

RESOLUTION NO. 06-07

A RESOLUTION OF NORTH KOOTENAI WATER DISTRICT, OF KOOTENAI COUNTY, IDAHO, PROVIDING FOR THE ISSUANCE OF A LOCAL IMPROVEMENT DISTRICT NO. 1 BOND ANTICIPATION NOTE IN THE AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$1,700,000 IN ORDER TO OBTAIN INTERIM FUNDS TO PAY PART OF THE COSTS OF THE ACQUISITION, CONSTRUCTION AND INSTALLATION OF IMPROVEMENTS TO THE WATER SYSTEM AND FACILITIES OF THE DISTRICT; PROVIDING FOR THE SALE OF THE NOTE TO U. S. BANK NATIONAL ASSOCIATION; PROVIDING FOR THE REGISTRATION OF SAID NOTE; ADOPTING CERTAIN FUNDS FOR SAID NOTE; FIXING THE INTEREST RATE, MATURITY, FORM, TERM AND COVENANTS OF SAID NOTE; PROVIDING CERTAIN COVENANTS WITH RESPECT TO FEDERAL TAX LAW; PROVIDING FOR THE EFFECTIVE DATE OF THIS RESOLUTION; AND PROVIDING FOR OTHER MATTERS PROPERLY RELATING THERETO

**NORTH KOOTENAI WATER DISTRICT
Kootenai County, Idaho**

**LOCAL IMPROVEMENT DISTRICT NO. 1
BOND ANTICIPATION NOTE, 2006
Aggregate Principal Amount of Not to Exceed \$1,700,000**

BE IT RESOLVED by the President and the Board of Directors of North Kootenai Water District, of Kootenai County, Idaho, as follows:

WHEREAS, North Kootenai Water District (the "District"), of Kootenai County, Idaho, is a duly incorporated and existing municipal corporation organized and operating under the Constitution and laws of the State of Idaho; and

WHEREAS, the District is authorized to conduct proceedings to form local improvement districts for the purpose of financing the acquisition, construction and installation of improvements to facilities within the local improvement district pursuant to Idaho Code Title 50, Chapter 17, and has heretofore created Local Improvement District No. 1 ("LID No. 1") to make certain water system improvements; and

WHEREAS, the Board of Directors of the District (the "Board"), after appropriate notice to property owners, created LID No. 1; described the boundaries of LID No. 1 and the

improvements to be constructed therein; set forth the total estimated cost of such improvements and the method of assessment therefore; and

WHEREAS, after the estimated cost of the Project (as defined herein) increased, the Board held another public hearing on or about March 30, 2006, where the changes in the Project were explained and the Board committed to send information on the updated Project costs to all of the property owners in LID No. 1, which has been done; and

WHEREAS, Idaho Code authorizes the District to issue bond anticipation notes in anticipation of local improvement district bonds if said bonds have been authorized to be issued; to temporarily finance the improvements to be acquired, constructed and installed; and

WHEREAS, U. S. Bank National Association, of Seattle, Washington, has offered to purchase the Local Improvement District No. 1 Bond Anticipation Note of the District in an amount of not to exceed \$1,700,000 according to the terms hereinafter set forth; and

WHEREAS, in the judgment of the District, it is in the best interest of the District to accept said offer.

NOW, THEREFORE, IT IS HEREBY FOUND, DETERMINED AND ORDERED as follows:

Section 1: DEFINITIONS

As used in this Resolution, capitalized terms shall have the meanings provided in this Section. Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders, and vice versa. Words imparting the singular number shall include the plural numbers and vice versa, unless the context shall otherwise indicate.

Acquire, Acquiring or Acquisition includes the opening, laying out, establishment, purchase, construction, securing, installation, reconstruction, lease, gift, grant from the federal government, the State of Idaho, any public body therein or any person or entity, the condemnation, transfer, option to purchase, other contract, or other acquirement, or any combination thereof.

Board shall mean the Board of Directors of the District as the same shall be duly and regularly constituted from time to time.

Bond shall mean the herein-authorized bond designated "North Kootenai Water District Local Improvement District No. 1 Bond."

Bond Anticipation Note or **Note** shall mean the interest-bearing "North Kootenai Water District Local Improvement District No. 1 Bond Anticipation Note, 2006" issued in the aggregate principal amount of not to exceed \$1,700,000.00, pursuant to, and for the purposes authorized in this Resolution.

Code shall mean the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder.

Construction Fund shall mean the "North Kootenai Water District Water Construction Fund" created by this Resolution for the purpose of paying the Costs of the Project.

Costs of Maintenance and Operation shall mean all necessary expenses of operating the System, current maintenance expenses, expenses of reasonable upkeep and repair, insurance and administrative expenses and reasonable pro rata budget charges for services provided to the System, but excludes depreciation, payments for debt service or into reserve funds, costs of capital additions to or replacements of the System, municipal taxes, payments to the District in lieu of taxes and transfers of money from the Revenue of the System to other funds of the District.

Cost of the Project or **Costs of the Project** or any phrase of similar import, shall mean all or any part designated by the District of the costs of the Project, or interest therein, which costs, at the option of the District, may include all or any part of the incidental costs pertaining to the Acquisition of the Project, including, without limitation:

- (1) Preliminary expenses advanced by the District from funds available for use therefor, or advanced by the federal government, or from any other source, with approval of the Board or any combination thereof;
- (2) The costs of making surveys, audits, preliminary plans, other plans, specifications, estimates of costs and other preliminaries;
- (3) The costs of appraising, printing, estimates, advice, services of engineers, architects, financial consultants, attorneys at law, clerical help, or other agents or employees;
- (4) The cost of contingencies;
- (5) The costs of any discount on the Bond and of any of the costs of issuance of the Bond;
- (6) The costs of funding any short-term financing, warrants, or other temporary loans appertaining to the Project, and of the incidental expenses incurred in connection with such loans;
- (7) The Acquisition cost of any properties, rights, easements, or other interest in properties, or any licenses, privileges, agreements and franchises; and
- (8) All other expenses necessary or desirable and appertaining to the Project, as estimated or otherwise ascertained by the District.

District shall mean the North Kootenai Water District, of Kootenai County, Idaho, a duly incorporated and existing water district organized and operating under the laws of the State of Idaho.

Improvement(s) or **Improve** includes the Acquisition, extension, widening, lengthening, betterment, alteration, reconstruction, or other major improvement, or any combination thereof, of any properties pertaining to the System or an interest therein, but does not mean general maintenance or repair.

LID No. 1 means Local Improvement District No. 1 of the District, heretofore created.

Note Fund shall mean the "North Kootenai Water District Local Improvement District No. 1 Bond Anticipation Note Fund" created by this Resolution.

Note Register shall mean the registration records of the District, maintained by the Note Registrar, on which shall appear the name and address of the Registered Owner of the Note.

Note Registrar shall mean the District Treasurer, for the purposes of registering and authenticating the Note, maintaining the Note Register, effecting transfer of ownership of the Note and paying interest on and principal of the Note.

President shall mean the *de facto* or *de jure* President of the Board of Directors of the District, or any presiding officer or titular head of the District or his/her successor in functions, if any.

Professional Engineer shall mean Welch Comer & Associates, Inc., of Coeur d'Alene, Idaho, or its successors, if any, serving as engineers on the Project.

Project shall mean the undertaking or undertakings of Acquiring the Improvements described herein.

Registered Owner shall mean U. S. Bank National Association, of Seattle, Washington, or its successors or assigns, as the initial purchaser of the Note.

Registrar shall mean the Treasurer of the District or his/her successor in function, if any.

Secretary shall mean the *de facto* or *de jure* District Secretary, or other officer of the District who is the custodian of the seal of the District and of the records of the proceedings of the District, or his/her successor in function, if any.

System shall mean the water system and facilities of the District, as it now exists, including the assets, real and personal, tangible and intangible, as it will be added to by the Acquisition of the Project, and as it may later be added to, improved and extended, and shall include buildings, structures, utilities or other income-producing property from the operation of

or in connection with which revenues for the payment of the Note to be issued hereunder will be derived, and the lands appertaining thereto, including, without limitation, any Improvement to be Acquired with the proceeds of the Note.

Treasurer shall mean the Treasurer of the District, or his or his/her successor in functions, if any.

Water Revenue Fund shall mean the "North Kootenai Water District Water Revenue Fund" previously created and referred to in this Resolution.

Section 2: THE PROJECT

The District shall Acquire certain Improvements to the System, consisting of the following:

- (1) The acquisition, installation and construction of approximately 11,500 feet of new water line and related appurtenances to serve the area identified as LID No. 1; and
- (2) The purchase and acquisition of other necessary equipment and materials, together with the acquisition of rights-of-way and relocation of utilities, if necessary;

together with engineering, legal and other consultants fees and costs incidental thereto. All work will be performed and all materials supplied after the advertisement for bids therefore by giving notice calling for sealed bids for the construction of work.

Section 3: COST OF THE PROJECT

The total Cost of the Project is estimated to be \$ _____, of which not to exceed \$1,700,000 will be temporarily financed by the proceeds of the Note and the balance of which will be paid from other legally available funds, including loan and/or grant funds from the United States and other legally available funds of the District.

Section 4: AUTHORIZATION OF THE BOND

For the purpose of providing funds with which to permanently pay for a portion of the Cost of the Project authorized by this Resolution and all necessary expenses in connection therewith, there shall be issued, sold and delivered not to exceed \$ _____ .00 principal amount of local improvement district bond of the District to be designated "North Kootenai Water District Local Improvement District No. 1 Bond, 2006" (herein called the "Bond"), or such other designation to accurately reflect the year the Bond is issued.

The Bond shall be in such denomination and form; shall be dated, and bear interest at such rate or rates; shall be payable at such place or places; shall have such option of redemption prior to maturity; and may be combined with any subsequently authorized series of Local

Improvement District No. 1 bonds and issued as a single combined series, as provided hereafter by an Ordinance of the District.

Section 5: AUTHORIZATION OF THE NOTE

In order to provide interim financing to pay a portion of the Cost of the Project, and in anticipation of the issuance of the Bond, the District shall issue its short-term obligation in the form of local improvement district bond anticipation note in an amount of not to exceed \$1,700,000.00. Said Note shall be designated "North Kootenai Water District Local Improvement District No. 1 Bond Anticipation Note, 2006" (the "Note"), shall be dated as of the date of issue thereof, shall be issued in the form of a single Note, and shall mature within twelve (12) months of the date of issuance. The Note shall be substantially in form set forth in Exhibit "A" attached hereto and by this reference made a part hereof.

The Note shall bear interest on the unpaid balance at the rate set forth in the purchaser's offer, from its date of issuance or the date of draw to the date of maturity or prior redemption. Interest will be payable at maturity or at the time or prepayment, based on an actual/360-day year.

A request for draw pursuant to the Note may be made by the District in writing at any time, which request shall be approved by the District's Engineer and by the State of Idaho, Department of Environmental Quality.

Section 6: PLACE AND MANNER OF PAYMENT

Both principal of and interest on the Note shall be payable in immediately available lawful money of the United States to the Registered Owner thereof whose name and address appear on the Note Register maintained by the Registrar, upon presentation and surrender of the Note on or after the date of maturity or prior redemption at the principal office of the Registrar.

Section 7: REDEMPTION PRIOR TO MATURITY

The Note is subject to call or redemption on any business day prior to its fixed date of maturity at the price of par, plus accrued interest, if any, to the date of redemption.

Notice of any such intended redemption shall be mailed by first-class mail, postage prepaid, at least ten (10) days prior to the redemption date, to the Registered Owner of the Note at its address appearing on the Note Register, unless such notice is waived by the Registered Owner.

Section 8: LOST, STOLEN, MUTILATED OR DESTROYED NOTE

In case the Note is lost, stolen, mutilated or destroyed, the Registrar may register and deliver a new Note of like date, rate of interest, maturity, tenor and effect to the Registered Owner thereof upon the Registered Owner's paying the expenses and charges of the District in connection therewith and upon his filing with the Registrar and the District evidence satisfactory

to the Registrar and the District that such Note was actually lost, stolen, mutilated or destroyed and of his ownership thereof, and upon furnishing the Registrar and the District with indemnity satisfactory to the Registrar and the District.

Section 9: TRANSFER OR EXCHANGE OF NOTE

The Note is only transferable within the limitations imposed and agreed to by the Registered Owner in the Certificate of Investigation by Purchaser at Private Sale and the requirements of the Code.

The Registered Owner will be required to represent that it intends to acquire the Note and hold it to maturity, and that it will sign the Certificate in the general form of Exhibit "B" to this Resolution. If the Note is to be sold or transferred, the Registered Owner will be required to acknowledge the restrictions on the transfer of the Note and it will be the Registered Owner's responsibility to have any prospective transferee execute a Certificate in the general form of Exhibit "B" attached hereto and incorporated herein by reference, and to verify that any prospective purchaser meets all of the requirements then in place to have and hold the Note.

The Note Registrar shall not be required to transfer the Note within fifteen (15) days of a payment date or, in the case of any redemption of the Note, within fifteen (15) days of the redemption date.

Section 10: REGISTRAR

The Treasurer is hereby appointed as Registrar, paying agent, and transfer agent with respect to the Note, subject to the following terms and conditions:

A. The Registrar shall keep, or cause to be kept, at his/her principal office, sufficient books for the registration and transfer of the Note (the "Note Register"), in which shall be maintained the name and address of the Registered Owner of the Note.

B. The Registrar is authorized, on behalf of the District, to register and deliver the Note issued or transferred in accordance with the provisions of such Note and this Resolution, and to carry out all of the Registrar's powers and duties under this Resolution.

C. The Registrar shall be responsible for his/her representations contained in the Registration Certificate on the Note.

D. The District hereby adopts as its system of registration the system of registration set forth herein.

Section 11: NOTE FUND

There is hereby created, and shall be maintained by the Treasurer, a fund known as the "North Kootenai Water District Local Improvement District No. 1 Bond Anticipation Note Fund" (the "Note Fund") which shall be drawn upon for the sole purpose of paying the principal of and interest on the Note. Money on deposit in the Note Fund not immediately needed to pay such interest or principal may be temporarily deposited in such institutions or invested in any obligations which are legal investments for District funds. Any interest earnings from the investment of such money shall be deposited into the Note Fund.

The District hereby covenants that it will issue the Bond, additional bond anticipation notes or a combination thereof, which will provide proceeds sufficient, together with other money of the District to be paid out of Assessments, if any, Revenue of the System and money in the Water Revenue Fund, if any, legally available and specifically set aside for the purpose of paying the principal of and interest on the Note.

The District further covenants that simultaneously with the receipt of the proceeds of sale of the Bond it will pay into the Note Fund moneys sufficient to pay the principal of and interest on the Note then outstanding to the date of its maturity or prior redemption.

All grants, if any, received by the District for the Project, and the proceeds of sale of the Bond issued to pay a portion of the Costs of the Project, shall be paid into the Note Fund to the extent necessary (together with other available funds) to pay and redeem the Note. When the Note and interest accrued thereon have been paid in full, any balance in the Note Fund shall be deposited into the Construction Fund to pay the cost of additional Improvements to the System.

Section 12: WATER REVENUE FUND

There has previously been created, and shall be maintained by the Treasurer, a fund known as the "North Kootenai Water District Water Revenue Fund" (the "Water Revenue Fund") into which the Revenue of the System, except income from investment of moneys in the Note Fund or Construction Fund, shall be deposited as collected. The Water Revenue Fund shall be held separate and apart from all other funds and accounts of the District.

Section 13: CONSTRUCTION FUND

There is hereby created, and shall be maintained by the Treasurer, a fund known as the "North Kootenai Water District Construction Fund" (herein called the "Construction Fund"), into which shall be deposited the proceeds of the sale of the Note.

Moneys in the Construction Fund shall be used for the payment of part of the cost and expense of the construction and installation of the Project. The District will not pay any expenses of construction or installation of the Project prior to approval of the expenditure by the District's Professional Engineer or its successor, if any, in the supervision and management of the

Project and the District. The District shall provide copies of payment requests submitted to the Professional Engineer to the Registered Owner, if requested.

All interest earnings on moneys invested from the Construction Fund shall be deposited into said Construction Fund. The District's share of any liquidated damages or other moneys paid by defaulting contractors or their sureties will be deposited into said Construction Fund to assure the completion of the Project.

When the Project has been completed and all costs thereof have been paid in full, or if the Project is abandoned, if the Note remains Outstanding, any funds remaining in the Construction Fund (or so much thereof as may be needed) shall be transferred to the Note Fund. When the Project has been completed and all costs related thereto, including all principal of and interest on the Note, are paid in full, any moneys remaining in the Construction Fund shall be deposited in the Bond Fund, created hereafter.

Section 14: PROVISION FOR DEFEASANCE OF THE NOTE

In the event that money and/or direct obligations of, or obligations guaranteed by the United States (hereinafter referred to as "government obligations") as provided by Section 57-504, Idaho Code, as it now reads or is hereafter amended, maturing or having guaranteed redemption prices, at such time or times and bearing interest to be earned thereon in such amounts as are sufficient (together with any resulting cash balances) to redeem and retire part or all of the Note in accordance with their terms, are hereafter irrevocably set aside in a special account and pledged to effect such redemption and retirement, then no further payments need be made into the Note Fund for the payment of the principal of and interest on the Note so provided for and such Note shall then cease to be entitled to any lien, benefit or security of this Resolution, except the right to receive the funds so set aside and pledged, and such Note shall no longer be deemed to be outstanding hereunder.

Section 15: EXECUTION OF THE NOTE

Without unreasonable delay the District shall cause the Note to be prepared, executed and delivered, which Note shall be typed, lithographed or printed with steel engraved or lithographed borders. The Note shall be executed on behalf of the District by the President, countersigned by the Treasurer, shall be attested by the Secretary (all of which signatures shall be by manual signature), and shall have the seal of the District impressed thereon. The Note shall be substantially in the form as set forth in Exhibit "A" attached hereto.

The Note shall then be delivered to the Registrar for registration and delivery. Only such Note as shall bear thereon a Registration Certificate in the form hereinafter recited, manually executed by the Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this Resolution, and such Registration Certificate shall be conclusive evidence that the Note so registered have been duly executed and delivered hereunder and are entitled to the benefits of this Resolution.

Section 16: SALE OF NOTE

The sale of the Note to U. S. Bank National Association, of Seattle, Washington, in accordance with its offer to purchase the Note dated June 20, 2006 is hereby authorized and approved.

The proper officials of the District are hereby authorized and directed to do all things necessary for the prompt execution and delivery of the Note and for the proper use and application of the proceeds of sale thereof.

Section 17: TAX COVENANTS; SPECIAL DESIGNATION

A. Tax Covenants: The District covenants to undertake all actions required to maintain the tax-exempt status of interest on the Note under Section 103 of the Code as set forth in the Note Resolution and closing documents that will be executed at the closing of the Note.

B. Special Designation: The District hereby designates the Note as a "Qualified Tax-Exempt Obligation" for purposes of Section 265(b) of the Code for banks, thrift institutions and other financial institutions.

Section 18: ONGOING DISCLOSURE

The District is exempt from Ongoing Disclosure requirements inasmuch as the Note is being sold to a sophisticated purchaser prepared to execute a Certificate of Investigation by Purchaser at Private Sale.

Section 19: SEVERABILITY

If any one or more of the covenants or agreements provided in this Resolution to be performed on the part of the District shall be declared by any court of competent jurisdiction to be contrary to law, then such covenant or covenants, agreement or agreements, shall be null and void and shall be deemed separable from the remaining covenants and agreements in this Resolution and shall in no way affect the validity of the other provisions of this Resolution or of the Note.

Section 20: RESOLUTION A CONTRACT

The provisions of this Resolution shall constitute a contract between the District and the Registered Owner so long as the Note hereby authorized remain unpaid.

Section 21: RATIFICATION

All actions (not inconsistent with the provisions of this Resolution) heretofore taken by the District, and its employees, with respect to the Acquisition of the Improvements, and the

issuance, sale and delivery of the Note, are hereby in all respects ratified, approved, and confirmed.

Section 22: REPEALER

All resolutions, ordinances, or parts thereof in conflict herewith, to the extent of such conflict, are hereby repealed.

Section 23: EFFECTIVE DATE

This Resolution shall be effective from and after its adoption.


PASSED AND ADOPTED this 6th day of July, 2006.

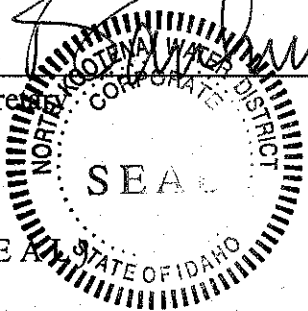
NORTH KOOTENAI WATER DISTRICT,
Kootenai County, Idaho



President, Board of Directors

ATTEST:



Secretary


CERTIFICATION

I, the undersigned Secretary of the North Kootenai Water District, of Kootenai County, Idaho, HEREBY CERTIFY that the foregoing Resolution is a full, true and correct copy of a Resolution duly adopted at a regular meeting of the District of said District, duly and regularly held at the regular meeting place thereof on July 6, 2006 of which meeting all members of said District had due notice and at which a majority thereof were present; and that at said meeting said Resolution was adopted by the following vote:

AYES, and in favor thereof, Board members: *Davis, Fairhurst, Moore, Berger, Crimmins*

NOES, Board members: *none*

ABSENT, Board members: *none*

ABSTAIN, Board members: *none*

I FURTHER CERTIFY that I have carefully compared the same with the original Resolution on file and of record in my office; that said Resolution is a full, true and correct copy of the original Resolution adopted at said meeting; and that said Resolution has not been amended, modified or rescinded since the date of its adoption, and is now in full force and effect.

IN WITNESS WHEREOF, I have set my hand and affixed the official seal of said District on July 6, 2006.

NORTH KOOTENAI WATER DISTRICT,
Kootenai County, Idaho

Fairhurst
Secretary



[Face of Note]

SINGLE
NOTE

Not to Exceed
\$1,700,000

UNITED STATES OF AMERICA
STATE OF IDAHO
COUNTY OF KOOTENAI

NORTH KOOTENAI WATER DISTRICT

LOCAL IMPROVEMENT DISTRICT NO. 1
BOND ANTICIPATION NOTE, 2006

(The District has Designated this Note as
a "Qualified Tax-Exempt Obligation")

See Reverse Side for
Additional Provisions

INTEREST RATE

MATURITY DATE

72% of U. S. Bank's Prime Rate per annum

Within Twelve (12) Months of Date

NORTH KOOTENAI WATER DISTRICT (the "District"), of Kootenai County, Idaho, a duly incorporated and existing municipal corporation organized and operating under the laws of the State of Idaho, acknowledges itself to owe, and for value received, promises to pay from the North Kootenai Water District Local Improvement District No. 1 Bond Anticipation Note Fund" (the "Note Fund"), created by Resolution No. 06-07, adopted on July 6, 2006, (the "Note Resolution") to

U. S. BANK NATIONAL ASSOCIATION

or registered assigns, on the maturity date specified above, the principal sum of not to exceed

One Million Seven Hundred Thousand and No/100 Dollars - - - - - (\$1,700,000.00)

or such portion thereof actually drawn against this Note by the District, together with interest thereon from the date of such draw at the rate set forth above, payable at maturity or at any date of prepayment or redemption, or until such principal sum shall have been paid or payment duly provided for. Interest shall be calculated on the basis of an actual/360-day year. Capitalized terms used herein shall have the meanings given to them by the Note Resolution.

Both principal of and interest on this Note is payable from the North Kootenai Water District Local Improvement District No. 1 Bond Anticipation Note Fund in immediately

available lawful money of the United States of America to the Registered Owner hereof whose name and address appear on the Note Register maintained by the Registrar, upon presentment and surrender of this Note on or after the date of maturity or prior redemption at the principal office of the Registrar.

Reference is hereby made to the Additional Provisions of this Note set forth on the reverse side hereof and such Additional Provisions shall for all purposes have the same effect as if set forth in this space.

This Note shall not become obligatory for any purpose or be entitled to any security or benefit under the Note Resolution until the Registration Certificate hereon shall have been manually signed by the Registrar.

IT IS HEREBY CERTIFIED AND DECLARED that this Note is issued pursuant to and in strict compliance with the Constitution and laws of the State of Idaho and resolutions of the District, specifically the Note Resolution, and that all acts, conditions and things required to be done precedent to and in the issuance of this Note have happened, been done and performed.

IN WITNESS WHEREOF, the District has caused this Note to be executed by the manual signature of its President and Treasurer, and attested by the manual signature of its Secretary, with the official seal of the District impressed hereon this _____ day of July, 2006.

NORTH KOOTENAI WATER
DISTRICT, Kootenai County, Idaho


[Manual Signature]

President


[Manual Signature]

Treasurer

ATTEST:


[Manual Signature]
Secretary

(SEAL)



[Reverse Side of Note]

ADDITIONAL PROVISIONS

The Note is issued pursuant to and in full compliance with the Constitution and laws of the State of Idaho, particularly Idaho Code Title 50, Chapter 17, and also pursuant to all proceedings duly adopted and authorized by the District, more particularly the Note Resolution. Capitalized terms used herein shall have the meanings given to them by the Note Resolution.

This Note is subject to call or redemption prior to its fixed date of maturity at the price of par, plus accrued interest, if any, to the date of redemption. Notice of any such redemption shall be mailed by first-class mail, postage prepaid, at least ten (10) days prior to the redemption date, to the Registered Owner of the Note at its address appearing on the Note Register. The Note is not transferable without compliance with certain requirements of the Code.

The Note is issued by the District in the aggregate principal amount of not to exceed \$1,700,000.00 in anticipation of the issuance of Local Improvement District No. 1 Bond to be designated "North Kootenai Water District Local Improvement District No. 1 Bond, 2006" (the "Bond"), and said Bond proceeds have been irrevocably pledged to the payment of the principal of and interest on this Note and the Note of this series.

To provide for the payment of the Note, the District has created the Note Fund, into which shall be deposited the first proceeds of the Bond, and which shall be drawn upon for the sole purpose of paying the principal of and interest on the Note.

Reference is hereby made to the Note Resolution for a description of the covenants and conditions under which this Note is issued. The District hereby covenants and agrees with the Registered Owner of this Note that it will keep and perform all of the covenants of this Note and of the Note Resolution to be kept and performed by the District.

LEGAL OPINION

I, the undersigned Secretary of the North Kootenai Water District, of Kootenai County, Idaho, DO HEREBY CERTIFY that the legal opinion of Preston Gates & Ellis LLP, of Coeur d'Alene, Idaho, which opinion was dated the date of delivery of and payment for the Note described therein, was delivered to me on said date, and is now part of the permanent records of the District.

NORTH KOOTENAI WATER
DISTRICT, Kootenai County, Idaho


[Manual Signature]

District Secretary

REGISTRATION CERTIFICATE

(No writing to be placed herein except by the Registrar)

This Note has been duly registered in my office in the registration records kept therein for that purpose. This Note is payable only to the order of the Registered Owner shown hereon, or his legal representative.

Date of Registration	Name and Address of Registered Owner	Signature of Registrar
_____, 2006	U. S. Bank National Association 1420 5th Avenue 13th Floor PD-WA-T13G Seattle, WA 98101	 District Treasurer, as Registrar

Limitation on Transfer

The Registrar is only authorized to transfer this Bond to individuals or entities who satisfy the requirements of the Note Resolution and have executed a certificate substantially in the form set forth in Exhibit "B" to the Note Resolution. Reference is made to said Resolution for additional information.

NORTH KOOTENAI WATER DISTRICT
Kootenai County, Idaho

LOCAL IMPROVEMENT DISTRICT NO. 1
BOND ANTICIPATION NOTE, 2006
Aggregate Principal Amount of Not to Exceed \$1,700,000

CERTIFICATE OF INVESTIGATION
BY PURCHASER AT PRIVATE SALE

The undersigned hereby represents and warrants that _____,
of _____, _____ (the "Purchaser") has made a complete
investigation of the facts and circumstances furnished to us by North Kootenai Water District, of
Kootenai County, Idaho (the "District") relating to its Local Improvement District No. 1 Note
Anticipation Note, 2006, dated as of _____, 2006, in the total principal amount of
\$1,700,000.00 (the "Note"), issued pursuant to Resolution No. 06-07, adopted on July 6, 2006.

In connection with the purchase of the Note, we hereby represent, warrant and agree:

1. We have sufficient knowledge and experience in financial and business matters, including the purchase and ownership of municipal revenue Notes and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the purchase of the Note.

2. No official statement, prospectus, disclosure document or other comprehensive offering statement containing material information with respect to the District and/or the Note are being issued. The Purchaser has made its own inquiry and analysis with respect to the District, the Note and other material factors affecting the credit standing of the District, the security for the Note, and the ability of the District to pay the same. We understand that no financial information in connection with this transaction has been reviewed by the District's counsel, or Preston Gates & Ellis LLP, Note counsel.

3. The Purchaser either has been supplied with or has had access to information, including financial statements and other financial information, to which a reasonable investor would attach significance in making investment decisions, and has had the opportunity to ask questions and receive answers from knowledgeable individuals concerning the District and its credit standing and the Note, so that as a sophisticated investor the Purchaser has been able to make its decision to purchase the Note.

4. The Note (a) is not being registered under the Securities Act of 1933 and is not being registered or otherwise qualified for sale under the "Blue Sky" laws and regulations of any state, (b) will not be listed on any stock or other securities exchange, (c) will carry no rating from any rating service, and (d) may not be readily marketable. The Purchaser acknowledges that as

the purchaser of the Note, it must bear the economic risk of the investment for an indefinite period of time because the Note has not been registered under the Securities Act of 1933 and, therefore, cannot be sold unless it is subsequently registered under such Act or an exemption from such registration is available.

5. The Purchaser is able to bear the economic risk of the investment represented by its purchase of the Note. The Purchaser is aware that the Note cannot be transferred unless the transferee executes a Certificate of Investigation similar in form to this document, and the Purchaser assumes responsibility for such execution.

6. The Purchaser is acquiring the Note for its own account for investment and not with a view to dividing its ownership with others or with a view to, or for resale in connection with, any "distribution" (as that term is used in the Securities Act of 1933 and Rules and Regulations of the Securities and Exchange Commission thereunder) of all or any portion thereof. The Purchaser has no present intention of selling, negotiating or otherwise disposing of the Note.

7. The Purchaser will not assign or offer the Note for sale in any state of the United States of America without first (a) taking all necessary action to qualify the Note for offer and sale under the securities or "blue sky" laws of the United States of America or such state, or obtaining the advice of counsel that no such action is necessary because of a registration exemption; (b) complying with the condition of transfer set forth in the Note; and (c) providing to the purchaser thereof, or any participant therein, all material information in its possession necessary to evaluate the risks and merits of the investment represented by the purchase of or participation in the Note.

DATED: _____, 200__.

(Bank)

[Title]