

NORTH KOOTENAI WATER DISTRICT
KOOTENAI COUNTY, IDAHO

WATER REVENUE AND REFUNDING BOND, 2009

RESOLUTION NO. 2009-36

A RESOLUTION of the North Kootenai Water District, Kootenai County, Idaho, authorizing the issuance and sale of the District's Water Revenue and Refunding Bond, 2009, in the aggregate principal amount of not to exceed \$8,000,000, to provide the funds necessary to make certain capital improvements to the District's water facilities and to refund certain outstanding revenue bonds of the District; providing for the redemption of the outstanding bonds to be refunded; fixing the form, covenants and terms of the bonds to be issued; and providing for other matters relating thereto.

Approved: October 15, 2009

Prepared by:

K&L GATES, LLP
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NORTH KOOTENAI WATER DISTRICT
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* This Table of Contents and the cover page are provided for convenience of the reader only and are not a part of this resolution.

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A RESOLUTION of the North Kootenai Water District, Kootenai County, Idaho, authorizing the issuance and sale of the District's Water Revenue and Refunding Bond, 2009, in the aggregate principal amount of not to exceed \$8,000,000, to provide the funds necessary to make certain capital improvements to the District's water facilities and to refund certain outstanding revenue bonds of the District; providing for the redemption of the outstanding bonds to be refunded; fixing the form, covenants and terms of the bonds to be issued; and providing for other matters relating thereto.

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

WHEREAS, the Board of Directors of the District (the "Board") is authorized and empowered by the Water and Sewer Revenue Bond Act of the State of Idaho (the "Revenue Bond Act") to issue revenue bonds to finance certain improvements as well as to refund the outstanding water revenue bonds of the District, all as described in Resolution No. 2009-19, adopted on June 25, 2009; and

WHEREAS, at a special election called and duly held within the District on August 4, 2009, the voters of the District approved the issuance and sale of the bonds in an amount not to exceed \$8,000,000 to provide payment for such improvements and refunding; and

WHEREAS, the District has outstanding its Revenue Bonds, Series 1999, issued as of January 15, 1999, pursuant to Resolution No. 99-3 adopted on January 14, 1999, (the "1999 Bonds Resolution") which remain outstanding as follows:

<u>Maturity Dates (August 1)</u>	<u>Principal Amounts</u>	<u>Interest Rates</u>
2010	\$125,000	4.20%
2011	130,000	4.25%
2012	135,000	4.40%
2013	140,000	4.45%
2014	150,000	4.50%
2018*	670,000	4.75%

* Term Bond

(the "1999 Bonds"); and

WHEREAS, the 1999 Bond Resolution provides that the District may call the 1999 Bonds maturing on and after August 1, 2008, for redemption on and after August 1, 2007, in whole or in part on any interest payment date, at the price of par plus accrued interest, if any, to the date of redemption; and

WHEREAS, after due consideration it appears to this Board that the 1999 Bonds maturing on and after August 1, 2010 (the "Refunded Bonds"), may be defeased and refunded by the proceeds of the bond authorized herein at a substantial savings to the District and its ratepayers; and

WHEREAS, in order to effect such refunding in the most economical manner it is deemed necessary and advisable that a portion of the proceeds of the sale of the bond authorized herein be deposited in an escrow account to redeem and retire the Refunded Bonds on the first date on which the Refunded Bonds may be called for redemption prior to their respective scheduled maturities; and

WHEREAS, the Board now deems it necessary and in the best interest of the District and its ratepayers that it issue water revenue and refunding bonds in order to realize savings from reduced interest rates and to provide a more consistent payment schedule and to provide funds for water system improvements; and

WHEREAS, the Idaho Bond Bank Authority (the "Authority"), is an independent body corporate and politic created and operating pursuant to Title 67, Chapter 87, Idaho Code, as amended (the "Act"), and is authorized to issue bonds for the purpose of purchasing municipal bonds, including bonds evidencing loans undertaken by municipalities for purposes authorized by law; and

WHEREAS, the District now desires to issue the bond, in the principal amount of not to exceed \$8,000,000 to the Authority under the terms of a loan agreement between the District and the Authority; and

WHEREAS, the District wishes to delegate to the Chair of the Board authority to accept the final terms of the bond, as long as those term comply with the parameters set forth herein;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF NORTH KOOTENAI WATER DISTRICT, IDAHO, as follows:

Section 1. Definitions. As used in this resolution, the following definitions shall apply unless a different meaning clearly appears from the context:

"Act" shall mean collectively the Water and Sewer District Revenue Bond Act of the State of Idaho, Sections 42-4101 to 42-4115, inclusive, Idaho Code, as amended, Section 57-231 and Section 57-504, Idaho Code, as amended, and all laws amendatory thereof or supplemental thereto.

"Additional Bonds" means any water revenue bonds of the District hereafter issued, from time to time, having a lien upon the System Net Revenues for the payment of the principal thereof and interest thereon, equal to the lien of the Bond

"Authority" means the Idaho Bond Bank Authority, a public corporation and instrumentality of the State of Idaho, created pursuant to the provisions of Idaho Code, Title 67, Chapter 87, as amended.

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

"Bond" mean the District's Water Revenue and Refunding Bond, 2009, authorized to be issued by this resolution to the Authority, in the aggregate principal amount of not to exceed \$8,000,000.

"Bond Counsel" means K&L Gates, LLP or another firm of attorneys of nationally recognized standing pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

"Bond Fund" means the North Kootenai Water District Water Revenue Bond Fund, referred to in Section 9 herein.

"Bond Resolution" means this resolution which authorizes the sale and issuance of the Bond in the aggregate amount of not to exceed \$8,000,000.

"Bond Register" means the registration records maintained by the Registrar setting forth the name and address of Registered Owner of the Bond, in compliance with Section 149 of the Code.

"Bond Year" means each one-year period that ends on the date selected by the District. The first and last Bond Years may be shorter periods. If no day is selected by the District before the earlier of the final maturity date of the Bond or the date that is five years after the date of

issuance of the Bond, Bond Years shall end on each anniversary of the date of issue and on the final maturity date of the Bond.

“Capital Improvement Fund” means the North Kootenai Water District Project Fund, heretofore created and renamed in this resolution the Capital Improvement Fund.

“Chair” means the Chair of the Board, or any presiding officer or titular head of the Board, or his/her successor in functions, if any.

“Code” means the United States Internal Revenue Code of 1986, as amended, together with all applicable rulings and regulations heretofore or hereafter promulgated thereunder.

“Designated Representative” means the Chair, the Treasurer or any District employee designated by either of them.

“District” means the North Kootenai Water District, Kootenai County, Idaho, a municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of Idaho.

“District Secretary” or **“Secretary”** means the Secretary of the District, 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 functions, if any.

“Fiscal Year” means the year commencing October 1 and ending the following September 30.

“Income Fund” means the North Kootenai Water District Water Fund previously created by the District pursuant to Ordinance No. 99-28, and the accounts contained therein, into which all of the System Revenues are pledged to be deposited.

“Loan Agreement” means the Loan Agreement by and between the District and the Authority authorized to be entered into by Section 17.

“Maximum Annual Debt Service” means, at the time of calculation, the maximum amount of Annual Debt Service that will be payable in the current Fiscal Year or any future Fiscal Year on all Parity Bond.

“Net Proceeds” when used with reference to the Bond, means the face amount of the Bond, plus accrued interest and original issue premium, if any, and less original issue discount and proceeds deposited into the Reserve Fund, if any.

“Operation and Maintenance Expenses” mean all necessary current reasonable expenses, paid or accruing for operating, maintaining and repairing the System including legal and overhead expenses of the District directly related, to the administration of the System, insurance premiums, audits, changes of depository banks and paying agents, professional services, salaries, administrative expenses, labor and the cost of material and supplies for current operation, but not including depreciation, legal liabilities not based on contract, the cost of improvements to the System, charges for accumulation of reserves, or payments of debt repayable from revenues of the System.

“Outstanding” when used with reference to a bond or bonds, as of any particular date, means all bonds which have been issued, executed, authenticated and delivered by the District, except (i) bonds cancelled because of payment or redemption prior to their stated dates of maturity, and (ii) any bond (or portion thereof) for the payment or redemption of which there has been separately set aside and held funds for the payment thereof.

“Parity Bonds” means the Bond and any Additional Bonds.

“Private Person” means any natural person engaged in a trade or business or any trust, estate, partnership, association, company or corporation.

“Private Person Use” means the use of property in a trade or business by a Private Person if such use is other than as a member of the general public. Private Person Use includes ownership of the property by the Private Person, as well as other arrangements that transfer to the Private Person the actual or beneficial use of the property (such as a lease, management or incentive payment contract or other special arrangement) in such a manner as to set the Private Person apart from the general public. Use of property as a member of the general public includes attendance by the Private Person at municipal meetings or business rental of property to the Private Person on a day-to-day basis if the rental paid by such Private Person is the same as the rental paid by any Private Person who desires to rent the property. Use of property by nonprofit community groups or community recreational groups is not treated as Private Person Use if such use is incidental to the governmental uses of property, the property is made available for such use by all such community groups on an equal basis and such community groups are charged only a *de minimis* fee to cover custodial expenses.

“Project” means acquiring and constructing the improvements as set forth in Resolution No. 2009-19 identified in the recitals of this resolution.

“Registered Owner” means the person whose name and addresses shall appear on the Bond Register maintained by the Registrar in accordance with the terms of this resolution, as the owner of the Bond.

“Registrar” means the District Treasurer, appointed by the District for the purposes of registering and authenticating the Bond, maintaining the Bond Register, effecting transfer of ownership of the Bond, and paying interest on and principal of the Bond.

“Reserve Fund” means the Debt Service Reserve Account created, but renamed in this resolution in the Reserve Fund.

“Reserve Fund Requirement” means an amount equal to the least of (i) the Maximum Annual Debt Service; (ii) 125% of Average Annual Debt Service on the Parity Bonds; or (iii) 10% of the proceeds of each series of Parity Bond, as “proceeds” is defined for purposes of Section 148(d) of the Code. In the case of variable interest rate bonds, for the purpose of calculating Annual Debt Service, the interest rate thereon shall be calculated on the assumption that such bonds will bear interest during such period at a rate equal to the rate most recently reported by *The Bond Buyer* as the Bond Buyer Index for long-term revenue bonds; provided, that if on such date of calculation the interest rate on such bonds shall then be fixed for a specified period, the interest rate used for such specified period for the purpose of the foregoing calculation shall be such actual interest rate.

“Repayment Installment Date” means the date corresponding to repayment installments; however, payments must be transmitted to the Trustee at least fifteen (15) days prior to the Repayment Installment Date on Exhibit B.

“Rule” means Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934.

“System” means all of the District’s water system, and its water facilities and properties now owned or hereafter acquired, whether situated within or without the District’s boundaries, except the facilities and properties of the District serving the Gozzer Ranch service area, which are excluded from this definition of the “System.”

“System Net Revenues” means the remaining System Revenues after deducting Operation and Maintenance Expenses.

“System Revenues” means all gross income and revenue received or receivable by the Municipality from the ownership or operation of the System, determined in accordance with

Generally Accepted Accounting Principles, including all fees (excluding connection fees), rates, charges and all amounts paid under any contracts received by or owed to the Municipality in connection with the operation of the System and all proceeds of insurance relating to the System and investment income allocable to the System (except the income from investments irrevocably pledged to the payment of revenue bonds pursuant to a plan of retirement or refunding) and all other income and revenue howsoever derived by the Municipality from the ownership or operation of the System or arising from the System. "System Revenues" does not include grants or bond proceeds, but does include federal or state reimbursements of operating expenses to the extent such expenses are included as "Operation and Maintenance Costs."

"Treasurer" means the duly appointed Treasurer of the District, or his/her successor in function, if any.

"Trustee" means U.S. Bank National Association or such other trustee designated by the Authority pursuant to the Master Trust Agreement between the Authority and U.S. Bank National Association; as such agreements may be amended from time to time.

"Underwriter" means the Seattle Northwest Securities Corporation.

1999 Bonds means the District's Water Revenue Bond, Series 1999 issued pursuant to Resolution No. 99-3 adopted on January 14, 1999.

Rules of Interpretation. In this resolution, unless the context otherwise requires:

(a) The terms "hereby," "hereof," "hereto," "herein," "hereunder" and any similar terms, as used in this resolution, refer to this resolution as a whole and not to any particular article, section, subdivision or clause hereof, and the term "hereafter" shall mean after, and the term "heretofore" shall mean before, the date of this resolution;

(b) Words of the masculine gender shall mean and include correlative words of the feminine and neuter genders and words importing the singular number shall mean and include the plural number and vice versa;

(c) Words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;

(d) Any headings preceding the text of any sections of this resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this resolution, nor shall they affect its meaning, construction or effect;

(e) All references herein to "articles", "sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and

(f) Words importing the singular number include the plural number and vice versa.

Section 2. Findings and Purposes; Project. The Board hereby authorizes the acquisition, construction and installation of the Project as described in Resolution No. 2009-19, which was approved by the voters.

Section 3. Authorization and Description of Bond. The District shall now issue and sell to the Authority its water revenue and refunding bond in the aggregate principal amount of \$8,000,000 (the "Bond") for the purpose of paying the costs of the Project, refunding the 1999 Bonds and paying the costs of issuance of the Bond. Said Bond shall be substantially in the form set forth in Section 13 of this resolution, shall be issued to the Authority as Registered Owner; shall be in the principal amount of \$8,000,000, shall be dated as of the date of delivery, mature no more than twenty (20) years from its date of delivery and shall be subject to prepayment in

accordance with the Loan Agreement. Installments of principal and interest shall be payable at such times and in such amounts as set forth in the Loan Agreement approved in accordance with Section 17 herein. Interest on the Bond shall be calculated based on a 360-day year of twelve 30-day months.

Section 4. Payment, Registration and Transfer of Bond. The Treasurer shall act as authenticating agent, paying agent and registrar for the Bond (collectively, the "Registrar"). Both principal of and interest on the Bond shall be payable in lawful money of the United States of America. Installments of principal of and interest on the Bond shall be paid by check or draft of the Registrar mailed (on the date such interest is due) to the Registered Owner at the address appearing on the Bond Register on the fifteenth day of the month preceding each interest payment date. The final installment of principal of the Bond shall be payable upon presentation and surrender of the Bond to the Registrar by the Registered Owner at the office of the Registrar in Kootenai County, Idaho. Notwithstanding the foregoing, if the Bond is sold to the Authority pursuant to the provisions of Section 17 of this resolution, payments of principal of and interest on the Bond shall be made to the Authority in accordance with the Loan Agreement. The Loan Agreement requires payment from the District at least fifteen (15) days prior to the Repayment Installment Dates. Where any conflict exists between this resolution and the Loan Agreement, the provisions of the Loan Agreement shall take precedence.

The Bond may be transferred only on the Bond Register maintained by the Registrar for that purpose upon the surrender thereof by the Registered Owner or his/her duly authorized agent and only if endorsed in the manner provided thereon, and thereupon a new fully registered Bond of like principal amount, maturity and interest rate shall be issued to the transferee in exchange therefor.

The District may deem the person in whose name the Bond is registered to be the absolute owner thereof for the purpose of receiving payments of the principal of and interest on the Bond and for any and all other purposes whatsoever.

Section 5. Pledge of Revenue. All of the System Net Revenues are pledged for the payment of the Bond.

This pledge shall constitute a lien and charge upon the System Revenues prior and superior to any other charged whatsoever, subject to the Operation and Maintenance Expenses of the System, and equal to the lien and charge thereon of any Additional Bonds.

Section 6. Capital Improvement Fund. There has heretofore been created and shall be maintained by the Treasurer, a fund designated "North Kootenai Water District Construction Fund," which is hereby renamed and designated the Capital Improvement Fund (the "Capital Improvement Fund"), or such other designation conforming to banking requirements or good accounting practices, into which shall be deposited a portion of the proceeds of the sale of the Bond, to be used for the payment of the cost of the Project. Any interest earnings on money invested from the Capital Improvement Fund shall be deposited into the Capital Improvement Fund. The District's share of any liquidated damages or other money paid by defaulting contractors or their sureties shall be deposited into said Construction Fund to assure the completion of the Project.

Section 7. Refunding Plan and Procedures.

(a) *Refunding Plan.* For the purpose of realizing a debt service savings and benefiting the ratepayers of the District, the Board of the District proposes to use a portion of the proceeds of the Bond to provide for the payment of the principal of and interest on and the

redemption price of the District's 1999 Bonds maturing on and after August 1, 2010, which shall be called for redemption at a price of par on February 1, 2010 (the "Refunding Plan").

(b) *Refunding Account.* There is hereby authorized to be created a "Refunding Account", which account is to be drawn upon for the sole purpose of paying the principal of and interest on the Refunded Bonds until their date of redemption and of paying costs related to the refunding of the Refunded Bonds.

A portion of the proceeds of sale of the Bond (exclusive of accrued interest thereon, which shall be paid into the Bond Fund and used to pay interest on the Bond on February 1, 2010), shall be credited to the Refunding Account.

Money in the Refunding Account shall be used immediately upon receipt to defease the Refunded Bonds as authorized by Resolution 99-3 and to pay costs of issuance. The District shall defease the Refunded Bonds and discharge such obligations by the use of money in the Refunding Account, together with any necessary beginning cash balance, to provide for the payment of:

(1) interest on the Refunded Bonds due and payable through and including February 1, 2010; and

(2) the redemption price of the Refunded Bonds (100% of the principal amount thereof) on February 1, 2010.

Such money in the Refunding Account, if invested, shall be at a yield not greater than the yield permitted by the Code and regulations relating to investment in connection with refunding bond issues.

(c) *Escrow Agent/Escrow Agreement.* To carry out the refunding and defeasance of the Refunded Bonds, the District Treasurer is hereby authorized to appoint as

escrow agent a bank or trust company qualified by law to perform the duties described herein (the "Escrow Agent"). A beginning cash balance, if any, and the remaining money necessary to completely defease the 1999 Bonds shall be deposited irrevocably with the Escrow Agent in an amount sufficient to defease the Refunded Bonds.

In order to carry out the purposes of this section, the Chair of the Board, the Secretary and the Treasurer of the District, are authorized and directed to execute and deliver to the Escrow Agent, an Escrow Deposit Agreement, substantially in the form on file with the District.

(d) *Implementation of Refunding Plan.* The District hereby irrevocably sets aside sufficient funds from proceeds of the Bond to make the payments described in subsection (a) of this Section.

The District hereby irrevocably calls the Refunded Bonds for redemption on February 1, 2010, in accordance with the provisions of Section 6 of Resolution No. 99-3 authorizing the issuance of the Refunded Bonds, authorizing the redemption and retirement of the Refunded Bonds prior to their fixed maturities. Said defeasance and call for redemption of the Refunded Bonds shall be irrevocable after the final establishment of the escrow account and delivery of sufficient funds to the Escrow Agent.

The Escrow Agent is hereby authorized and directed to provide for the giving of notices of the redemption of the Refunded Bonds in accordance with the applicable provisions of Resolution No. 99-3. The District Treasurer is authorized and requested to provide whatever assistance is necessary to accomplish such redemption and the giving of notices therefor. The costs of publication of such notices shall be an expense of the District.

The Escrow Agent is hereby authorized and directed to pay to the Treasurer, or, at the direction of the Treasurer, to the paying agent for the 1999 Bonds as designated by the District, sums sufficient to pay, when due, the payments specified in of subsection (a) of this Resolution. All such sums shall be paid from the money deposited with said Escrow Agent pursuant to the previous section of this Resolution, and the income therefrom and proceeds thereof. All such sums so paid to said Treasurer shall be credited to the Refunding Account. All money deposited with said bank and any income therefrom shall be held, invested (but only at the direction of the Treasurer) and applied in accordance with the provisions of this Resolution and with the laws of the State of Idaho for the benefit of the District and owners of the Refunded Bonds.

The District will take such actions as are found necessary to ensure that all necessary and proper fees, compensation and expenses of the Escrow Agent shall be paid when due.

Section 8. Income Fund. The District previously formed a Revenue Fund, which fund shall hereby be renamed the Income Fund. The District hereby obligates and binds itself to set aside and pay into the Income Fund all System Revenues. The money in the Income Fund shall be used only for the following purposes and in the following order of priority:

First, to pay the Operation and Maintenance Expenses of the System;

Second, to make all payments required to be made to pay the interest on the Bond and any Additional Bonds;

Third, to make all payments required to be made to pay the principal of the Bond and any Additional Bonds;

Fourth, to make all payments required to be made in the Reserve Fund;

Fifth, to make all payments required to be made into any revenue bond redemption fund, revenue warrant redemption fund, debt service account, reserve fund or sinking fund account created to pay and secure the payment of the principal of and interest on any other revenue bonds or revenue warrants, notes, or other indebtedness of the District having a lien upon the System Revenues junior and inferior to the lien thereon for the payment of the principal of and interest on the Bond and any Additional Bonds; and

Sixth, to retire by redemption or purchase in the open market any Outstanding revenue bonds or revenue obligations of the District or to make necessary additions, betterments, improvements, extraordinary repairs, extensions and replacements of the System, or any other lawful District purposes.

Section 9. Payments into Bond Fund. A special fund of the District, known as the Water Revenue Bond Fund was previously created by the District, which contained two accounts, the debt service account and the reserve account. The debt service account is hereby eliminated and all of the funds in the debt service account will remain in the North Kootenai Water District Water Revenue Bond Fund, which shall be maintained by the Treasurer and into which shall be deposited from the System Net Revenues, each semiannual installment of interest and each annual installment of principal payable on the Bond not less than seventeen (17) days prior to each payment date and paid from the Bond Fund to the Trustee for the Registered Owner not less than fifteen (15) days before each payment date. If for any reason the District does not have, on any payment date, System Net Revenues in the Bond Fund to make the scheduled payment of principal and interest, the amount of such deficiency shall be deposited into the Bond Fund from the Reserve Fund.

Section 10. Reserve Fund. The District shall deposit into the Reserve Fund all funds in the current Debt Service Reserve Account and out of the proceeds of the Bonds any additional funds necessary to satisfy the Reserve Account Requirement for the Bonds. The District further agrees that it will maintain at all times, except for withdrawals as authorized herein, a balance therein at least equal to the Reserve Account Requirement for all Parity Bonds Outstanding. Any transfer from the Reserve Fund to the Bond Fund shall be replenished from the Income Fund as soon as practicable after such transfer is made but not later than one (1) year from the date of such transfer.

Section 11. Application of Bond Proceeds.

(a) The accrued interest of the Bond, if any, shall be deposited in the Bond Fund and used to pay interest on the Bond.

(b) The amount necessary, when added to the amount transferred from the Debt Service Reserve Account, to meet the Reserve Fund Requirement shall be deposited in the Reserve Fund.

(c) The amount necessary to redeem the Refunded Bonds shall be deposited into the Refunding Account.

(d) The amount necessary to pay and redeem the costs of issuance of the Bond shall be deposited into the Cost of Issuance Account maintained by the Trustee.

(e) The balance of the proceeds shall be deposited into the Capital Improvements Fund and applied to the costs of the Project

Section 12. Tax Covenants. The District covenants that it will not take or permit to be taken on its behalf any action that would adversely affect the exemption from federal income taxation of the interest on the Bond and will take or require to be taken such acts as may

reasonably be within its ability and as may from time to time be required under applicable law to continue the exemption from federal income taxation of the interest on the Bond.

(a) *Arbitrage Covenant.* Without limiting the generality of the foregoing, the District covenants that it will not take any action or fail to take any action with respect to the proceeds of sale of the Bond or any other funds of the District which may be deemed to be proceeds of the Bond pursuant to Section 148 of the Code and the regulations promulgated thereunder which, if such use had been reasonably expected on the date of delivery of the Bond to the Authority, would have caused the Bond to be an "arbitrage bond" within the meaning of such term as used in Section 148 of the Code.

The District represents that it has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is an issuer whose arbitrage certifications may not be relied upon. The District will comply with the requirements of Section 148 of the Code and the applicable regulations thereunder throughout the term of the Bond.

(b) *Private Person Use Limitation for Bond.* The District covenants that for as long as the Bond is outstanding, it will not permit:

(1) More than 10% of the Net Proceeds of the Bond to be used for any Private Person Use; and

(2) More than 10% of the principal or interest payments on the Bond in a Bond Year to be directly or indirectly: (A) secured by any interest in property used or to be used for any Private Person Use or secured by payments in respect of property used or to be used for any Private Person Use, or (B) derived from payments (whether or not made to the District) in respect of property, or borrowed money, used or to be used for any Private Person Use.

The District further covenants that, if:

(3) More than five percent of the Net Proceeds of the Bond are to be used for any Private Person Use; and

(4) More than five percent of the principal or interest payments on the Bond in a Bond Year are (under the terms of this resolution or any underlying arrangement) directly or indirectly:

(A) secured by any interest in property used or to be used for any Private Person Use or secured by payments in respect of property used or to be used for any Private Person Use, or

(B) derived from payments (whether or not made to the District) in respect of property, or borrowed money, used or to be used for any Private Person Use, then, (i) any Private Person Use of the projects described in subsection (3) hereof or Private Person Use payments described in subsection (4) hereof that is in excess of the five percent limitations described in such subsections (3) or (4) will be for a Private Person Use that is related to the state or local governmental use of the Project, and (ii) any Private Person Use will not exceed the amount of Net Proceeds of the Bond used for the state or local governmental use portion of the project to which the Private Person Use of such portion of the Project relates. The District further covenants that it will comply with any limitations on the use of the Project by other than state and local governmental users that are necessary, in the opinion of its Bond Counsel, to preserve the tax exemption of the interest on the Bond. The covenants of this Section are specified solely to assure the continued exemption from regular income taxation of the interest on the Bond.

To that end, the provisions of this Section may be modified or eliminated without any requirement for formal amendment thereof upon receipt of an opinion of the District's Bond

Counsel that such modification or elimination will not adversely affect the tax exemption of interest on the Bond.

(c) *No Federal Guarantee.* The District has not and will not take any action, and has not knowingly omitted and will not knowingly omit to take any action within its control, that, if taken or omitted would cause the Bond to be “federally guaranteed” within the meaning of the Code, as further described in the Tax Certificate.

(d) *No Hedge Bond.* The District reasonably expects that at least 85% percent of the proceeds of the Bond will be spent within three years of the date the Bond is issued to carry out the governmental purposes of the Bond.

(e) *Designation under Section 265(b).* The District hereby designates the Bond as a “qualified tax exempt obligation” within the meaning of Section 265(b) of the Code. The District does not anticipate that it will issue more than \$30,000,000 in qualified tax-exempt obligations during 2009 (excluding obligations permitted by the Code to be excluded for purposes of the District’s qualification as a qualified small issuer).

(f) *Modification of Tax Covenants.* The covenants of this Section are specified solely to assure the continued exemption from regular income taxation of the interest on the Bond. To that end, the provisions of this Section may be modified or eliminated without any requirement for formal amendment thereof upon receipt of an opinion of the District’s Bond Counsel that such modification or elimination will not adversely affect the tax exemption of interest on the Bond.

(g) *Arbitrage Rebate.* If the District does not qualify for an exception to the requirements of Section 148(f) of the Code relating to the payment of arbitrage rebate to the United States, the District will take all necessary steps to comply with the requirement that

certain amounts earned by the District on the investment of the "gross proceeds" of the Bond (within the meaning of the Code) be rebated.

Section 13. Form of Bond. The Bond shall be in substantially the following form:

UNITED STATES OF AMERICA

No. _____

\$ _____

STATE OF IDAHO
NORTH KOOTENAI WATER DISTRICT

WATER REVENUE AND REFUNDING BOND, 2009

INTEREST RATE:

MATURITY DATE:

REGISTERED OWNER: Idaho Bond Bank Authority

PRINCIPAL AMOUNT: EIGHT MILLION AND NO/100 DOLLARS

Year of Principal Payment (_____ 1	Principal Installment Amount	Interest Rate
2010	\$	%
2011		
2012		
2013		
2014		
2015		
2016		
2017		
2018		
2019		
2020		
2021		
2022		
2023		

Year of Principal Payment (_____) 1	Principal Installment Amount	Interest Rate
2024		
2025		
2026		
2027		
2028		
2029		

The North Kootenai Water District, Kootenai County, Idaho, a municipal corporation organized and existing under and by virtue of the laws of the State of Idaho (herein called the "District") hereby acknowledges itself to owe and for value received promises to pay, but only from the sources and as hereinafter provided, to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, the Principal Amount indicated above and to pay interest thereon from _____, or the most recent date to which interest has been paid or duly provided for, at the Interest Rate set forth above, payable to the Trustee under the terms of the Loan Agreement at least fifteen days in advance of the payment date, the first payment date being March 15, 2010, and semiannually thereafter on the fifteenth days of each September and March until such principal sum is paid or payment has been duly provided for.

Both principal of and interest on this bond are payable in lawful money of the United States of America. Interest and principal shall be paid as provided in the by check or draft of the Treasurer of the District (the "Registrar"), to the Registered Owner hereof at the address appearing in the records maintained by the Registrar as of the 15th day of the month proceeding the interest payment date. The final installment of principal and interest on this bond shall be paid to the Registered Owner hereof upon presentation and surrender of this Bond at the office of the Registrar. Notwithstanding the foregoing, so long as the Authority is the Registered Owner of this bond, payments of the principal of and interest on this bond shall be made to the Authority in accordance with the Loan Agreement.

This Bond is a special obligation of the District, as authorized by the voters of the District and issued pursuant to Resolution No. 2009-36 (the "Bond Resolution") passed by the Board on October 15, 2009, to finance the construction and installation of water system improvements to the water system of the District. Capitalized terms used in this bond that are not specifically defined have the meanings given such terms in the Bond Resolution. Reference is made to the Bond Resolution and any and all modifications and amendments thereto for a description of the nature and extent of the security for this Bond, the funds or revenues pledged, and the terms and conditions upon which this Bond is issued.

This Bond is subject to prepayments as provided in the Bond Resolution and Loan Agreement.

This Bond is payable solely from the special fund of the District known as the "North Kootenai Water District Water Revenue Bond Fund" (the "Bond Fund") referenced in the Bond Resolution. The District has irrevocably obligated and bound itself to pay into the Bond Fund out of System Revenues or from such other money as may be provided for such purpose certain amounts necessary to pay and secure the payment of the principal of and interest on this Bond.

The District has pledged to set aside from the Income Fund out of the System Net Revenues and to pay into the Bond Fund the various amounts required by the Bond Resolution to be paid into and maintained in such Fund within the times provided by the Bond Resolution.

The District has designated this Bond as a qualified tax-exempt obligation within the meaning of Section 265(b) of the Internal Revenue Code of 1986. This Bond is not a private activity bond.

This Bond is issued under and in accordance with the provisions of the Constitution and applicable statutes of the State of Idaho and duly adopted resolutions of the District. The District hereby covenants and agrees with the owner of this Bond that it will keep and perform all the covenants of this Bond and of the Bond Resolution to be by it kept and performed, and reference is hereby made to the Bond Resolution for a complete statement of such covenants.

It is hereby certified that all acts, conditions, and things required by the Constitution and statutes of the State of Idaho to exist, to have happened, been done, and performed precedent to and in the issuance of this Bond have happened, been done, and performed.

IN WITNESS WHEREOF, the North Kootenai Water District, Kootenai County, Idaho, has caused this Bond to be signed with the facsimile or manual signatures of the Chair and the Treasurer, to be attested by the facsimile or manual signature of the District Secretary and the seal of the District to be impressed, imprinted or otherwise reproduced hereon, all as of this ___ day of November, 2009.

NORTH KOOTENAI WATER DISTRICT,
IDAHO

By _____ /s/ facsimile or manual
Chair

By _____ /s/ facsimile or manual
Treasurer

ATTEST

/s/ facsimile or manual
Secretary

(S E A L)

The Registrar's certificate of authentication on the Bond shall be in substantially the following form:

CERTIFICATE OF AUTHENTICATION

Date of Authentication: _____

This is the Water Revenue and Refunding Bond, 2009, of the North Kootenai Water District, Kootenai County, Idaho, dated _____, as described in the Bond Resolution.

By _____
Treasurer, North Kootenai Water District,
Kootenai County, Idaho, as Registrar

Section 14. Execution of Bond. The Bond shall be executed on behalf of the District with the manual or facsimile signatures of the Chair and Treasurer of the District, with both signatures attested by the manual or facsimile signature of the Secretary, and the seal of the District shall be impressed, imprinted or otherwise reproduced thereon. Only such Bond as shall bear thereon a Certificate of Authentication in the form hereinbefore recited, manually executed by the Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this resolution. Such Certificate of Authentication shall be conclusive evidence that the Bond so authenticated have been duly executed, authenticated, and delivered hereunder and are entitled to the benefits of this resolution.

In case either of the officers who shall have executed the Bond shall cease to be an officer or officers of the District before the Bond so signed shall have been authenticated or delivered by the Registrar, or issued by the District, such Bond shall be valid nevertheless and may be issued by the District with the same effect as though the persons who had executed such Bond had not ceased to be such officers.

Section 15. Prepayment and Defeasance.

(a) *Loan Agreement to Set Forth Prepayment Provisions.* Provisions for the optional prepayment of some or all principal installments of the Bond may be established pursuant to Section 10 and shall be set forth in the Loan Agreement.

(b) *Defeasance.* In the event that money and/or Government Obligations (as now or hereinafter defined in Chapter 57-504 of the Idaho Code) maturing at such time or times and bearing interest to be earned thereon in amounts (together with such money, if necessary) sufficient to prepay and retire the Bond or a portion thereof in accordance with its terms, are set aside in a special account to effect such prepayment and retirement, and such money and the principal of and interest on such obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into the Bond Fund for the payment of the principal of and interest on the Bond or portion thereof so provided for, and the Bond or such portion thereof shall cease to be entitled to any lien, benefit or security of this resolution except the right to receive the money so set aside and pledged, and the Bond or such portion thereof shall be deemed not to be outstanding hereunder.

Section 16. Lost or Destroyed Bond. In case the Bond shall be lost, stolen or destroyed, the Registrar may authenticate and deliver a new Bond of like amount, date and tenor to the owner thereof upon the owner's paying the expenses and charges of the Registrar and the District in connection therewith and upon his filing with the Registrar and the District evidence satisfactory to both that such Bond was actually lost, stolen or destroyed and of his ownership thereof, and upon furnishing the District and the Registrar with indemnity satisfactory to both.

Section 17. Loan Agreement. The Loan Agreement, substantially in the form annexed hereto as Exhibit A, is hereby approved and all provisions, covenants and terms of the Loan

Agreement are adopted and incorporated herein. The Board Chair and Secretary, or such officer's designee, are each hereby authorized and directed, on behalf of the District, to execute and attest, respectively, and to deliver the Loan Agreement in substantially said form, with such changes as may be required or approved subject to review by Bond Counsel or his or her designee, such approval conclusively evidenced by the execution and delivery thereof to the Authority; provided, however, that (i) the term of the Loan Agreement shall end no later than November 1, 2029; (ii) the principal amount set forth in the Loan Agreement shall not exceed \$8,000,000; and (iii) the true interest cost as set forth in the Loan Agreement on the Bond shall not exceed 4.50%. The sale of the Bond to the Authority in accordance with the Loan Agreement is hereby approved. The District shall comply with all terms and provisions of the Loan Agreement and in the event of a conflict between the terms of this Resolution and the Loan Agreement, the provisions of the Loan Agreement shall control.

Section 18. Ongoing Disclosure. The District acknowledges that, under Rule 15c2 12 of the Securities and Exchange Commission (the "Rule"), the District may now or in the future be an "obligated person" with respect to the Authority Bonds. In accordance with the Rule and as the Authority may require, the District shall undertake to provide certain annual financial information and operating data similar to the information set forth in the Loan Agreement.

Section 19. General Authorization; Prior Acts. The Chair, Secretary of the Board and Treasurer and any other appropriate officers and agents of the District are each hereby authorized and directed to take such steps, to do such other acts and things, and to execute such letters, certificates, agreements, papers, financing statements, assignments or instruments as in their judgment may be necessary, appropriate or desirable in order to carry out the terms and provisions of, and complete the transactions contemplated by, this resolution. All acts taken

pursuant to the authority of this resolution but prior to its effective date are hereby ratified and confirmed.


Section 20. Validity of Issuance. The Bond is issued pursuant to the Act. This recital is conclusive evidence of the validity of the Bond and the regularity of its issuance.

Section 21. 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 of this resolution and shall in no way affect the validity of the other provisions of this resolution or of the Bond.

Section 22. Effective Date. This resolution shall take effect from and after its passage.

ADOPTED by the Board of the North Kootenai Water District, Kootenai County, Idaho, at a regular meeting thereof held this 15th day of October, 2009.

NORTH KOOTENAI WATER DISTRICT
KOOTENAI COUNTY, IDAHO


Chair

ATTEST


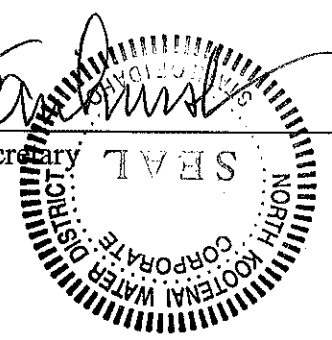

District Secretary
(SEAL) 

Exhibit "A"

Loan Agreement

CERTIFICATE OF DISTRICT SECRETARY

I DO HEREBY CERTIFY that I am the duly chosen, qualified and acting Secretary of the North Kootenai Water District, Kootenai County, Idaho (the "District"), and keeper of the records of the Board (the "Board"); and

I HEREBY CERTIFY:

1. That the attached resolution is a true and correct copy of Resolution No. 2009-36 of the District (the "Resolution"), as finally passed at a regular meeting of the Board held on the 15th day of October, 2009, and duly recorded in my office.

2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a quorum was present throughout the meeting and a legally sufficient number of members of the Board voted in the proper manner for the passage of the Resolution; that all other requirements and proceedings incident to the proper passage of the Resolution have been duly fulfilled, carried out and otherwise observed, and that I am authorized to execute this certificate.

IN WITNESS WHEREOF, I have hereunto set my hand this 15th day of October, 2009.

