

RESOLUTION NO. 98-4

A RESOLUTION OF NORTH KOOTENAI WATER DISTRICT, OF KOOTENAI COUNTY, IDAHO, PROVIDING FOR THE ISSUANCE OF A WATER REVENUE BOND ANTICIPATION NOTE IN THE AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$2,000,000 IN ORDER TO PROVIDE THE PURCHASE PRICE ON AN INTERIM BASIS FOR THE ACQUISITION OF THE WATER SYSTEM AND FACILITIES OF THE DISTRICT; CREATING CERTAIN FUNDS; FIXING THE INTEREST RATE, MATURITY, FORM, TERMS AND COVENANTS OF SAID NOTE; PROVIDING CERTAIN COVENANTS WITH RESPECT TO FEDERAL TAX LAW; PROVIDING FOR THE PUBLIC SALE OF THE WATER REVENUE BONDS TO REPAY THE NOTE AND PAY OTHER COSTS AND EXPENSES; PROVIDING FOR THE EFFECTIVE DATE OF THIS RESOLUTION; AND PROVIDING FOR OTHER MATTERS PROPERLY RELATING THERETO

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

**WATER REVENUE BOND ANTICIPATION NOTE, SERIES 1998
Aggregate Principal Amount of Not to Exceed \$2,000,000**

BE IT RESOLVED BY THE CHAIRMAN AND BOARD OF DIRECTORS OF NORTH KOOTENAI WATER DISTRICT, of Kootenai County, Idaho, as follows:

WHEREAS, North Kootenai Water District, of 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;

WHEREAS, the District has undertaken a project (the "Project") to acquire an existing water system from Charles A Ford, d/b/a Allied Water, Inc., Hayden Pines Water Company, Inc., and Idaho Contractors, Inc., (collectively, the "Seller"), and make certain improvements and betterments to said existing system;

WHEREAS, the Seller desires to sell his interest in the existing system immediately, and permanent financing has not yet been established for such acquisition and improvements;

WHEREAS, Idaho Code Sections 42-4104 and 42-4107 authorizes the District to issue bond anticipation notes in anticipation of revenue bonds if said bonds have been authorized to be issued;

WHEREAS, Charles A Ford, d/b/a Allied Water, Inc., Hayden Pines Water Company, Inc., and Idaho Contractors, Inc. has agreed to accept the District's bond anticipation note for the purchase price of the system in an amount of not to exceed \$2,000,000 on the terms hereinafter set forth;

WHEREAS, in the judgment of the Board of Directors of the District (the "Board"), it is in the best interest of the District to accept said offer; and

WHEREAS, the Board previously approved the acquisition of the Project at a meeting on November 25, 1998, which meeting was continued until December 3, 1998, for the purpose of adopting this Resolution and finalizing other details of the acquisition, if any;

NOW, THEREFORE, IT IS HEREBY FURTHER RESOLVED BY NORTH KOOTENAI WATER DISTRICT, of Kootenai County, Idaho, as follows:

Section 1: DEFINITIONS

As used in this Resolution, the terms herein 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. Words imparting the singular number shall include the plural numbers and vice-versa unless the context shall otherwise indicate.

Acquisition or **Acquire** 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, the condemnation, transfer, option to purchase, other contract, or other acquirement, or any combination thereof.

Additional Bonds or **Parity Bonds** shall mean any water revenue bonds of the District hereafter issued, from time to time, having a lien upon the Net Revenue and/or Assessments for the payment of the principal thereof and interest thereon, equal to the lien of the water revenue bonds, when issued.

Board shall mean the District Board of North Kootenai Water District, Kootenai County, Idaho.

Bond Anticipation Note or **Note** shall mean the interest bearing North Kootenai Water District Water Revenue Bond Anticipation Note, Series 1998, issued in the aggregate principal amount of not to exceed \$2,000,000, pursuant to, and for the purposes authorized in this Resolution.

Chairman shall mean the *de facto* or *de jure* Chairman 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.

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 in Section 15 of this Resolution.

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

- (1) Preliminary expenses advanced by the District from funds available for the 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 costs of contingencies;
- (5) The costs of any discount on the Note and of any of the costs of issuance of the Note;
- (6) The costs of funding and short-term financing, revenue warrants, bond anticipation Note, or other temporary loans appertaining to the Project, and of the incidental expenses incurred in connection with such loans;
- (7) The Acquisition costs 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 North Kootenai Water District, of Kootenai County, Idaho, a water district duly organized and existing under the Constitution and laws of the State of Idaho.

Net Proceeds when used with reference to the Note, shall mean the face amount of the Note, plus accrued interest, if any, and original issue premium, if any, and less original issue discount, if any.

Net Revenue shall mean the Revenue of the System after the deduction of Costs of Maintenance and Operation.

Note Fund shall mean the "North Kootenai Water District Water Revenue Bond Anticipation Note Fund," created by Section 12 of this Resolution.

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

Note Year shall mean each one-year period that ends on the date selected by the District. The first and last Note Years may be short periods. If no day is selected by the District before the earlier of the final maturity date of the Note or the date that is five years after the date of issuance of the Note, Note Years end on each anniversary of the date of issue and on the final maturity date of the Note

Parity Bonds, Outstanding Bonds or Additional Bonds shall mean any series of bonds or notes that have a charge or lien against the Revenue of the System equal to any outstanding bonds of the District, this Note and any future bonds.

Private Person shall mean any natural person engaged in a trade or business or any trust, estate, partnership, association, company or corporation.

Private Person Use shall mean 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 of 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 a *de minimis* fee to cover custodial expenses.

Project shall mean the undertaking or undertakings of acquiring, constructing and installing the improvements described in Section 2 hereof.

Registered Owner shall mean Charles A Ford, Allied Water, Inc., Hayden Pines Water Company, Inc., and Idaho Contractors, Inc., as their respective interests may exist, or any successors or assigns, as the initial holder of the Note.

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

Revenue of the System shall mean all earnings, revenue and moneys received by the District from, or on account of, the operation of the System, including the income from investments of the money in the Water Revenue Fund and the Note Fund or from any other investment thereof irrevocably pledged to the payment of Water revenue bonds pursuant to a plan of retirement or refunding. The words "Revenue of the System" also shall include any federal, state and municipal reimbursements of operating expenses to the extent such expenses are included as Costs of Maintenance and Operation of the System.

Secretary shall mean the *de facto* or *de jure* 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 Board, or his/her successor in function, if any.

Water Revenue Bond or **Water Revenue Bonds** mean the bonds authorized to be issued by the District herein to repay the Bond Anticipation Note, Series 1998, also authorized herein.

Water Revenue Fund shall mean the "North Kootenai Water District Water Revenue Fund" created in Section 14 of this Resolution.

System shall mean the water system and facilities of the District, as it now exists and as it will be added to by the Acquisition of the Project as it may be added to, improved and extended for as long as any of the Note authorized by this Resolution are outstanding.

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

United States shall mean the United States of America.

Section 2: THE PROJECT

The District has determined to Acquire the System, consisting generally of the following:

- (1) The water distribution system of the Seller, including wells, mains and distribution lines;
- (2) Related equipment and other appurtenances necessary to operate the System and provide water; and
- (3) Engineering fees, administrative costs, legal fees, and all other costs incidental thereto, together with sites and easements therefor and all appurtenances, equipment, and machinery necessary or useful for said System.

Said Project is more fully described in the plans and specifications prepared by the District's engineers, on file in the Office of the Secretary and hereby incorporated herein by this reference.

Section 3: COST OF THE PROJECT

The total cost of acquisition of the Project is estimated to be \$2,000,000.00, all of which is expected to be paid from the issuance and sale of a Water Revenue Bond, and not to exceed \$2,000,000 to be temporarily financed by the proceeds of the Note. Any balance of said amount will be paid from other legally available funds, including, but not limited to, other legally available funds of the District.

Section 4: AUTHORIZATION OF THE BONDS

For the purpose of providing funds with which to permanently pay for a portion of the Cost of the Project authorized by Section 2 of this Resolution and all necessary expenses in connection therewith, there shall be issued, sold and delivered not to exceed \$ _____ principal amount (as authorized at a special election held within the District) of water revenue bonds of the District to be designated "North Kootenai Water District Water Revenue Bonds, Series 1999" (herein called the "Bonds") or such other designation to accurately reflect the year the Bonds are issued.

The Bonds shall be in such denomination(s) 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 water revenue bonds and issued as a single combined series, as provided hereafter by a Resolution of the Board.

Section 5: AUTHORIZATION OF THE NOTE

In order to provide interim financing to pay the Cost of the Project, and in anticipation of the issuance of the Bonds, the District shall issue its short-term obligation in the form of water revenue Bond Anticipation Note in an amount of not to exceed \$2,000,000. Said Note shall be designated "North Kootenai Water District Water Revenue Bond Anticipation Note, Series 1998"

(the "Note"), shall be dated as of November 25, 1998, shall be issued in the form of a single Note, shall mature on December 25, 1998, subject to 30-day extensions, and shall be numbered One. The Note shall be substantially in the 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 of 5.5% per annum, from their date of issuance to the date of maturity or prior redemption. Interest shall be calculated on the basis of an actual 365-day year, and shall be payable at maturity or prior redemption of the Note.

A request for extension of the Note may be made by the District in writing at any time, which request shall be approved by the Note Owner under the same terms and conditions contained within the Note dated November 25, 1998.

Section 6: PLACE AND MANNER OF PAYMENT

Both principal of and interest on the Note shall be payable in lawful money of the United States of America to the Registered Owner thereof, whose name and address shall appear on the Note Register maintained by the Registrar.

Principal of and interest on each of the Note shall be payable to the Registered Owner, upon presentation and surrender of each 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 their 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, to the Registered Owner of the Note at its address appearing on the Note Register at least three (3) days prior to the redemption date.

Section 8: LOST, STOLEN OR DESTROYED NOTE

In case the Note is lost, stolen, mutilated or destroyed, the Registrar may authenticate 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 shall be transferable by the Registered Owner thereof in person, or by his attorney duly authorized in writing, upon surrender of such Note at the principal office of the Registrar for cancellation and issuance of new Note registered in the name of the transferee, in exchange therefor.

The Note shall be exchangeable for Note of any authorized denomination or denominations, upon surrender and cancellation of said Note at the principal office of the Registrar.

Whenever the Note shall be surrendered for transfer or exchange, the Registrar shall authenticate and deliver to the transferee or exchangee, in exchange therefor, a new fully registered Note or Note of any authorized denomination or denominations, of the same maturity and interest rate, and for the aggregate principal amount of such Note being surrendered.

The Registrar shall require the payment by the Registered Owner requesting such transfer or exchange of any tax, fee or governmental charge required to be paid with respect to such transfer or exchange. The costs imposed by the Registrar for such transfer or exchange shall be deemed to be a Project cost to be borne by the District.

Section 10: REGISTRAR

The District Treasurer is hereby appointed as Registrar, authenticating agent, 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 its 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 shall be responsible for its representations contained in the Certificate of Authentication on the Note.

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

Section 11: UNIFORM RATES AND CHARGES

The District shall establish, may from time to time revise, and shall maintain and collect rates and charges for furnishing the services and the facilities of the System to its customers, which rates and charges are, and shall continue to be, uniform as to all persons or properties which are of the same class, which rates and charges shall be collected from the users thereof.

Section 12: NOTE FUND

There is hereby created a fund known as the "North Kootenai Water District Water Revenue 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 Bonds, 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 the 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 Bonds 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 their maturity or prior redemption.

Any grant received by the District for the Project, and the proceeds of sale of the Bonds 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 13: SECURITY FOR THE NOTE

The amounts pledged in Section 12 of this Resolution to be paid into the Note Fund, out of the Revenue of the System and moneys in the Water Revenue Fund, are hereby declared to be a lien and charge upon such Revenue of the System and moneys in the Water Revenue Fund junior in rank to the charges necessary to pay Costs of Maintenance and Operation and on a parity with the lien of any outstanding water revenue bonds of the District, but superior to all other liens or charges of any kind or nature.

Section 14: REVENUE FUND

There has heretofore been created and shall be maintained by the Treasurer, a fund designated "North Kootenai Water District Water Revenue Fund" (the "Revenue Fund"), or such other designation conforming to banking requirements or good accounting practices, into which the Revenue of the System shall be deposited forthwith upon receipt.

The Revenue of the System shall be used for the payment of the following obligations in the following order of priority:

- (1) First, to pay the Operation and Maintenance Expenses of the System.
- (2) Second, to pay the interest on any Outstanding Bonds of the District and any Additional Bonds, and the interest on the Note by payments into the Note Fund;
- (3) Third, to pay the principal of any Outstanding Bonds and any Additional Bonds, the principal of the Note by payments into the Note Fund, and any mandatory sinking fund deposits;
- (4) Fourth, to make all payments required to be made into the Reserve Account created to secure the payment of any Outstanding Bonds and any Additional Bonds;
- (5) Fifth, to make all payments required to be made into a bond fund hereafter created to pay and secure the payment of the principal of and interest on any bonds which have a lien upon the Revenue of the System junior and inferior to the lien thereon for the payment of the principal of and interest on the Outstanding Bonds, this Note and any Additional Bonds; and
- (6) Sixth, to retire by redemption or purchase in the open market any Outstanding revenue bonds or revenue warrants of the District payable out of the Revenue of the System, to make necessary additions, betterments, improvements and repairs to or extensions and replacements of the System, or for any other lawful District purposes.

Section 15: CONSTRUCTION FUND

There is hereby created a fund known as the "North Kootenai Water District Water Construction Fund" (herein called the "Construction Fund"), into which shall be deposited all of the proceeds, if any, of the sale of the Note, to be used for the payment of part of the Cost of the Project. Any 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 shall be deposited into the Construction Fund to assure the completion of the Project.

When the Project has been completed and all costs related thereto have been paid in full, any balance remaining in the Construction Fund shall be deposited into the Note Fund, hereinbefore described, or, if the Note have been fully paid, into the Revenue Fund.

Section 16: COVENANTS

The District hereby covenants and agrees with the owners and holders of the Note for as long as any of the same remain unpaid as follows:

A. **Acquire and Complete Project.** It will acquire all necessary property, both real and personal, easements, and rights-of-way necessary for the acquisition, construction and installation of such additions, improvements and extensions.

B. **Operation System and Keep in Good Repair.** It will at all times keep and maintain the System in good repair, working order and condition, will at all times operate the System and the business in connection therewith in an efficient manner and at a reasonable cost, and will comply with all applicable laws of the State of Idaho.

C. **Collect and Apply Revenues.** It will impose and collect such rates and charges for service rendered by the System that Gross Revenue will be sufficient at all times to provide for the payment of the reasonable and necessary costs of the maintenance and operation thereof, the installments on the Bonds, and the maintenance of the various funds and accounts herein created; that all service rendered by the System shall be subject to the full rates prescribed by the rules and regulations of the District, and that no free service of the System will be permitted.

D. **Maintain Records.** It will maintain complete books and records relating to the operation of the system and its financial affairs, and will cause such books and records to be audited annually at the end of each fiscal year and an audit prepared, and will furnish the United States, without request, a copy of each annual audit report. At all reasonable times, the United States shall have the right to inspect the System and the records, accounts and data of the District relating thereto.

E. **Insurance.** It will carry fire and extended coverage insurance on the System as is ordinarily carried on the property of similar public utilities by private companies engaged in the operation of the same, to the full insurable value thereof, and will also carry adequate public liability insurance, war risk insurance if it becomes available, and other kinds of insurance as under good practice are ordinarily carried on the properties of similar public utilities by private companies engaged in the operation of the same. The premiums paid for all such insurance shall be regarded and paid as an expense of the maintenance and operation of the System.

F. **Pay Claims.** The District shall pay and discharge any and all lawful claims for labor, materials, and supplies which, if unpaid, might by law become a lien or charge upon the Revenue of the System, or any part of said Revenue of the System, or any funds in the hands of the Treasurer, prior or superior to the lien of the Bond and any Additional Bonds or which might impair the security of the Bond, to the end that the priority and security of the Bond and any Additional Bonds shall be fully preserved and protected.

G. **Encumbrances.** The District shall not mortgage or otherwise encumber, sell, lease, or dispose of the System or any part thereof, nor enter into any lease or agreement which would impair or impede the operation of the System or any part thereof necessary to secure adequate revenues for the payment of the principal of and interest on the Note and any Additional Bonds, nor which would otherwise impair or impede the rights of the Registered

Owner of the Note with respect to such revenues or the operation of the System without provisions for the retirement of the Bonds then Outstanding from the proceeds thereof.

H. Fidelity Bonds. The District shall procure suitable fidelity bonds covering all of its officers and other employees charged with the operation of the System and the collection and disbursement of Revenue of the System.

I. Engineers. The District shall employ consulting engineers of acknowledged reputation, skill and experience in the improvement and operation of the System for any unusual or extraordinary items of maintenance, repair, extensions, or betterments as shall be required from time to time. All reports, estimates, and recommendations of such consulting engineers shall be filed with the Secretary and furnished to the Registered Owner of the Note issued hereunder, or Registered Owners of any Additional Bonds, upon request.

Section 17: 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. Each Note shall be executed on behalf of the District by the Chairman and 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 and made a part hereof.

The Note shall then be delivered to the Registrar for authentication. Only if said Note as shall bear thereon a Certificate of Authentication 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 Certificate of Authentication shall be conclusive evidence that the Note so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Resolution.

Section 18: DELIVERY OF NOTE

The delivery of the Note to Charles A. Ford, d/b/a Allied Water, Inc., Hayden Pines Water Company, Inc., and Idaho Contractors, Inc., (the "Seller") in accordance with his agreement to accept the Note in exchange for clear title to certain assets described in a separate agreement, dated November 25, 1998, 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 19: AMENDMENTS

A. The Board from time to time and at any time may adopt a Resolution or Resolutions supplemental hereto, which Resolution or Resolutions hereafter shall become a part of this Resolution, for any one or more or all of the following purposes:

(1) To add to the covenants and agreements of the District in this Resolution, other covenants and agreements hereafter to be observed, which shall not adversely affect the interests of the Registered Owner of the Note, or to surrender any right or power herein reserved;

(2) To make such provisions for the purpose of curing any ambiguities or of curing, correcting or supplementing any defective provision contained in this Resolution or any Resolution authorizing future Note or warrants in regard to matters or questions arising under such Resolutions as the Board may deem necessary or desirable and not inconsistent with such Resolutions and which shall not adversely affect, in any material respect, the interest of the Registered Owner of the Note.

Any such supplemental Resolution may be adopted without the consent of the Registered Owner of the Note at any time outstanding, notwithstanding any of the provisions of subsection B of this Section.

B. With the consent of the Registered Owner, the Board may adopt a Resolution or Resolutions supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Resolution or of any supplemental Resolution; provided, however, that no such supplemental Resolution shall:

(1) Extend the fixed maturity of the Note, or reduce the rate of interest thereon, or extend the time of payment of interest from their due date, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the Registered Owner of the Note; or

(2) Delete the above requirement for the consent of the Registered Owner of the Note then outstanding before the approval of any such supplemental Resolution.

It shall not be necessary for the consent of Registered Owner under this subsection B to approve the particular form of any proposed supplemental Resolution, but it shall be sufficient if such consent shall approve the substance thereof.

C. Upon the adoption of any supplemental Resolution pursuant to the provisions of this Section, this Resolution shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations of the District under this Resolution and the Registered Owner of Note outstanding hereunder shall thereafter be determined, exercised and enforced thereunder, subject in all respects to such modification and amendments,

and all terms and conditions of any such supplemental Resolution shall be deemed to be part of the terms and conditions of this Resolution for any and all purposes.

D. Note executed and delivered after the execution of any supplemental Resolution adopted pursuant to the provisions of this Section may have a notation as to any matter provided for in such supplemental Resolution and if such supplemental Resolution shall so provide, new Note so modified as to conform, in the opinion of the Board, to any modification of this Resolution contained in any such supplemental Resolution, may be prepared and delivered without cost to the Registered Owner of any affected Note then outstanding, upon surrender for cancellation of such Note, in equal aggregate principal amounts.

Section 20: TAX COVENANTS

The District shall comply with the provisions of this Section unless, in the written opinion of Preston Gates & Ellis LLP or other nationally recognized bond counsel to the District, such compliance is not required in order to maintain the exemption of the interest on the Note from federal income taxation.

A. Arbitrage; Special Tax Covenants

The District hereby covenants that it will not make any use of the proceeds of sale of the Note or any other funds of the District which may be deemed to be proceeds of said Note pursuant to Section 148 of the Code which will cause the Note to be "arbitrage bonds" within the meaning of said Section. The District will comply with the requirements of Section 148 of the Code (or any successor provision thereof applicable to the Note) throughout the term of the Note.

The District hereby further covenants that it will comply with the registration requirements of Section 149(a) of the Code so long as any of the Note are outstanding.

The District hereby further covenants that it will not take any action or permit any action to be taken that would cause the Note to constitute "private activity bonds" under Section 141 of the Code.

B. Note Designated Qualified Tax-Exempt Obligations

The District hereby designates the Note as a "qualified tax-exempt obligation" pursuant to Section 265(b) of the Code. The District does not expect to issue tax-exempt obligations in an aggregate principal amount in excess of \$10,000,000 during the calendar year 1998.

C. Exemption from Arbitrage Rebate Requirements

The District hereby covenants and represents that it does not reasonably expect to issue more than \$5,000,000 in tax-exempt obligations during the 1998 calendar year. Accordingly, the

District is not required to comply with the arbitrage rebate rules by virtue of Section 148(f)(4)(C) of the Code.

D. Private Person Use Limitation

The District covenants that so long as the Note are outstanding, it will not permit:

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

(b) More than 10% of the principal or interest payments on the Note in a Note Year to be (under the terms of this Resolution or any underlying arrangement) directly or indirectly: (i) 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 (ii) 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:

(c) More than 5% of the Net Proceeds of the Note is to be used for any Private Person Use; and

(d) More than 5% of the principal or interest payments on the Note in a Note Year are (under the terms of this Resolution or any underlying arrangement) directly or indirectly: (i) 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 (ii) 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 Project described in subsection (c) hereof or Private Person Use payments described in subsection (d) hereof that is in excess of the 5% limitations described in such subsections (c) or (d) 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 Note 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 bond counsel, to preserve the tax exemption of the interest on the Note.

E. Private Loan Limitation

The District covenants that so long as the Note are outstanding, it will not permit Note proceeds in excess of the lesser of:

- (a) 5% of the Net Proceeds of the Note, or
- (b) \$5,000,000

to be used (directly or indirectly) to make loans (other than loans that enable a borrower to finance a governmental tax or assessment of general application for a specific essential governmental function) to a Private Person.

F. Federal Guaranty Prohibition

The District covenants that so long as the Note are outstanding, it will not take any action or permit or suffer any action to be taken if the result thereof would be to cause the Note to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

G. Tax Covenants - Bond Counsel Opinion

The District shall comply with the provisions of this Section unless, in the written opinion of Preston Gates & Ellis LLP or other nationally recognized bond counsel to the District, such compliance is not required in order to maintain the exemption of the interest on the Note from federal income taxation.

Section 21: CONTINUING DISCLOSURE

The District is exempt from providing continuing disclosure pursuant to the Securities and Exchange Commission's Rule 15c 2-12, as amended, because it has less than \$10 million in outstanding debt and because the principal of this Note shall be repaid in full within eighteen (18) months of its issue date.

Section 22: 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 24: 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 25: RATIFICATION

All actions (not inconsistent with the provisions of this Resolution) heretofore taken by the Board, and its employees, with respect to the Acquisition, construction and installation of the Improvements, and the issuance, sale and delivery of the Note, are hereby in all respects ratified, approved, and confirmed.

Section 26: REPEALER

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

Section 27: EFFECTIVE DATE

This Resolution shall be effective from and after its adoption and publication as required by law.

PASSED AND ADOPTED this 3rd day of December, 1998.

NORTH KOOTENAI WATER DISTRICT,
Kootenai County, Idaho


Chairman

ATTEST:


District Secretary

(SEAL)

I, the undersigned, the District Secretary of 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 continued meeting of the District Board of said District, duly and regularly held at the regular meeting place thereof on December 3, 1998 of which meeting all members of said District Board 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, Boardmembers:

NOES, Boardmembers:

ABSENT, Boardmembers:

ABSTAIN, Boardmembers:

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 December 3, 1998.

NORTH KOOTENAI WATER DISTRICT,
Kootenai County, Idaho

District Secretary

(SEAL)

(Face of Note)

NOTE

Not to Exceed
\$2,000,000.00

STATE OF IDAHO

County of Kootenai

**NORTH KOOTENAI WATER DISTRICT
WATER REVENUE BOND ANTICIPATION NOTE, SERIES 1998**

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

MATURITY DATE

December 25, 1998

INTEREST RATE

5.50%

NORTH KOOTENAI WATER DISTRICT, of Kootenai County, Idaho, (the "District"), a water district duly incorporated and existing under and by virtue of the laws of the State of Idaho, hereby acknowledges itself indebted and for value received promises to pay to

CHARLES A. FORD, d/b/a Allied Water, Inc.,
Hayden Pines Water Company, Inc., and Idaho Contractors, Inc.
SSN #519-28-1901

Registered Owner, on or before the Maturity Date indicated above, the principal sum of

Two Million and No/100 Dollars - - - - - (\$2,000,000.00)

together with interest thereon from the date hereof 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 a 365-day year.

Both principal of and interest on this Note are payable from the North Kootenai Water District Water Revenue Bond Anticipation Note Fund, created by Resolution No. _____, (the "Note Resolution"). Payment shall be made to the holder hereof at the office of the District Treasurer, out of said Note Fund, in accordance with the terms and conditions set forth therein

Reference is made to the Note Resolution for definitions of defined terms used herein and a description of the covenants and conditions under which this Note is issued.

The Registered Owner has agreed, upon request by the District, to extend the maturity date of this Note for additional thirty (30) day periods of time, upon the payment of interest accrued to the date of extension.

The District has reserved the right to call and redeem the Note of this issue, or any extension thereof, prior to its scheduled maturity or date of extension, at any time upon three (3) business days' notice to the Noteholder, as described in the Note Resolution.

The District has designated this Note as a qualified tax-exempt obligation under Section 265(b) of the Internal Revenue Code of 1986.

The District hereby covenants with the owner of this Note that it will issue Water Revenue Bonds or refunding bond anticipation notes in an amount sufficient to pay the principal of and interest on this Note when due and will thereupon redeem this Note. This Note is not a general obligation of the District and is not payable otherwise than as stated herein.

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 duly adopted Resolutions of the District, and that all acts, conditions and things required to have happened, been done, and performed precedent to and in the issuance of this Note have happened, been done, and performed.

IN WITNESS WHEREOF, North Kootenai Water District, of Kootenai County, Idaho, has caused this Note to be executed on behalf of the District by its Chairman, to be attested by the District Secretary, and the official seal of the District to be impressed hereon, this 25th day of November, 1998.

NORTH KOOTENAI WATER DISTRICT,
Kootenai County, Idaho

[manual signature]

Chairman

[manual signature]

Treasurer

ATTEST:

[manual signature]

District Secretary

(S E A L)

(Reverse Side of Note)

ADDITIONAL PROVISIONS

This Note, in an aggregate amount not to exceed \$2,000,000.00, is issued pursuant to and in full compliance with the Constitution and laws of the State of Idaho, particularly Idaho Code Sections 42-4101 and 42-4107 and proceedings duly adopted and authorized by the Board of Directors of the District acting for and on behalf of the District, more particularly the Note Resolution.

This Note is issued for the purpose of paying part of the cost of acquiring, constructing, and installing capital improvements to the water system and associated appurtenances located within the boundaries of the District, as more fully described in the Note Resolution.

This Note is to replace a Note already executed and dated November 25, 1998, and is exchangeable for Note of any authorized denomination of equal aggregate principal amount and of the same interest rate and maturity, upon presentation and surrender to the Note Registrar.

Reference is hereby made to the Note Resolution for the covenants and declarations of the District and other terms and conditions under which this Note and the Note of this series have been issued.

The covenants contained herein and in the Note Resolution may be discharged by making provision, at any time, for the payment of the principal of and interest on this Note in the manner provided in the Note Resolution.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required by the Constitutions and laws of the State of Idaho to exist, to have happened, been done and performed precedent to and in the issuance of this Note have happened, been done and performed, and that the issuance of this Note does not exceed any Constitutional, statutory or other limitation upon the amount of bonded indebtedness that the District may incur.

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

Date of Authentication
and Registration: _____, 1998.

This Note is the North Kootenai Water District, of Kootenai County, Idaho, Water Revenue Bond Anticipation Note, Series 1998, dated November 25, 1998, described in the within-mentioned Note Resolution, and registered as follows:

<u>Date of Registration</u>	<u>Registered Owner</u>	<u>Signature of Registrar</u>
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_____, 1998

Charles A. Ford

[manual signature]

District Treasurer