \$1,790,000 (the "Series 2014A Bonds").

The Issuer issued the Series 1988 Bonds pursuant to an Indenture of Trust dated as of August 1, 1988 (the "Original Indenture") between the Issuer and The First National Bank in Sioux Falls, as Trustee (the "Trustee"). The Issuer issued the Series 1990 Bonds pursuant to the Original Indenture as amended and supplemented by the First Supplemental Indenture of Trust dated as of May 1, 1990 between the Issuer and the Trustee (the "First Supplemental Indenture"). The Issuer issued the Series 1992 Bonds pursuant to the Original Indenture as amended and supplemented by the Second Supplemental Indenture of Trust dated as of December 15, 1992 between the Issuer and the Trustee (the "Second Supplemental Indenture"). The Issuer issued the Series 1993A Bonds pursuant to the Original Indenture as amended and supplemented by the Third Supplemental Indenture of Trust dated as of August 1, 1993 between the Issuer and the Trustee (the "Third Supplemental Indenture"). The Issuer issued the Series 1993B Bonds pursuant to the Original Indenture as amended and supplemented by the Fourth Supplemental Indenture of Trust dated as of August 1, 1993 between the Issuer and the Trustee (the "Fourth Supplemental Indenture"). The Issuer issued the Series 1997 Bonds pursuant to the Original Indenture as amended and supplemented by the Fifth Supplemental Indenture of Trust dated as of December 1, 1997 between the Issuer and the Trustee (the "Fifth Supplemental Indenture"). The Issuer issued the Series 1998A Bonds pursuant to the Original Indenture as amended and supplemented by the Sixth Supplemental Indenture of Trust dated as of May 1, 1998 between the Issuer and the Trustee (the "Sixth Supplemental Indenture"). The Issuer issued the Series 1999 Bonds pursuant to the Original Indenture as amended and supplemented by the Seventh Supplemental Indenture of Trust dated as of June 1, 1999 between the Issuer and the Trustee (the "Seventh Supplemental Indenture"). The Issuer issued the Series 2004 Bonds pursuant to the Original Indenture as amended and supplemented by the Eighth Supplemental Indenture of Trust dated as of December 1, 2004 (the "Eighth Supplemental Indenture"). The Issuer issued the Series 2007 Bonds pursuant to the Original Indenture as amended and supplemented by the Ninth Supplemental Indenture of Trust dated as of November 1, 2007 (the "Ninth Supplemental Indenture"). The Issuer issued the Series 2008 Bonds pursuant to the Original Indenture as amended and supplemented by the Eleventh Supplemental Indenture of Trust dated as of September 1, 2008 (the "Eleventh Supplemental Indenture"). The Issuer issued the Series 2010AB Bonds pursuant to the Original Indenture as amended and supplemented by the Eleventh Supplemental Indenture of Trust dated as of July 1, 2010 (the "Eleventh Supplemental Indenture"), as subsequently modified by certain Omnibus Amendments dated as of May 1, 2011. The Issuer issued the Series 2010AB Bonds pursuant to the Original Indenture as amended and supplemented by the Twelfth Supplemental Indenture of Trust dated as of November 1, 2010 (the "Twelfth Supplemental Indenture"). The Issuer issued the Series 2011A Bonds pursuant to the Original Indenture as amended and supplemented by the Thirteenth Supplemental Indenture of Trust dated as of August 1, 2011 (the "Thirteenth Supplemental Indenture"). The Issuer issued the Series 2012A Bonds pursuant to the Original Indenture as amended and supplemented by the Fourteenth Supplemental Indenture of Trust dated as of February 1, 2012 between the Authority and the Trustee (the "Fourteenth Supplemental

Indenture”). The Issuer issued the Series 2014A Bonds pursuant to the Original Indenture as amended and supplemented by the Fifteenth Supplemental Indenture of Trust dated as of June 1, 2014 between the Authority and the Trustee (the “Fifteenth Supplemental Indenture”).

PREAMBLE

WHEREAS, the District and the Board have heretofore entered into a Sublease Agreement dated as of August 1, 1988 as most recently amended and supplemented by that certain Tenth Supplement to Sublease Agreement dated as of, February 1, 2012 (such Sublease Agreement as amended and supplemented being referred to herein as the “Original Sublease”);

WHEREAS, Section 3.07 of the Original Indenture authorizes the issuance of Additional Bonds (as defined therein) by the Issuer from time to time in accordance with the provisions thereof for various purposes, including (i) advance refunding of any series of Outstanding Bonds, any maturity of any series of Outstanding Bonds or any Related Amount of Series Bonds within a series of Bonds by depositing with the Trustee, in trust for the sole benefit of such Bonds, noncallable Eligible Investments (as defined in the Indenture) which will, together with the income or increment to accrue thereon without consideration of any reinvestment thereof, be sufficient to pay or redeem (when redeemable) and discharge the indebtedness of all Bonds to be refunded at or before their respective maturity dates; (ii) obtaining funds to make the required deposit to the Debt Service Reserve Fund, and (iii) obtaining funds for any other purpose permitted under the Act, provided that any Facilities acquired within proceeds of such Additional Bonds shall become part of the Facilities and shall be Subject to the Lease;

WHEREAS, the Issuer has in connection herewith executed and delivered to the Trustee that certain Sixteenth Supplemental Indenture of Trust dated as of December 1, 2014 (the “Sixteenth Supplemental Indenture”) pursuant to which the Issuer has issued its \$ _____ Vocational Education Program Refunding Revenue Bonds, Series 2014B (the “Series 2014B Bonds”); and

WHEREAS, the proceeds of the Series 2014B Bonds, together with certain other funds will be applied pursuant to an Eighteenth Supplement to Lease Purchase Agreement dated as of December 1, 2014 between the Issuer and the Board (the “Eighteenth Supplement”) in an amount estimated to be necessary, together with other available funds to (A) refund the Series 2008 Bonds (the “Refunded Bonds”), (B) provide debt service savings in an amount approximately equal to the present value savings realized by the refunding of the Refunded Bonds, which amount shall be contributed to the State General Fund (“Contribution”) in recognition of the appropriated moneys applied from time to time as a credit against prior and future Lease Rentals, and (C) finance any amount necessary to satisfy the requirement to fund a debt service reserve account, capitalized interest and costs of issuance;

WHEREAS, terms not elsewhere defined herein shall have the meanings given thereto in the Indenture;

WHEREAS, Section 2.06 and 3.07 of the Original Indenture require, as a pre-condition to the issuance of any Additional Bonds, that the Issuer and the Board enter into an amendment

or supplement to the Original Lease, including an amendment of Exhibit D to provide for Lease Rentals in amounts and at time sufficient to cover payments of principal and interest to be made on such Additional Bonds;

WHEREAS, the District and the Board desire to enter into this Supplemental Sublease in order to amend the Original Sublease in certain respects;

WHEREAS, the execution and delivery of this Supplemental Sublease has been duly authorized and approved by the District and the Board; and

WHEREAS, the parties desire to confirm their respective obligations under the Original Sublease, as supplemented hereby;

NOW, THEREFORE, the Board and the District, each in consideration of the representations, covenants, and agreements of the other as set forth herein, mutually represent, covenant, and agree as follows:

ARTICLE 1K

DEFINITION, EXHIBITS, AND RULES OF INTERPRETATION

Section 1.01K Definitions. In addition to the terms defined in the Original Sublease, the following terms have the following respective meanings unless the context hereof clearly requires otherwise:

Build America Bonds: debt obligations of the Issuer which the Issuer has elected to designate as Build America Bonds under the provisions of Section 54AA of the Code and with respect to which the Issuer has elected to have the direct-pay refundable credit provisions of Subsection 54AA(g) of the Code apply.

Davis-Bacon Act: Subchapter IV of Chapter 31 of Title 40 of the United States Code, as amended from time to time.

Eighteenth Supplement to Lease: The Eighteenth Supplement to Lease Purchase Agreement dated as of December 1, 2014, between the Issuer and the Board.

Indenture: The Indenture of Trust between the Issuer and Trustee, dated as of August 1, 1988, as amended and supplemented now or hereafter in accordance with its terms.

Issuer Lease: The Lease Purchase Agreement dated as of August 1, 1988 between the Issuer and the Board, as now or hereafter amended and supplemented in accordance with its terms.

Original Sublease: As defined in the Preamble hereto.

Project or Projects: means the Refunded Project as defined herein.

Recovery Zone Bonds: debt obligations of the Issuer which the Issuer has elected to designate as recovery zone economic development bonds under the provisions of Section 1400U-2 of the Code.

Refunded Project. All improvements, personal property and other property refinanced with the proceeds of the Related Amount of Series 2014B Bonds as described on Exhibit A attached hereto and located on the real property described on Exhibit B hereto.

Related Amount of Series Bonds: As of any date, those Bonds of any one or more series which are Outstanding as of such date and which have been designated by the Issuer in the Indenture as allocated to the financing of a specific Project or Projects of the District. The Related Amount of Series Bonds for the District are identified on Exhibit D as of December 1, 2014.

Series 2014B Bond or Bonds: As defined in the Preamble hereto.

Series 2014B Bond Documents: The Issuer Lease, the Series 2014B Bond Purchase Agreement, the Indenture, the Pledge Agreement, the Collection Agreement and all related and ancillary documents thereto.

Series 2014B Bond Purchase Agreement: The Bond Purchase Agreement dated, _____, 2014 for the sale and purchase of the Series 2014B Bonds between the Issuer, the Board and the Series 2014B Original Purchaser.

Series 2014B Bond Year: So long as the Series 2014B Bonds shall remain Outstanding; the period from August 1 of any year to August 1 of the following year, provided the first Series 2014B Bond Year shall commence on the Series 2014B Closing Date and end on July 31, 2015.

Series 2014B Closing Date: December ____, 2014, the date on which the Original Purchaser purchased the Series 2014B Bonds.

Series 2014B Costs: All costs paid to purchase, construct, install, finance and refinance the improvements subleased hereby, including, but not limited to, construction management fees, all costs of labor, material and services paid or incurred by the District, all acceptance fees of the Trustee, underwriter's discount or commission, brokerage fees, fees of the Issuer, interest charges, service fees, attorney fees (including the fees of Bond Counsel), insurance fees, rating agency fees, and charges and recording fees incurred by the District, the Issuer, the Commissioner or the Board in the issuance of the Bonds together with any Future Capital Expenditures with respect to any property Subject to this Sublease.

Series 2014B Original Purchaser: Dougherty & Company LLC.

Sixteenth Supplemental Indenture: As defined in the Preliminary Statement hereto.

Sublease: The Original Sublease as amended and supplemented by this Supplemental Sublease.

Sublease Rentals: The amounts payable by the District in Section 4.02 of the Sublease and Exhibit D-1.

Taxable Bonds: debt obligations (other than Build America Bonds and Recovery Zone Bonds) which the Issuer has expressly designated as “taxable,” *i.e.*, the interest on such obligations is not purported by the Issuer to be excluded from the gross income of the holders of such obligations for federal income tax purposes;

Tax-Exempt Bonds: debt obligations, the interest on which is purported by the Issuer to be excluded from the gross income of the holders of such obligations for federal income tax purposes. Any series of Bonds of the Issuer that is not expressly designated by the Issuer as either Taxable Bonds; Recovery Zone Bonds or Build America Bonds shall be treated as Tax-Exempt Bonds for the purposes of this Supplemental Sublease.

Section 1.02K Exhibits. The following Exhibits are attached to and by reference made a part of this Supplemental Sublease:

- (a) Exhibit A: the Refunded Project;
- (b) Exhibit B: the Real Property Schedules attached hereto, as supplemented or amended from time to time; and
- (c) Exhibit D: the Sublease Rental Schedules and Related Amount of Bonds Schedule attached hereto, as supplemented or amended from time to time. The Purchase Option Price shall be calculated by the Issuer based on Exhibit D.

Section 1.03K Rules of Interpretation.

- (d) This Supplemental Sublease shall be interpreted in accordance with and governed by the laws of the State of South Dakota;
- (e) The words “herein” and “hereof” and words of similar import, without reference to any particular section or subdivision, refer to the Sublease as a whole rather than to any particular section or subsection hereof; and
- (f) Reference herein to any particular section or subdivision hereof are to the section or subdivision of this instrument as originally executed.

Section 1.04K Amendments to Exhibits to the Sublease and Issuer Lease.

- (g) Exhibit A to the Original Sublease is hereby supplemented by adding Exhibit A hereto;

(h) Exhibit B to the Original Sublease is hereby amended by deleting all of the prior Exhibits and inserting in lieu thereof all of Exhibit B hereto;

(i) Exhibit D to the Original Sublease is hereby amended by deleting all of the prior Exhibits and inserting in lieu thereof all of Exhibit D attached hereto.

ARTICLE 2K

REPRESENTATIONS

Section 2.01K Representations by the District. The District makes the following representations as the basis for its covenants herein:

(1) The District is a body politic and corporate validly created and existing under the laws and constitution of the State of South Dakota, is authorized by the Acts to enter into the transactions contemplated by this Supplemental Sublease and to carry out its obligations hereunder, has been duly authorized to execute and deliver this Supplemental Sublease and agrees that it will do or cause to be done all things necessary to preserve and keep in full force and effect its existence;

(2) The issuance and sale of the Series 2014B Bonds; the use of the Related Amount of Series 2014B Bond proceeds to refund the Refunded Bonds and refinance the Refunded Project, the execution and delivery of this Supplemental Sublease; and the performance of all covenants and agreements of the District contained in the Sublease and of all other acts and things required under the Constitution and laws of the State of South Dakota to make the Sublease, including this Supplemental Sublease, a valid and binding obligation in accordance with its terms, are authorized by the School District's Act and have been duly authorized by proceedings of the District's Board adopted at meetings thereof duly called and held;

(3) The District does not rely on any warranty of the Board, the Commissioner or the Issuer, either express or implied, that any of the Projects will be suitable to the District's needs;

(4) The District currently intends to operate the Projects for the purposes described in the Sublease until the date on which all of the Related Amount of Series Bonds are no longer Outstanding;

(5) The District will take no action which will impair the exclusion of interest on the Bonds from gross income of Bondholders for federal income tax purposes;

(6) There is no litigation pending nor threatened, questioning the right of the District to refinance the Refunded Project or operate or maintain the Refunded Project or other improvements Subject to the Sublease, questioning the validity of the Sublease, the

Bonds, the Collection Agreement or the pledging of security for the payment of the Bonds;

(7) Payment of more than ten percent (10%) of the proceeds of the principal of, and the interest on, all of the Related Amount of Series Bonds and the Sublease Rentals (either under the terms thereof or any underlying arrangement) is not and shall not be directly or indirectly-

(a) secured by any interest in-

(i) property used or to be used for one or more private business uses, or

(ii) payments in respect of such property; or

(b) to be derived from payments (whether or not to the Board or District) in respect of property, or borrowed money, used or to be used for one or more private business uses;

within the meaning of Section 141(b)(2) of the Code;

(8) The District agrees not to sublease, sell, assign, grant or convey all or any portion of the improvements Subject to the Sublease or any interest therein to the United States or any agency or instrumentality thereof or any other person or entity whether or not such person or entity is a Governmental Unit if the result thereof would be to cause the interest on the Bonds to be Subject to federal income taxation;

(9) The District covenants to cooperate with the Issuer, the Board and the Trustee and to comply with the terms of the Issuer's Letter of Instruction so that interest to be paid to the owner of any Bond will not become includible in gross income of the recipient thereof for federal income tax purposes except under certain conditions;

(10) Not more than 10 percent of the proceeds of any Related Amount of Series Bonds are to be used for any one or more private business use within the meaning of Section 141(b)(1) of the Code; and

(11) None of the proceeds of any Related Amount of Series Bonds have been or are to be used for any private business use which is not related or disproportionate to any government use of such proceeds within the meaning of Section 141(b)(3) of the Code.

Section 2.02K Representations by the Board. The Board makes the following representations as the basis for its covenants herein:

(12) The Board has authority to enter into this Supplemental Sublease, has duly authorized the execution and delivery of this Supplemental Sublease and the District is a “participating educational institution” within the meaning of Chapter 1-16A, Section 2, of the South Dakota Codified Laws;

(13) The execution and delivery of this Supplemental Sublease and the consummation of the transactions contemplated hereby, and the fulfillment of the terms and conditions hereof, do not and will not conflict with or result in a breach of any restriction of any agreement or instrument to which the Board is now a party and do not and will not constitute a default under any of the foregoing, or result in the creation or imposition of any lien, charge or encumbrance of any nature upon any of the property or assets of the Board contrary to the terms of any instrument or agreement.

Section 2.03K Trustee and Others May Rely on Representations. The Board and the District agree that the representations contained in this Article 2K are for the use and benefit of any purchaser of any of the Bonds, the Issuer and the Trustee, and any such purchaser, the Issuer and the Trustee shall be entitled to rely thereon.

ARTICLE 3K

USE OF PROCEEDS

Section 3.01K Issuance of Bonds. The Issuer has contracted for the sale of the Series 2014B Bonds and the District and the Board each hereby approves the terms of all of the Series 2014B Bond Documents including, without limitation, the terms of the sale of the Series 2014B Bonds.

Section 3.02K Deposit of Bond Proceeds. The proceeds of the Related Amount of Series 2014B Bonds shall be applied as provided in the Fourteenth Supplemental Indenture, the Issuer Lease and herein to refund the Refunded Bonds and as otherwise therein provided.

Section 3.03K Refunded Project Constitutes an Integral Part of the “Project” Under the Sublease. The Refunded Project shall be deemed for all purposes of the Sublease to be an integral part of the Project under and in connection with the Sublease (i.e., the Original Sublease as supplemented by this Supplement to Sublease).

ARTICLE 4K

USE AND RENTALS

Section 4.01K Possession and Use. For the purpose of facilitating and furthering a statewide program of post secondary vocational education and in the nature of a grant of state aid

Subject to certain conditions set forth herein (rather than as a “loan”), the Board has heretofore delivered to the District sole and exclusive possession of the Refunded Project, Subject to all of the terms and conditions of the Sublease.

Section 4.02K Amendment to Section 4.02 of the Original Sublease. Section 4.02 of the Original Sublease is hereby amended to read as follows:

Section 4.02. Sublease Rentals.

(14) Subject only to subparagraph (2) of this Section 4.02 of the Sublease and to the provisions of Section 4.07 of the Sublease, and so long as the Sublease Term has not been terminated in accordance with Section 4.09 of the Sublease, there shall be paid to the Trustee a sum sufficient to meet the amounts payable for principal, premium, if any, (whether at maturity or by redemption as provided in the Indenture), and interest upon the Related Amount of Series Bonds and such other sums provided for in the Indenture as follows:

(a) Commencing on January 28, 1989 and on the 28th day of each January thereafter so long as any of the Related Amount of Series Bonds are Outstanding, the Sublease Rentals payable hereunder shall include an amount equal to the interest due on the Outstanding Related Amount of Series Bonds as set forth on Exhibit D hereto on the next February 1 or August 1, as applicable and (ii) commencing on January 28, 1989 and on each January 28 and July 28th thereafter so long as any of the Related Amount of Series Bonds are Outstanding, the Sublease Rentals payable hereunder shall also include one-half of the principal due on each succeeding August 1 by reason of maturity or earlier redemption of any such Bonds, all such Sublease Rentals having been tentatively calculated to amortize the Related Amount of Series Bonds as set forth on Exhibit D hereto.

(b) All payments of Sublease Rentals shall be for the equal and ratable benefit of the owners of the Bonds irrespective of date of issue, series designation, the purpose of issuance or other feature or characteristic of such Bonds.

(c) All payments of Sublease Rentals shall be made directly to the Trustee at its principal office, for the account of the Board. This Sublease is a net Sublease, and neither the Board nor the Issuer shall be under any obligation to operate, maintain, replace, or improve the Projects or pay the cost thereof, but shall be entitled to receive the Sublease Rentals hereunder pursuant to the terms hereof on an absolute net basis, and such Sublease Rentals shall not be Subject to abatement before retirement of the Bonds except as contemplated in Section 4.07 and Article 8 of the Sublease.

(15) During the term of this Sublease, whenever Sublease Rentals or other amounts are due and payable hereunder, the Trustee is required under and pursuant to the

Indenture, the Pledge Agreement and the Collection Agreement, prior to any attempt to collect Lease Rentals from the Board under the Issuer Lease or Sublease Rentals or any other payments from the District hereunder, to first transfer, or cause the Escrow Holder or the Treasurer to transfer, from the Tuition Subaccount to the Debt Service Fund amounts available therein to the extent necessary to pay such Sublease Rentals or other amounts due hereunder, provided that if such amounts are for any reason insufficient, the Trustee shall attempt to collect Lease Rentals from the Board under the Issuer Lease and if amounts so collected remain insufficient, the Trustee shall promptly send written notice of such insufficiency to the District with copies of such notice to be given to the Escrow Holder, the Treasurer and the Board.

Section 4.03K Amendment of Section 4.03 of the Original Sublease. Section 4.03 of the Original Sublease is hereby amended to read as follows:

Section 4.03. Additional Payments.

The District agrees:

(16) To pay to the Trustee and Escrow Holder as additional payments under this Sublease, all reasonable fees and expenses incurred by the Trustee with regard to the performance of its duties with respect to any of the Related Amount of Series Bonds under any of the Bond Documents, including, without limitation, the Series 2007 Bond Documents, the Series 2008 Bond Documents, the Series 2010AB Bond Documents, the Series 2010C Bond Documents, the Series 2011A Bond Documents, the Series 2012A Bond Documents, the Series 2014A Bonds Documents, and the Series 2014B Bond Documents and this Sublease.

(17) To pay to the Issuer, upon demand, its statutory service fee and all reasonable expenses incurred by the Issuer in relation to any Project which is not otherwise required to be paid by the District under the terms of this Sublease, including all fees and charges of the Issuer as provided for under the Issuer's Act;

(18) To pay to the Issuer, the Board or the Trustee, as the case may be, the amount of all advances of funds made by either of them under the provisions of Section 5.08 hereof, with interest thereon at the prime rate of the Trustee per annum from the date of each such advance; and

(19) To pay to the Issuer, the Board and the Trustee or their order, expenses incurred in connection with compliance with Section 148 of the Code and Section 7.07 hereof with respect to all of the Related Amount of Series Bonds.

Section 4.04K Non-appropriation; Limited Obligation. Notwithstanding anything in this Supplemental Sublease and/or the Original Sublease to the contrary, the cost and expense of the performance by the District of its obligations under the Sublease and the incurrence of any liabilities of the District under the Sublease, including, without limitation, the payment of all

amounts required to be paid by the District under this Supplemental Sublease or the Original Sublease, shall be Subject to and dependent upon moneys being made legally available from time to time by the Board upon its approval of the District's budget for its post secondary vocational education program.

In order to effectuate the foregoing, the Director of post secondary vocational education for the District shall notify the Board not later than March 1 of each year of the respective amount which it should include in District's budget for its post secondary vocational educational program for the next occurring Fiscal Year in order to pay all amounts scheduled to become due in the next occurring Fiscal Year after giving due consideration and effect to the moneys available pursuant to the Issuer Lease, Pledge Agreement and Collection Agreement as described in Section 4.02(2) hereof.

If, on April 1 of any Fiscal Year, sufficient funds have not been appropriated or otherwise been made available, whether through the Issuer Lease, the Pledge Agreement or the Collection Agreement or otherwise by or with the consent of the Board for the use or credit of the District for the purpose of paying all amounts scheduled to be paid in the next occurring Fiscal Year, the District 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 either under the Sublease or under or pursuant to Section 4.07 of the Issuer Lease, the Sublease Term for the Project 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 for all Facilities, and in such event the Sublease Term shall continue to the next Fiscal Year so long, but only so long, as there is an appropriation or other amounts legally available from which to make the Lease Rentals on all Facilities under the Issuer Lease.

In addition to the foregoing, and by way of further limitation, it is hereby declared that neither the full faith and credit nor the taxing powers of the District is pledged for the payment of Sublease Rentals or any other amount under the Sublease (including hereunder) and the obligations of the District hereunder shall not be obligations of or enforceable against the District. The District has no authority or power to levy taxes for the payment of Sublease Rentals.

Notwithstanding the limitation of liability set forth in this Sublease and Subject to this Section 4.07, the District recognizing the benefits conferred upon it, hereby acknowledges that it fully intends to take all steps necessary with good faith and proper diligence to cause to be available through appropriate budget measures and procedures all such funds as are necessary to make payments required hereunder since the facilities acquired with the proceeds of all of the Related Amount of Series Bonds are essential for the purpose of providing vocational education services to its students.

ARTICLE 5K

DAMAGE, DESTRUCTION, AND CONDEMNATION

Section 5.01K District to Repair, Replace, or Restore. If any Related Amount of Series 2014B Bonds are outstanding when all or any part of the Projects are taken by eminent domain, or destroyed or damaged:

(20) If any of the Refunded Project Subject to the Sublease is partly destroyed or damaged, all Net Proceeds of any insurance award in connection with such damage or destruction shall be paid directly to the Trustee who will: (i) apply such Net Proceeds to the payment of the costs of repair, replacement, or restoration upon such items as it may reasonably require and (ii) 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 Related Amount of Series 2014B Bonds pursuant to Section 2.12(a)(ii) of the Indenture. If the Net Proceeds are not sufficient to pay the costs of repair, replacement or restoration in full, the District will nonetheless complete or cause completion of the same and will pay that portion of the cost thereof in excess of the amount of the Net Proceeds.

(21) If any of the Project Subject to the Sublease is partly condemned or taken by eminent domain, all Net Proceeds of such condemnation award or taking shall be paid directly to the Trustee who will: (i) apply the Net Proceeds to the payment of the costs of repair, replacement or restoration upon such terms as it may reasonably require; and (ii) apply any balance of the Net Proceeds remaining after payment of all costs of any repair, replacement or restoration to the reduction of the principal balance of the Related Amount of Series 2014B Bonds pursuant to Section 2.12(a)(ii) of the Indenture. If the Net Proceeds are not sufficient to pay the costs of repair, replacement or restoration in full, the District will nonetheless complete or cause completion of the same and will pay that portion of the cost thereof in excess of the amount of the Net Proceeds.

(22) In the event any part of the Project Subject to the Sublease is totally destroyed or taken in its entirety by condemnation or eminent domain, the Sublease 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 applicable Purchase Option Price under the Issuer Lease.

(23) The District 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 Board, the Issuer or the Trustee, or any abatement or diminution of the Sublease Rentals or additional payments payable under Article 4 of the Sublease or the other sums payable by the District hereunder except to the extent that the Related Amount of Series 2014B Bonds are actually redeemed by reason of any application of Net Proceeds contemplated hereunder.

(24) All equipment and other property acquired in the repair, replacement, or restoration of any part of the Project shall be deemed a part of the Project and available for use by the District without the payment of any additional rents other than those provided in Article 4 of the Sublease, to the same extent as if they had been specifically described and demised in this Seventh Supplement to Sublease; provided that no equipment shall be acquired Subject to any lien or encumbrance not approved by the Trustee and Board.

Any excess Net Proceeds remaining after compliance with the foregoing paragraphs, as applicable, shall be paid to the District for use in its post-secondary vocational education programs.

Section 5.02K Cooperation of the Board. The Board will cooperate fully with the District in filing any proof of loss with respect to any insurance policy covering casualties referred to in Section 5.01K, in the handling and conduct of any litigation arising with respect thereto, and in the handling and conduct of any prospective or pending condemnation proceeding affecting any part of the Project or any part thereof.

ARTICLE 6K

DISTRICT'S COVENANTS

Section 6.01K Covenants for Benefit of Trustee and Holder of Bonds. Each of the terms and provisions of this Supplemental Sublease is a covenant for the use and benefit of the Board, the Issuer, the Trustee and the holders from time to time of the Bonds so long as any principal or interest due on the Related Amount of Series Bonds shall remain Outstanding.

Section 6.02K District Bound by Series 2014B Bond Documents. The Series 2014B Bond Documents have been submitted to the District for examination and the District, by execution of this Supplemental Sublease, acknowledges that it has approved the Series 2014B Bond Documents and agrees that it is bound by the terms and conditions thereof and covenants and agrees to perform all acts, pay all moneys and give all notices required to be performed, paid and given by it pursuant to the terms of the Series 2014B Bond Documents.

Section 6.03K Status of Bonds Under the Code. Each of the parties hereto hereby covenants and agrees that it will not knowingly take any action, or omit to take any action, or permit any action which is in its control to be taken or omitted, where the result of such action or omission, to the knowledge of such party would impair the exemption of interest on such Bonds from federal income taxation. The restrictions set forth in the preceding sentence shall not apply to any series of Bonds designated by the Issuer as Taxable Bonds.

Section 6.04K District's Assurance of Tax Exemption. In furtherance of the covenant in Section 6.03K hereof the District represents and covenants with the Board, the Issuer, the Trustee and all holders of Bonds that it will comply with the applicable provisions of Federal tax law as follows:

(25) The District will operate any part of the Project or cause any part of the Project to be operated for the provision of vocational education to eligible students and shall not permit any use of any of the Projects which would cause the Bonds or any Series thereof to become Private Activity Bonds within the meaning of Section 141 of the Code. The District will not cause or permit a change in such use of the Project unless it shall first furnish, at its expense, to the Board, the Issuer and the Trustee a written opinion from Bond Counsel that such change in use will not affect the exclusion of interest paid on the Bonds from gross income for federal income tax purposes;

(26) The District will not use (or permit to be used) any part of the Project or use or invest (or permit to be used or invested) the proceeds of the Bonds or any other sums treated as “gross proceeds” under Section 148 of the Code including “investment proceeds,” “invested sinking funds” and “replacement proceeds,” in such a manner as to cause the Bonds to be classified “arbitrage bonds” under Section 148(a) of the Code;

(27) The District shall provide or cause to be provided to the Board at the closing of the sale of any Series of Bonds with all information required to satisfy the informational requirements set forth in Section 149(e) of the Code including the information necessary to complete Internal Revenue Service Form 8038G;

(28) The District shall not permit the filing of any other information reporting form similar to that described in (3) above with respect to this Supplemental Sublease or the obligations of the District hereunder.

(29) No moneys in the Debt Service Fund, Project Fund or any Project Subaccount shall be invested in investments which cause the Series 2014B Bonds to be federally guaranteed within the meaning of section 149(b) of the Code. If at any time the moneys in the Project Fund, the Debt Service Fund, Tuition Subaccount or any Project Subaccount exceed, within the meaning of section 148, (i) amounts invested for an initial temporary period until the moneys are needed for the purpose for which the Bonds are issued, (ii) investments of a bona fide debt service fund, and (iii) investments of a reserve which meet the requirement of Section 148(d) of the Code, such excess moneys shall be invested in only those permitted investments or Government Obligations, as otherwise appropriate, which are (A) obligations issued by the United States Treasury, (B) other investments permitted under regulations, or (C) obligations which are (a) not issued by, or guaranteed by, or insured by, the United States or any agency or instrumentality thereof or (b) not federally insured deposits or accounts, all within the meaning of Section 149(b)(2) of the Code;

(30) The District will not otherwise use Series 2014B Bond proceeds, including earnings thereon, in a manner which would adversely affect the exemption from federal income taxation of the interest on any Series 2014B Bonds; and, if it should take or permit, or omit to take or cause to be taken, as appropriate, any action which would adversely affect the exemption from federal income taxation of the interest on any Series

2014B Bonds, the Board shall take all lawful actions necessary to rescind or correct such actions or omissions promptly upon having knowledge thereof.

(31) The District on behalf of the Issuer and Board shall pay the United States any Rebate Amount and any penalty in lieu thereof by reason of Section 148(f) of the Code, all as determined by the Issuer to be due as to each Related Amount of Series of Bonds and any Bonds which have been refunded.

(32) The District, at its own expense, will execute, acknowledge and deliver all such reasonable further documents or instruments including, without limitation, (i) a quit claim deed and (ii) such other documents as the Issuer or the Board from time to time may reasonably request to better assure, transfer and confirm unto the Issuer and the Board the title, leasehold and other rights, as applicable, now or hereafter intended to be granted to the Issuer and the Board under the Series 2014B Bond Documents.

ARTICLE 7K

DISTRICT'S OPTIONS

Section 7.01K Partial Prepayment of Sublease Rentals and Bonds. The District may, at any time on which the Indenture permits a corresponding prepayment of Related Amount of Series Bond, transmit funds to the Trustee, in addition to amounts, if any, otherwise required to be paid at that time pursuant to the Sublease, and direct that said money be utilized for the prepayment or redemption of the Related Amount of Series Bonds or installments thereof which are then or will be redeemable so that the District's option to purchase the related Project may be exercised as is provided herein and in the Issuer Lease. The District shall receive credits hereunder for such prepayment either on a current basis or in inverse order of maturity of Sublease Rental obligations, as the District shall so determine in its discretion and specify at the time of payment.

ARTICLE 8K

GENERAL

Section 8.01K Binding Effect. This Supplemental Sublease shall inure to the benefit of and shall be binding upon the Board and the District and their respective successors and assigns.

Section 8.02K Severability. In the event any provision of this agreement shall be held invalid or unenforceable by any court of competent Jurisdiction, such holding shall not invalidate or render unenforceable any other provision thereof.

Section 8.03K Execution Counterparts. This Supplemental Sublease may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 8.04K Attorney Fees of Board and Issuer. The District shall pay including the reasonable fees and expenses of Bond Counsel to the Issuer for matters relating to matters requiring legal advice or assistance in administering the Sublease; provided however, that said fees and expenses of Bond Counsel shall be approved by the Secretary of the Department of Education.

IN WITNESS WHEREOF, the Board and the District have caused this Supplemental Sublease to be executed and attested by their duly authorized officers, all as of the date first above written.

SOUTH DAKOTA BOARD OF EDUCATION

By: _____
President

WATERTOWN SCHOOL DISTRICT
NO. 14-4 as lessee

By: _____
President

ATTEST:

Business Manager

EXHIBIT A

Refunded Project

At Lake Area Technical Institute,

(a) A block brick two-story building of approximately 59,000 square feet intended for use as (1) a lab expansion for welding, (2) classroom and labs for diesel technology, and (3) classroom and labs for energy technology and

(b) A block brick one-story building of approximately 23,800 square feet intended for use as classroom and labs for the automotive technology program.

EXHIBIT B

REAL PROPERTY

Aviation Classroom Addition (Series 1988)

Airport School Lot Addition in the Southwest Quarter (SW1/4) of Section 23 to the City of Watertown, located in the SW1/4 of Section 23, Township 117 North, Range 53 West, of the 5th P.M.

Daycare (Series 1990), Manufacturing Education Center (Series 2008)

Lot 1 less the South Sixty Feet (60') of the North One Hundred Thirteen Feet (113') and less the West Three Hundred and Five Feet (305') less the North Two Hundred Feet (200'), Watertown School Addition, W1/2, NE1/4 City Lands 32-117-52 to the City of Watertown, Codington County, South Dakota.

Technical Education Center (Series 1993B)

Lot 1 of Watertown School Addition to the City of Watertown, Codington County, South Dakota including vacated Arrow Avenue, less and except the West 30 feet thereof; and

Vocational School Lot in the NW 1/4 of the NE 1/4 of Sec. 32 T117N R52W of the 5th P.M., Watertown, Codington County, South Dakota; and

East 328 Feet of the South 197 Feet of the Vocational School Lot in the NW1/4, NE1/4 and less the Street Out Lots, City Lands 32-117-52 to the City of Watertown, Codington County, South Dakota.

Refunded (Series 2008) Project

Lots 2 and 4 of the Plat entitled: Lake Area Technical Institute First Addition to the Municipality of Watertown.

Series 2012A Project

Lot 1 of the Plat entitled: Lake Area Technical Institute First Addition to the Municipality of Watertown; and

Lots 1-8, inclusive, in Block 2, and Outlot "B", of Gilberts Addition to Watertown, Section 32, Township 117 North, Range 52 of Codington County, South Dakota.

EXHIBIT C

[Reserved]

EXHIBIT D

SCHEDULE OF LEASE RENTALS AND RELATED AMOUNT OF SERIES BONDS

(As of December 1, 2014)

See attached schedule prepared by the South Dakota Health and Educational Facilities Authority consisting of:

First Page: Summary of Projects and Principal amount of Related Amount of Series Bonds

Second Page: Allocation by Series.

Third Page: Exhibit D-1 Lake Area Sublease Rental Schedule (Amortization Schedule)

Fourth Page: Exhibit D-2 Mitchell Sublease Rental Schedule (Amortization Schedule)

Fifth Page: Exhibit D-3 Southeast Sublease Rental Schedule (Amortization Schedule)

Sixth Page: Exhibit D-4 Western Dakota Rental Schedule (Amortization Schedule)