

KHW-W-05-01

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IDAHO PUBLIC
UTILITIES COMMISSION

FINNEY FINNEY & FINNEY, P.A.

ATTORNEYS AT LAW

OLD POWER HOUSE BUILDING
120 EAST LAKE STREET, SUITE 317
SANDPOINT, IDAHO 83864

PHONE: 1-208-263-7712 FAX: 1-208-263-8211

Gary A. Finney / John A. Finney / Rex A. Finney

August 11, 2005

KHW-W-05-01

Commission Secretary
Idaho Public Utilities Commission
PO Box 83720
Boise ID 83720-0074

Re: Kootenai Heights Water System, Inc.
Our File No. 4433-38a

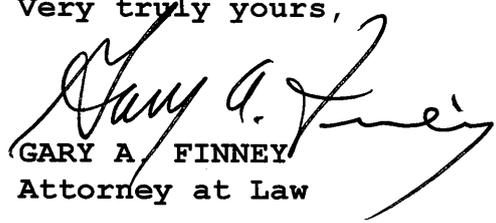
Dear Commission Secretary:

We are requesting an Application for a Certificate of Public Convenience and Necessity for the Kootenai Heights Water System.

[water system brief description & service area]

The Certificate Application Form is enclosed, together with the required supplemental information. Please issue a Certificate of Public Convenience and Necessity authorizing Kootenai Heights Water System, Inc. to operate as a public utility in the state of Idaho, and to serve the geographical area requested.

Very truly yours,


GARY A. FINNEY
Attorney at Law

cc: FNMcM

GAF:ez
Enclosures

APPLICATION TO THE IDAHO PUBLIC UTILITIES COMMISSION FOR A CERTIFICATE
OF PUBLIC CONVENIENCE AND NECESSITY TO OPERATE
A WATER UTILITY IN THE STATE OF IDAHO

1. Name of water company KOOTENAI HEIGHTS WATER SYSTEM, INC.
2. Name of primary contact person FLOYD N. MCGHEE
Title PRESIDENT
3. Telephone number(s) 208-265-4440
4. Mailing address PO BOX 1925
City SANDPOINT State IDAHO Zip 83864
Street address 507 HUMBIRD STREET
City SANDPOINT State IDAHO Zip 83864
Email _____
5. Type of business organization CORPORATION
(Corporation) (LLC) (Partnership) (Proprietorship)
6. In what state is the company organized? IDAHO
7. Is the company registered with the Idaho Secretary of State and authorized to do business in Idaho? YES
8. Attach copies of applicable by-laws, articles of incorporation and/or other organizational documents on file with the Idaho Secretary of State.
9. Are there any affiliated companies with which the water system shares office space, employees, expenses or provides services to the water system? Yes No If yes, attach a detailed description of the relationship.
10. Attach a legal description for the certificated area to be served and a map if available. LOTS 7-9 and 11-18 OF KOOTENAI HEIGHTS
LOT 10 IS THE WELL LOT - SEE ATTACHED PLAT
11. Attach a system map of the area showing the location of wells, reservoirs, water lines, booster pumps, valves, etc. Show location and names of all public utilities, corporations, or persons with which the utility will likely compete. THE AS BUILT PLANS ARE FILED WITH THE IDAHO DIVISION OF ENVIRONMENT, ATTACHED IS A COPY OF WELL PLAN
12. Attach the most recent DEQ Sanitary Survey (if applicable).
13. Certified operator will be KIRK MARINE.
14. Is the system approved by the Idaho Department of Environmental Quality (DEQ) or local health district? Yes No
15. Attach information showing the water rights owned by the water utility.
THE WELL IS ON THE PROPERTY
16. Attach the anticipated schedule of construction including proposed date to begin providing service. IN SERVICE

17. Attach the estimated cost for utility construction and statement of anticipated annual maintenance costs. COSTS INCLUDING LOT 10 WAS \$83,500.00
18. Attach a statement of the manner in which the applicant proposes to finance new utility construction. PAID BY WATER SERVICE AGREEMENT - A COPY IS ATTACHED
19. Number of customers currently connected to system.
 Residential 6
 Commercial _____
20. Number of customers ultimately to be served by the system.
 Residential 11
 Commercial _____
21. Attach monthly consumption data for the customers currently connected to the water system. Average monthly consumption for entire system is 31,000 gallons. Billing will start October 1, 2005 as per Water/Sewer Agreement
22. Attach a description of proposed rates and charges. SEE WATER/SEWER AGREEMENT AGREEMENT
 Note: Separate rates between residential customer rates and commercial customer rates. Typically water rates are either a flat monthly charge regardless of the amount of water consumed or a metered rate with a basic charge that includes a block of water (000s of gallons or 00s of cubic feet) plus a commodity charge for consumption in excess of the initial block included in the basic charge.
23. Attach a set of detailed financial statements (income and balance sheet) for the most recent three years for the water system (one or two if new company) or a detailed budget for a new system with no financial history.
24. Attach a list of current customers and mailing addresses.
25. You are required to inform your customers (if any) of the Application.
 The notice should briefly describe the service area and proposed rates. It should include the Commission's phone number (208) 334-0300 and mailing address: Commission Secretary, Idaho Public Utilities Commission, PO Box 83720, Boise, Idaho 83720-0074.
 Have the existing customers been notified? Yes/No
 If yes, attach a copy of the Notice. If no, attach an explanation.
25. Attach samples of KOOTENAI HEIGHTS WATER SYSTEM :
 (Company name)
- Bill statement
- Reminder Notice - Termination of Service
- Final Notice - Termination of Service
- Rules Summary
- Utility's General Rules and Regulations
- ALL ARE WITHIN THE WATER SERVICE AGREEMENT

CURRENT CUSTOMERS ON KOOTENAI HEIGHTS WATER SYSTEM

Lot #7 - Marie Verdier

Lot #8 - Harold Pedrini

Lot #12 - David Dorland

Lot #13 - Marcus & Gina Dunton

Lot #14 - Dennis & Denise Nygard

Lot #17 - Michael & Michelle Young

GARY A. FINNEY
FINNEY FINNEY & FINNEY, P.A.
Attorneys at Law
Old Power House Building
120 E. Lake Street, Suite 317
Sandpoint, Idaho 83864
Telephone: (208) 263-7712
Facsimile: (208) 263-8211

**KOOTENAI HEIGHTS
WATER SERVICE AGREEMENT AND EASEMENT**
(To Be Recorded with Bonner County Recorder)

WATER PROVIDER: Kootenai Heights Water System, Inc., an Idaho Corporation

LOT OWNER:

NAME: _____

ADDRESS: _____

Lot Owner's Lot: Kootenai Heights Lot # _____. (To be Completed)

THIS WATER SERVICE AGREEMENT ("Agreement") is entered into by and between KOOTENAI HEIGHTS WATER SYSTEM, Inc, an Idaho Corporation, referred to as the Water Provider, regarding real property referred to as the Lot, owned or being purchase by the above named Lot Owner.

NOW THEREFORE, the parties further agree that:

1. The Water Provider has developed a water system on Lot 10 of Kootenai Heights to be used by the Water Provider for water to certain Lots in Kootenai Heights and for further development of additional land & lots in the sole discretion of the Water Provider.

2. The Water Provider has the option to proceed to further

develop the water system, as it chooses, at its sole discretion. The system will be developed according to standards set forth by the Idaho Department of Health and Welfare, Division of Environmental Quality.

3. Agreement to Provide Water

During the term of this Agreement, the Water Provider shall provide water to the Lot Owner and persons who sign and enter into this agreement for household domestic purposes in reasonable quantities, and for the cost and subject to the terms set forth herein. Irrigation of yards shall be done at times of low water usage, so as not to interfere with household water uses. The water provided is strictly for the use of a single family residence on the Lot.

4. Hook-up Fee

The Water Provider shall be paid a hook-up fee with respect to each Lot water is provided to. The hook-up fee shall be FIVE THOUSAND DOLLARS (\$5,000.00), which shall be paid at the time of executing this agreement.

5. In addition to the hook-up, each Lot Owner shall pay a water usage fee in the amount of FORTY DOLLARS (\$40.00) per month for 10,000 gallons, with the excess gallons used over 10,000 per month being at the rate of \$4.00 per thousand gallons. Each Lot Owner user shall receive water through a water meter. The cost of the meter and its installation shall be paid by Water Provider. The attachment to the water meter shall be paid by the Lot Owner. The monthly charge shall not be increased for a period of the first five (5) years; however, effective each January 1 thereafter

the monthly water charges may be increased, but such increases are to be limited to: (i) the percentage increases in the per residence cost of operation and maintenance of the water system; or (ii) five percent (5%); or (iii) equivalent to the cost of other water users in Bonner County. The limitation on increases shall not apply to increased operation and maintenance costs incurred by the Water Provider as a direct result of the requirements of federal, state and/or local standards for the water usage. The Water Provider shall provide reasonable written documentation of the operation and maintenance expense in order to support the increase in fees. The monthly user fee commences when this agreement is signed.

The Water Provider is not required to send any monthly billings to the Lot Owner. The Lot Owner shall pay the monthly fee to the Water Provider due on the 1st day of the month following signing this agreement. The water usage fee shall be due & payable on the 1st day of each and every succeeding month and if not paid by the 10th day of said month the payment is late and the Lot Owner shall also pay a late payment fee of \$10.00 for each and every late payment. If the monthly water usage fees are not paid in full for a period of thirty days after due, then in addition to the late fees due, the water usage shall be terminated by the Water Provider by locking the meter and an additional fee of \$50.00 is payable before water usage is continued or turned back on at the meter.

The Water Provider will send billings to the Lot Owner on or about May 1 and October 1 of each year for the purpose of

computing & billing for the excess water usage over the allowed 10,000 gallons per month.

EASEMENT

The Lot Owner grants and the Water Provider reserves an easement on each Kootenai Heights Lot, over, under & across the westerly 15 feet of each Lot. The water line is located approximately 7.5 feet from the west line of each Lot. The easement is for the Water Provider and for operation, maintenance, repair and replacement of the meter, water lines and water system, and the Easement is also for the Water Operator to have ingress and egress from Humbird Street over and across the Lot Owner's Lot for the purpose of reading and accessing the water meter.

6. The Lot Owner shall only have the right to transfer the water usage and rights with the sale or transfer of their Lot; however, the Water Provider shall be paid all amounts owing before such transfer occurs. The Water Provider shall have the right to sell, convey and transfer is water system to any third party or a corporation organized of said purposes, or the Lot Owners, at which time, the Water Provider shall be entirely released and discharged of all obligation and liability for said water system or water furnishing and the new party or entity acquiring said water system shall be solely responsible and liable.

Simultaneously with the sale or transfer of any Lot, the Lot Owner shall do a written assignment of its rights hereunder to the new Lot Owner who shall assume the obligation of this agreement. The assignment shall be in writing, recorded and a copy provided to the Water Provider.

EXECUTED AND EFFECTIVE as of this _____ day of _____, 20__.

Kootenai Heights Water System, Inc.
Water Provider

By: _____
Officer

By: _____
Lot Owner

By: _____
Lot Owner

STATE OF IDAHO)
 : ss.
COUNTY OF BONNER)

On this _____ day of _____, 20__, before me the undersigned Notary Public, personally appeared, a corporate officer, and proved to me on the basis of satisfactory evidence, to be the person whose name is subscribed to the within instrument and acknowledged to me that such corporation executed as the same on behalf of Kootenai Heights Water System, Inc, an Idaho Corporation.

Notary Public-State of Idaho
Residing at: _____
My Commission Expires: _____

STATE OF IDAHO)
 : s.s.
COUNTY OF BONNER)

On this _____ day of _____, 20__, before me, the undersigned Notary Public, personally appeared _____ & _____, Lot Owner, known to me, or proved to me on the basis of satisfactory evidence, to be the persons whose name are subscribed to the within instrument and acknowledged to me that they executed the same.

Notary Public - State of Idaho
Residing at _____
My Commission expires _____

WAIVER OF NOTICE
OF THE COMBINED ORGANIZATIONAL MEETING OF
THE BOARD OF DIRECTORS AND SHAREHOLDERS
OF
KOOTENAI HEIGHTS WATER SYSTEM, INC.

_____, 2005

We, the undersigned, being all the Directors of the Corporation, hereby agree and consent to the organizational meeting of the Board of Directors of the Corporation being held at the place and on the time and date designated herein, and do hereby waive all notice whatsoever of such meeting.

Place of Meeting: 120 E. Lake St, Ste 317, Sandpoint

Date of Meeting: _____

Time of Meeting: _____

The purpose of the organizational meeting shall be to conduct all business necessary and proper for the organization of the corporation.

DIRECTOR:

F.N. MCGHEE
INITIAL DIRECTOR

MINUTES
OF THE COMBINED ORGANIZATIONAL MEETING OF
THE BOARD OF DIRECTORS AND SHAREHOLDERS
OF
KOOTENAI HEIGHTS WATER SYSTEM, INC.

_____, 2005

A combined organizational meeting of the members of the Board of Directors and Shareholders of KOOTENAI HEIGHTS WATER SYSTEM, INC. was held at _____ .m. on the ____ day of _____, 2005 at 120 E. Lake Street, Ste 317, Sandpoint.

The following Directors, being those so designated in the Articles of Incorporation, were present: F.N. MCGHEE.

Also present was: GARY A. FINNEY, attorney

By unanimous vote of the Directors, F.N. MCGHEE was elected temporary President and MICKIE MCGHEE was elected temporary Secretary, for the purposes of conducting the organizational meeting until the officers are duly appointed and elected.

The Secretary then presented to the meeting, the written Waiver of Notice of the Combined Organizational Meeting of the Board of Directors and Shareholders. The Secretary was instructed to insert the Waiver into the minute book of the corporation.

Upon motion duly made, seconded and unanimously carried, the following resolutions were adopted by the initial Board of Directors:

ARTICLES OF INCORPORATION

RESOLVED, that the Articles of Incorporation of the Corporation as filed with the Idaho Secretary of State on December 1, 2004 bearing the Idaho Secretary of State's filing number C157537, be inserted into the Corporate Record and Minute Book, and that the contents of the Articles of Incorporation are hereby accepted and ratified by this Board of Directors.

BYLAWS

RESOLVED, that the Bylaws submitted to and reviewed by the Board of Directors be, and hereby are, adopted as the Bylaws of the Corporation for the regulation of the affairs of the Corporation.

FURTHER RESOLVED, that the Secretary certify said Bylaws as having been adopted as of the date of this meeting and action of the Corporation, and insert the Bylaws into the Corporate Record and Minute Book.

ELECTION OF OFFICERS

RESOLVED, that the following persons are hereby elected to the offices set forth opposite their respective names, and the persons shall serve in office until their successors are duly elected and qualified:

F.N. McGHEE	President
MICKIE McGHEE	Vice-President
MICKIE McGHEE	Secretary
MICKIE McGHEE	Treasurer

The President then assumed the position of chair of the meeting and the Secretary then assumed the responsibilities of the secretary of the meeting.

CORPORATE RECORD AND MINUTE BOOK

RESOLVED, that the Corporation shall maintain, as part of the corporate records, a Corporate Record and Minute Book, which shall contain the Articles of Incorporation and amendments thereto, the Bylaws and amendments thereto, minutes of all meetings held by the Corporation's Directors and/or Shareholders and notice thereof or waiver of notice.

FURTHER RESOLVED, that the Secretary of the Corporation is directed to procure and maintain said Corporate Record and Minute Book and other such books and records as may be required or appropriate.

ADOPTION OF SEAL

RESOLVED, that a corporate seal consisting of the name of the Corporation is adopted as the seal of the Corporation.

QUALIFICATION TO DO BUSINESS

RESOLVED, that the appropriate officers of the Corporation be, and hereby are, authorized, empowered, and directed in the name of and on behalf of the Corporation to prepare or cause to be prepared, verified, and filed, and to take any and all other actions they deem necessary or advisable in order to obtain in the name of the Corporation, any and all licenses and permits,

taxes and otherwise, as may be required and/or necessary for the conduct of the business of the Corporation by any federal, state, county, or municipal governmental statute, ordinance, or regulation, and to transact business in compliance with the laws and regulations of any appropriate federal, state, county, or municipal governmental authority, and that any such action previously taken by the incorporator or promoter of the Corporation in this respect be, and it hereby is, approved, ratified, adopted, and confirmed.

ADOPTION OF ACCOUNTING YEAR

RESOLVED, that the first accounting year of the Corporation is hereby fixed from the date of receipt of the Certificate of Incorporation from the Idaho Secretary of State to December 31, 2004, and thereafter the accounting year of the Corporation shall end on December 31 of each year.

PAYMENTS OF EXPENSES OF INCORPORATION

WHEREAS, the Corporation or incorporator or promoter have incurred certain expenses and paid certain fees in connection with the incorporation and organization hereof, and the Treasurer has presented the Board with a report of such expenses and fees, which have been reviewed by the Corporation, and the members of the Board are informed and believe that said report accurately reflects all of those costs reasonably incurred in

connection with the incorporation and organization of the Corporation;

RESOLVED, that the Treasurer is authorized and directed to pay all costs of the incorporation and organization of the Corporation, and to reimburse the persons advancing funds on behalf of the Corporation for expenses and fees paid, as set forth in the report given.

SUBCHAPTER "S" ELECTION

WHEREAS, after a discussion of the benefits to the Corporation and the shareholders of the Corporation being taxed as a Subchapter "S" corporation within the meaning of the Internal Revenue Code,

RESOLVED, that the Corporation elect tax treatment pursuant to Subchapter "S" of the Internal Revenue Code;

FURTHER RESOLVED, that the officers of the Corporation are authorized and directed to prepare all documents and election necessary to effectuate the election herein.

ISSUANCE OF COMMON STOCK & DEBT

WHERE AS, as part of the initial organization of the Corporation, the Corporation agrees it has received value in the form of real estate and money from F.N. & Mickie McGhee which includes but is not limited to the following:

- | | |
|--|-------------|
| 1. Real Estate
(Lot 10 and Well Lot Lease on Lot 9) | \$40,000.00 |
| 2. Well Distribution (Bronson) | \$11,370.00 |
| 3. Distribution System (Normco) | \$8,915.00 |

4. Well house	\$6,000.00
5. Pump, Pressure, Electrical	\$16,910.00
6. Engineering	\$1,800.00
7. Legal	\$3,500.00
8. Miscellaneous (Not specified yet)	
	TOTAL: <u>\$88,500.00</u>

For and in consideration of the \$88,500.00 the Corporation and McGhees agree that \$5,000.00 shall be capitalization money for which the Corporation shall issue STOCK to McGhees. The remaining \$83,500.00 shall be on a loan from the McGhees to the Corporation to be repaid upon a Promissory Note plus 5% interest, due on demand in whole or in part, and if no demand then all due _____, 2010.

WHEREAS, the corporation is authorized by the Articles of Incorporation to issue 500,000 shares of common stock, and it is deemed in the best interest of the Corporation to issue common stock to the persons in the amounts and for the consideration set forth herein:

F.N. MCGHEE and MICKIE MCGHEE, husband and wife:
100,000 shares

RESOLVED, that the officers of the Corporation are authorized and directed to issue the shares of common stock as set forth herein, and said shares of stock shall be evidenced in accordance with the Bylaws.

FURTHER RESOLVED, that the Board of Directors in the exercise of its business judgment determined that the fair value

to the Corporation of the consideration received for the issuance of the shares is sufficient.

FURTHER RESOLVED, that the officers of the Corporation are authorized and directed to issue a promissory note as set forth herein.

DESIGNATION OF BANK

WHEREAS, the Corporation will be benefited by the designation of a bank and the establishment of an account or accounts into which the funds of the Corporation be deposited, and which may be withdrawn for the transaction of the business of the Corporation.

RESOLVED, that the officers of the Corporation are authorized and directed to select a bank as a depository and establish an account or accounts that are necessary or appropriate for the conduct of the business of the Corporation.

FURTHER RESOLVED, that the establishment of any and all accounts prior to incorporation is hereby ratified and the incorporator is hereby released.

Upon motion duly made, seconded and unanimously carried, the following resolutions were adopted by the Shareholders:

ELECTION OF DIRECTORS

RESOLVED, that the following persons are hereby elected as Directors of the Corporation, and the persons shall serve in office until their successors are duly elected and qualified:

F.N. McGHEE:
MICKIE McGHEE:

Director and Chairman
Director

ADJOURNMENT

THERE being no further business to come before the meeting,
the meeting was adjourned upon motion duly made, seconded and
unanimously carried by the Board of Directors and Shareholders.

DATED this _____ day of February, 2005.

F.N. McGHEE
PRESIDENT

MICKIE McGHEE
SECRETARY

APPROVED BY THE DIRECTORS and SHAREHOLDERS this _____ day
of February, 2005:

F.N. McGHEE
DIRECTOR & SHAREHOLDER

MICKIE McGHEE
DIRECTOR & SHAREHOLDER

BY-LAWS
OF
KOOTENAI HEIGHTS WATER SYSTEM, INC.

ARTICLE I
Offices

The principal office of the Corporation in the State of Idaho shall be located in Bonner County. The Corporation may have such other offices, either within or without the State of Idaho, as the Board of Directors may designate or as the business of the Corporation may require from time to time.

ARTICLE II
Shareholders

Section 1. Annual Meeting: The annual meeting of the shareholders shall be held on the 30th day of June, in each year, beginning in the year 2005 at the hour of 10:00 a.m., for the purpose of electing directors and for the transaction of such other business as may come before the meeting. If the fixed date for the annual meeting shall be a legal holiday in the State of Idaho, such meeting shall be held on the next succeeding business day. If the election of directors shall not be held on the day designated herein for any annual meeting of the shareholders, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the shareholders as soon thereafter as conveniently may be.

Section 2. Special Meetings: Special meetings of the

shareholders may be called at any time for any purpose unless otherwise prescribed by statute, by the President or by the Board of Directors. If more than eighteen months are allowed to elapse without the annual shareholders' meeting being held, any shareholder may call such meeting to be held at the registered office of the Corporation. At any time upon written request of any director, or of any shareholder or shareholders, holding in the aggregate one-fifth of the voting power of all shareholders, it shall be the duty of the Secretary to call a special meeting of the shareholders to be held at the registered office at such time as the Secretary may fix, no less than ten, nor more than thirty-five days after the receipt of such request, and if the Secretary shall neglect or refuse to issue such call, the director or shareholder or shareholders making the request may do so.

Section 3. Place of Meeting: The Board of Directors may designate any place, either within or without the State of Idaho, as the place of meeting for any annual meeting or for any special meeting called by the Board of Directors. A waiver of notice signed by all shareholders entitled to vote at a meeting may designate any place, either within or without the State of Idaho, as the place for the holding of such meeting. If no designation is made, or if a special meeting be otherwise called, the place of meeting shall be the registered office of the Corporation in the State of Idaho.

Section 4. Notice of Meeting: Written or printed notice stating the place, day, and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten, nor more than fifty days before the date of the meeting, either personally or by mail, by or at the direction of the President or the Secretary, or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the shareholder at his address as it appears on the stock transfer books of the Corporation, with postage thereon prepaid.

Section 5. Closing of Transfer Books or Fixing of Record Date: For the purpose of determining shareholders entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors of the Corporation may provide that the stock transfer books shall be closed for a stated period, but not to exceed, in any case, forty days. If the stock transfer books shall be closed for the purpose of determining shareholders entitled to notice of or to vote at a meeting of shareholders, such books shall be closed for at least forty days immediately preceding such meeting. In lieu of closing the stock transfer books, the Board of Directors may fix, in advance, a date as the

record date for any such determination of shareholders, such date in any case to be not more than forty days and, in case of a meeting of shareholders, not less than thirty days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken. If the stock transfer books are not closed and no record date is fixed for the determination of shareholders, or of shareholders entitled to receive payment of dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such dividends is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof except where the determination has been made through the closing of the stock transfer books and the stated period of closing has expired.

Section 6. Quorum: A simple majority of the outstanding shares of the Corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders. If less than a majority of the outstanding shares are represented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which

might have been transacted at the meeting as originally notified. The shareholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Section 7. Proxies: At all meetings of shareholders, a shareholder may vote by proxy executed in writing by the shareholder or by his duly authorized attorney in fact. Such proxy shall be filed with the Secretary of the Corporation before or at the time of the meeting. No proxy shall be valid after eleven months from the date of its execution, unless otherwise provided by the proxy.

Section 8. Voting of Shares: Subject to the provisions of Section 9 of this Article II, each outstanding share entitled to vote shall be entitled to one vote upon each matter submitted to a vote at a meeting of the shareholders.

Section 9. Cumulative Voting: At each election for directors, every shareholder entitled to vote at such election shall have the right to vote, in person or by proxy, the number of shares owned by him for as many persons as there are directors to be elected and for whose election he has a right to vote, or to cumulate his votes by giving one candidate as many votes as the number of such directors multiplied by the number of his shares shall equal, or by distributing such votes on the same principle among any number of candidates.

Section 10. Informal Action by Shareholders: Any action required to be taken at a meeting of the shareholders, or any other action which may be taken at a meeting of the shareholders, may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the shareholders entitled to vote with respect to the subject matter thereof. Said consent may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

ARTICLE III
Board of Directors

Section 1. General Powers: The business and affairs of the Corporation shall be managed by its Board of Directors.

Section 2. Number, Tenure, and Qualifications: The number of directors of the Corporation shall be no less than one, nor more than nine (9), as set from time to time by the Board of Directors. Each director shall hold office until the next annual meeting of the shareholders and until their successor shall have been elected and qualified. Directors need not be residents of the State of Idaho or shareholders of the Corporation.

Section 3. Regular Meetings: A regular meeting of the Board of Directors shall be held without notice other than by this by-law, immediately after and at the same place, as the annual meeting of the shareholders. The Board of Directors may provide, by resolution, the time and place, either within or without the

State of Idaho, for the holding of additional regular meetings without other notice than such resolution.

Section 4. Special Meetings: Special meetings of the Board of Directors may be called by or at the request of the President or any two directors. The person or persons authorized to call special meetings of the Board of Directors may fix any place, either within or without the State of Idaho, as the place for holding any special meeting of the Board of Directors called by them.

Section 5. Notice: Notice of any special meeting shall be given at least three days prior thereto by written notice delivered personally or mailed to each director at his business address, or by telegram. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail so addressed, with postage thereon prepaid. If notice be given by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company. Any director may waive notice of any meeting. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice

or waiver of notice of such meeting.

Section 6. Quorum: A majority of the number of directors fixed by section 2 of this Article III shall constitute a quorum for the transaction of business at any meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

Section 7. Manner of Acting: The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

Section 8. Committees: The Board of Directors may establish committees from time to time for the purpose of consideration of a particular issue or matter.

Section 9. Removal of Directors: Any or all of the directors may be removed for cause detrimental to the best interest of the Corporation by a majority vote of the Shareholders or any majority vote of the Board.

Section 10. Vacancies: Any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors. A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office.

Section 11. Increase in Directors: Any directorship to be filled by reason of an increase in the number of directors shall be filled by election at an annual meeting or at a special meeting

of shareholders called for the purpose.

Section 12. Presumption of Assent: A director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the Secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

ARTICLE IV Officers

Section 1. Number: The officers of the Corporation shall be a President, a Vice-President, a Secretary, and a Treasurer, each of whom shall be elected by the Board of Directors. The Secretary and Treasurer may be combined into one person. Any two (2) or more offices may be held by the same person, except President and Secretary. Such other officers, assistant officers, and managers as may be deemed necessary may be elected or appointed by the Board of Directors. Officers need not be residents of Idaho or shareholders of the Corporation.

Section 2. Election and Term of Offices: The Officers of the Corporation to be elected by the Board of Directors shall be

elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of the shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Each officer shall hold office until his successor shall have been duly elected and shall have qualified or until his death or until he shall resign or shall have been removed in the manner hereinafter provided.

Section 3. Removal: Any officer or agent elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the Corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed.

Section 4. Vacancies: A vacancy in any office because of death, resignation, removal, disqualification, or otherwise, may be filled by the Board of Directors for an unexpired portion of the term.

Section 5. President: The President shall be the principal executive officer of the Corporation and, subject to the control of the Board of Directors, shall in general supervise and control all of the business affairs of the Corporation. The President shall, when present, preside at all the meetings of the shareholders and of the Board of Directors. The President may

sign, with the Secretary or any other proper officer of the Corporation thereunto authorized by the Board of Directors, certificates for shares of the Corporation, any deeds, mortgages, bonds, contracts, or other instruments which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these by-laws to some other officer or agent of the Corporation, or shall be required by law to be otherwise signed or executed, and in general shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors from time to time.

Section 6. Vice-President: In the absence of the President, the Vice-President shall assume the duties of President.

Section 7. Secretary: The Secretary shall, a) keep the minutes of the shareholders' meetings and of the Board of Directors' meetings in one or more books provided for that purpose; b) see that all notices are duly given in accordance with the provisions of these by-laws as required by law; c) be custodian of corporate records and of the seal of the Corporation and see that the seal of the Corporation is affixed to all documents, the execution of which on behalf of the Corporation under its seal is duly authorized; d) keep a register of the post office address of each shareholder which shall be furnished to the Secretary by such stockholder; e) sign with the President,

certificates for shares of Corporation, the issuance of which shall have been authorized by resolution of the Board of Directors; f) have general charge of the stock transfer books of the Corporation; g) in general shall perform all duties as from time to time may be assigned to him by the President or by the Board of Directors.

Section 8. Treasurer: If required by the Board of Directors, the Treasurer shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the Board of Directors shall determine. The Treasurer shall, a) have charge and custody of and be responsible for all funds and securities of the Corporation; b) receive and give receipts for monies due and payable to the Corporation from any source whatsoever, and deposit all such moneys in the name of the Corporation in such banks, trust companies, or other depositories as shall be selected in accordance with the provisions of Article V of these by-laws; and c) in general shall perform all the duties incident to the office of the Treasurer and such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

Section 9. Assistant Secretaries and Assistant Treasurers: The Assistant Secretaries, when authorized by the Board of Directors, may sign with the President, certificates for shares of the Corporation, the issuance of which shall have been authorized by a resolution of the Board of Directors. The Assistant

Treasurers shall respectively, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine. The Assistant Secretaries and Assistant Treasurers, in general, shall perform such duties as shall be assigned to them by the Secretary or the Treasurer, respectively, or by the President or the Board of Directors.

Section 10. Salaries: The salaries or compensation of the officers, or any agent that may be necessary for the business of the Corporation who are appointed by the Board of Directors, shall be fixed from time to time by the Board of Directors, and no officer or agent shall be prevented from receiving such salary by reason of the fact that he or she is also a director of the Corporation.

ARTICLE V
Contracts, Loans, Checks, and Deposits

Section 1. Contracts: The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

Section 2. Loans: No loans shall be contracted on behalf of the Corporation and no evidence of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific

instances.

Section 3. Checks, Drafts, Etc: All checks, drafts, or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents, of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

Section 4. Deposits: All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies, or other depositories as the Board of Directors may select.

ARTICLE VI
Shares and their Transfer

Section 1. Certificateless Shares: The shares of the Corporation shall be without certificates. The name and address of the person to whom the shares are issued and the date of issue, shall be entered on the stock transfer books of the Corporation.

Section 2. Transfer of Shares: Transfer of shares of the Corporation shall be made only on the stock transfer books of the Corporation by the holder of record thereof or by his legal representative, who shall furnish proper evidence of authority to transfer, or by his attorney thereto authorized by power of attorney duly executed and filed with the secretary of the Corporation, and on surrender of written evidence transfer for such shares. The person in whose name shares stand in the books

of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes.

ARTICLE VII
Fiscal Year

The fiscal year of the Corporation shall begin on the first day of January and end on the thirty-first day of December in each year.

ARTICLE VIII
Dividends

The Board of Directors may from time to time declare, and the Corporation may pay, dividends on its outstanding shares in the manner and upon the terms and conditions by law and its Articles of Incorporation.

ARTICLE IX
Seal

The Corporation may operate with a seal, but is not required to do so.

ARTICLE X
Waiver of Notice

Whenever any notice is required to be given to any shareholder or directors of the Corporation under the provisions of these by-laws or under the provisions of the Articles of Incorporation or under the provisions of the Idaho Code, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

ARTICLE XI
Amendments

These by-laws may be amended by the Board of Directors at any regular or special meeting of the Board of Directors.

ARTICLE XII
Power to Borrow Money

The Board of Directors shall have the power to borrow money for the purpose of meeting the Corporation's obligations in connection with the ownership, operation, repair, maintenance, and control of its property, and in connection with the operation of the business.

CERTIFICATION

KNOW ALL MEN BY THESE PRESENTS, that I, the undersigned Secretary of the Corporation, MICKIE MCGHEE, do hereby certify that the above and foregoing by-laws were duly adopted as the by-laws of said Corporation on the _____ day of February, 2005, and that the same do now constitute the by-laws of said Corporation.

MICKIE MCGHEE
Secretary

ATTEST:

F.N. MCGHEE
President

1"=300'



KOTTENA HEIGHTS

WELL

SECOND AVENUE

SPokane International RR

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GARY A. FINNEY
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Attorneys at Law
Old Power House Building
120 E. Lake Street, Suite 317
Sandpoint, Idaho 83864
Telephone: (208) 263-7712
Facsimile: (208) 263-8211

FILED BY
Conroy
2005 JAN 14 P 3:36
Lo
MARIE SCOTT
BONNER COUNTY RECORDER
de DEPUTY

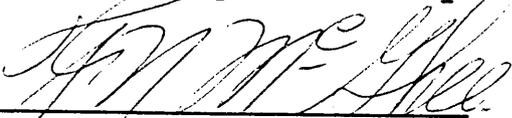
668254

CERTIFICATION

(Idaho Code §55-1334(3))

Kootenai Heights Water Association, Inc. certifies that it complies with Idaho Code §55-1334(3) and that it has Lot 10 Kootenai Heights as its well site and distribution owned free and clear and it has paid for the well and entire distribution system in cash and that it has sufficient capital to provide water service without further connection charges or fees, except for being paid the hook up connection fee and the monthly users fee for each Lot.

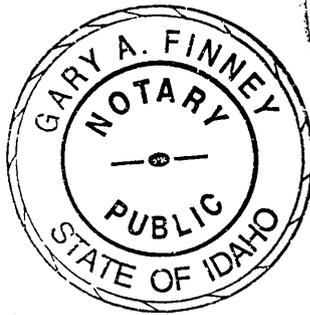
Kootenai Heights Water System, Inc.:



By: F.N. McGhee
President

STATE OF IDAHO)
 :
 COUNTY OF BONNER) ss.

On this 14 day of JANUARY, 2005, before me the undersigned Notary Public, personally appeared, F.N. McGhee, and proved to me on the basis of satisfactory evidence, to be the President of the corporation that executed the instrument or the person who executed the instrument on behalf of the corporation and acknowledged to me that such corporation executed as the same.



Gary A. Finney
Notary Public-State of Idaho
Residing at: Sandpoint
My Commission Expires: OCT 14, 2005

GARY A. FINNEY
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Attorneys at Law
Old Power House Building
120 E. Lake Street, Suite 317
Sandpoint, Idaho 83864
Telephone: (208) 263-7712
Facsimile: (208) 263-8211

FILED BY
Finney
2005 JAN 14 P 3:35
MARIE SCOTT
DONNER COUNTY RECORDER

MS DEPUTY

668253

CLARIFICATION - MODIFICATION OF A PLAT OF KOOTENAI HEIGHTS

(RECORDED NOVEMBER 6, 1995, BOOK 5 PAGE 88 OF PLATS, INSTRUMENT
NO. 475515)
(To Be Recorded)

Platting Owners: Floyd McGhee & Mickie McGhee

The undersigned hereby state, declare, clarify, and modify
the Plat of Kootenai Heights, as follows:

1. The above described Plat of Kootenai Heights, page 2
states:

"Water Service Note"

The Lots as shown on the plat will be serviced by the City of
Sandpoint Water System.

2. Subsequent to the Plat it was determined that the City
of Sandpoint would serve water to the eastern one-half of the
Plat, Lots (19-36), and Lots 1, 2 & 3 of the western lots, but
would not serve the remaining Lots.

3. This is to clarify that since the inception of the Plat
to the present date, the City of Sandpoint has not and does not
agree to furnish City of Sandpoint Water Service to Lots 4 though

GARY A. FINNEY
FINNEY FINNEY & FINNEY, P.A.
Attorneys at Law
Old Power House Building
120 E. Lake Street, Suite 317
Sandpoint, Idaho 83864
Telephone: (208) 263-7712
Facsimile: (208) 263-8211

FILED BY
Finney
2005 JAN 14 P 3:34
MARIE SCOTT
BONNER COUNTY RECORDER

668252

MS DEPUTY

KOOTENAI HEIGHTS WELL LOT LEASE

(To Be Recorded)

LESSORS: (For a Portion of Lot 9, Kootenai Heights)
Floyd & Mickie McGhee, Husband & Wife

LESSEE: Kootenai Heights Water System, Inc.

For and in consideration of the terms and conditions herein set forth the Lessor & Lessee agree, as follows:

1. The Lessee owns Lot 10 of the Plat of Kootenai Heights, and has developed a well and water distribution system.
2. As a part of the Well Site Plan a copy of which is attached hereto, the 50-foot radius results in a circular overlap onto Lot 9, for the purpose of a setback and clear zone for the Well Site Plan.
3. The Lessors hereby grant a long-term lease to the Kootenai Heights Water System, inc., Lessee for the portion of Lot 9 of Kootenai Heights for the area shown on the Well site Plan within the "cross-hatch" area depicted therein as "LEASE".
4. This Lease shall extend and be in force and effect for such long-term as the Kootenai Heights Water System operates on Lot 10 and this Lease only expires when the Lot 10 ceases to be

used as a water system for the Lots in the Kootenai Heights Subdivision.

Lessors:

Floyd McGhee
Floyd McGhee

Lessee:

F.N. McGhee
By: F.N. McGhee
President

Mickie McGhee
Mickie McGhee

STATE OF IDAHO)
 :
 ss.
COUNTY OF BONNER)

On this 14 day of JANUARY, 2005, before me the undersigned Notary Public, personally appeared, F.N. McGhee, and proved to me on the basis of satisfactory evidence, to be the President of the corporation that executed the instrument or the person who executed the instrument on behalf of the corporation and acknowledged to me that such corporation executed as the same.



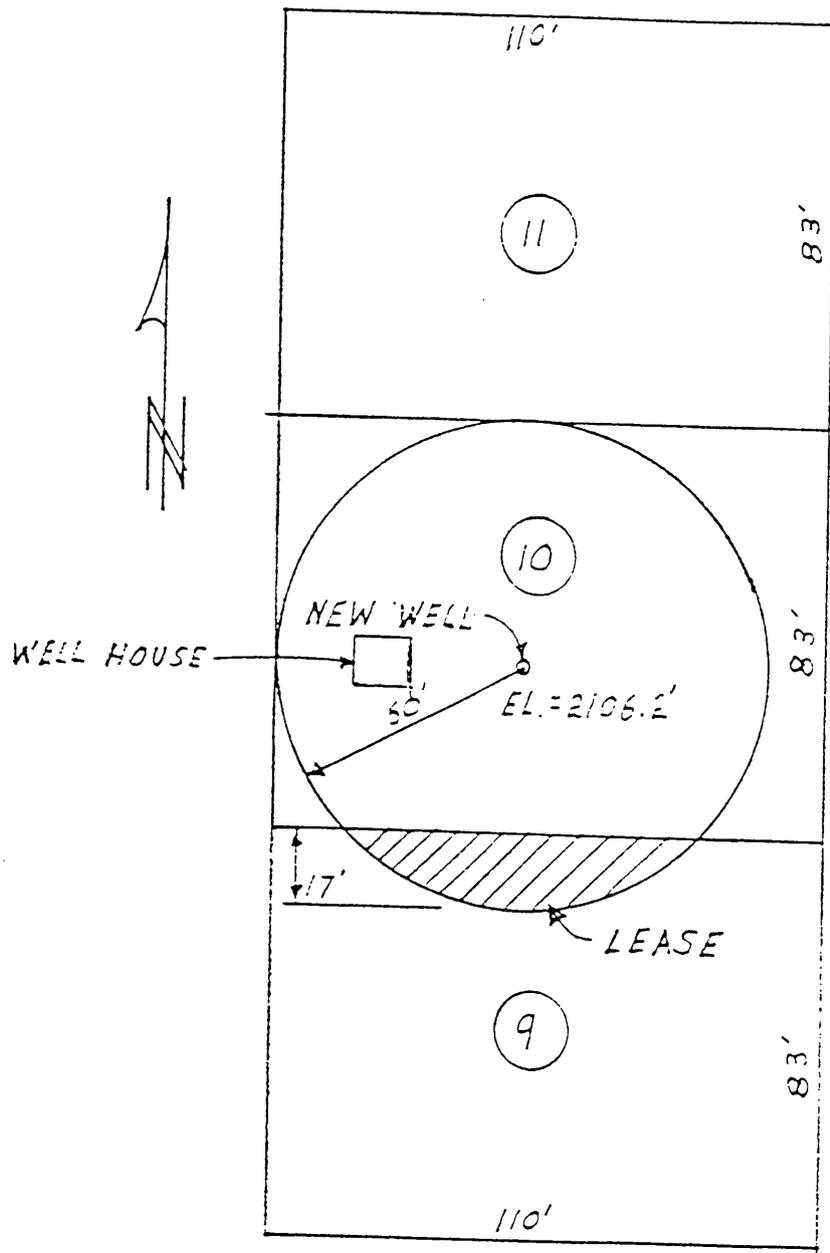
Gary A. Finney
Notary Public-State of Idaho
Residing at: Sandpoint
My Commission Expires: OCT 14, 2015

STATE OF IDAHO)
 :
 ss.
COUNTY OF BONNER)

On this 14TH day of JANUARY, 2005 before me, the undersigned Notary Public, personally appeared, Floyd McGhee and Mickie McGhee, known to me, or proved to me on the basis of satisfactory evidence, to be the person whose name is subscribed to the within instrument and acknowledged to me that they executed the same.



Gary A. Finney
Notary Public-State of Idaho
Residing at: Sandpoint
My Commission Expires: OCT 14, 2005



LOT 10 KOOTENAI HEIGHTS

WELL SITE PLAN

1" = 40'

8" DIA.
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SCREEN IN C

GARY A. FINNEY
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Attorneys at Law
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Recorded 1/14/05
Instrument No. 668253

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(RECORDED NOVEMBER 6, 1995, BOOK 5 PAGE 88 OF PLATS, INSTRUMENT
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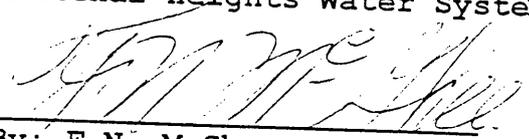
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CERTIFICATION

(Idaho Code §55-1334(3))

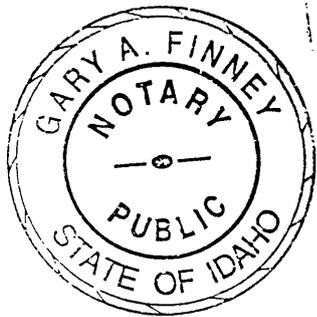
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Kootenai Heights Water System, Inc.:


By: F.N. McGhee
President

STATE OF IDAHO)
 : ss.
COUNTY OF BONNER)

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Gary A. Finney
Notary Public-State of Idaho
Residing at: Sandpoint
My Commission Expires: OCT 14, 2005

**SEE FILE FOR OVERSIZED
PAGE WITH DIAGRAM
SHOWING WELL DETAIL**



STATE OF IDAHO
DEPARTMENT OF
ENVIRONMENTAL QUALITY

2110 Ironwood Parkway • Coeur d'Alene, Idaho 83814-2648 • (208) 769-1422

January 6, 2005

RECEIVED JAN 07 2005

Mr. Floyd N. McGhee
Kootenai Heights Water System, Inc.
P.O. Box 1925
Sandpoint, ID 83864

① rec by fax
② mail any

Dirk Kempthorne, Governor
Toni Hardesty, Director

copy original

RE: **Conditional Approval of As-built Plans, Kootenai Heights Drinking Water System**

Dear Mr. McGhee:

As-built plans submitted on December 9, 2004, as certified by Lou Vermeer, P.E., for completion of the public drinking water system serving eleven (11) residential connections consisting of Lots 7-9 and 11-18 of the Kootenai Heights subdivision located in the City of Kootenai of Bonner County have been reviewed. The as-built plans have been compared to the construction plans and specifications as previously reviewed on November 28, 2004 but not approved for construction purposes by DEQ. This water system was constructed without DEQ approval of plans and specifications.

The submitted as-builts are hereby approved per Section 39-118 of Idaho Code as the record drawings for this project, contingent upon your full compliance to the satisfaction of DEQ within thirty (30) days of the date of this letter of the following items:

1. **Well Lot Lease:** A copy of the executed and recorded long-term well lot lease between the water system owner, Kootenai Heights Water System, Inc., and the owner of Lot 9 of Kootenai Heights subdivision must be submitted to DEQ. This lease area is identified on the as-built plans and is necessary to establish the fifty (50) foot well lot radius around the water supply well as required by the Idaho Rules for Public Drinking Water Systems (Rules). The format of the unsigned copy submitted to our office by your attorney is acceptable.
2. **Water Quality Results:** Evidence must be submitted that water from the Lot 10 well serving this public drinking water system has been sampled and can be determined to be in compliance with drinking water standards specified by the Rules. These samples must include the following parameters:
 - Phase II & V inorganic chemical analysis (also include nitrate and nitrite),
 - Corrosivity,
 - Phase II & V volatile organic compounds,
 - Phase II & V synthetic organic compounds,
 - Quarterly radiological contaminants for one year.
 - Total Coliform Bacteria, and
 - Iron.

The sampling results of the monitoring completed from the well on December 9, 2004 were received by our office January 4, 2005. Results of the sampling analysis indicate that you failed to sample for

radiological contaminants, and that one synthetic organic contaminant was detected in excess of the maximum contaminant level. You must complete quarterly monitoring for radiological contaminants (Gross Alpha emitters, radium 226 and separately radium 228) and synthetic organic contaminants during the 2005 year. All other results were within acceptable parameters.

The synthetic organic contaminant exceedence is a violation and requires public notification. This is referred to as a tier 2 violation, notification must be made to your customers within 30 days of the date of this letter. This notification has specific requirements which can be found in the Public Notification Handbook. This handbook can be found on-line at:

<http://www.epa.gov/safewater/pws/pn/handbook.pdf>

3. **Certified Operator:** Documentation must be provided in the form of a signed employment contract and copy of the operator's certificate indicating that a properly certified water system operator has been hired by Kootenai Heights Water System Inc. to operate and maintain this new drinking water system. Compensation need not be included in the copy of the contract documentation.
4. **Water System Ownership:** A copy of the Articles of Incorporation, Quitclaim Deed to Lot 10, draft Water Service Agreement and Easement by Kootenai Heights Water System, Inc., as referenced in items 3a of Attorney Gary Finney's December 3, 2004 letter to DEQ, must be provided.

This transmittal needs to also reflect your compliance as the property developer with Section 50-1334(3) of Idaho Code as quoted below:

"(3) If a new water system will come into being to serve the subdivision, that it has or will have sufficient contributed capital to allow the water system's wells, springboxes, reservoirs and mains to be constructed to provide service without further connection charges or fees to the landowners of the lots, except for connection of laterals, meters or other plant exclusively for the lot owner's own use."

The unsigned copy of your draft Water Service Agreement, and Certification of Compliance with Section 50-1334 submitted to our office does not appear to be in accordance with Section 50-1334. However since this is not our jurisdiction we have referred this to the Public Utilities Commission.

5. **Revision of Original Plat:** The lots served by the Kootenai Heights Water System, Inc. specifically lots 7-9 and 11-18 were originally platted with water service to be provided by the City of Sandpoint water system. Sanitary restrictions were released by Panhandle Health District, in accordance with Section 50-1326 of Idaho Code, based on this assumption of service. We have received an unsigned copy of a document titled "Clarification – Modification of a Plat of Kootenai Heights prepared by your attorney. This document should be revised to reflect the actual service provider and recorded.

If you will immediately provide DEQ with a written statement that you are in agreement with and will satisfy the five as-built approval contingencies listed above, we are prepared to notify the City of Kootenai that DEQ has no objection to issuance of occupancy permits pending for residences served by this water system. We understand that your actions in this matter have resulted in two families being unable to occupy their new homes and being forced to live in temporary housing, while you attempt to correct the violations incurred by your actions which caused the disruption.

RE: **Conditional Approval of As-built Plans, Kootenai Heights Temporary Drinking Water System**
December 21, 2004
Page 3

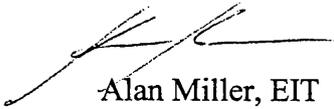
Once this office has received and accepted the information needed to satisfy the five contingencies listed above, a sanitary survey of this new drinking water system in the presence of the certified operator can be conducted by DEQ so that an approval designation can be assigned. Many lending institutions rely on DEQ approval of water systems to certify the adequacy of water systems serving their mortgaged properties.

Your failure to satisfy the as-built approval contingencies listed above may result in disapproval of the water system, as specified in the Rules, and submittal of an enforcement referral to the Idaho Attorney General assigned to DEQ.

Finally, from the DEQ's perspective you have exhibited a chronic disregard of applicable state law and public health and safety rules throughout the development of this water system. Installing this water system without securing DEQ approval of plans and specifications may have compromised your engineer's professional license under the Rules of Professional Responsibility (IDAPA 10.01.02) and has clouded Mr. Vermeer's reputation with this department. All future development must be in full accordance with Idaho Rules for Public Drinking Water Systems (Rules), and Idaho Code 39-118. This begins with an engineering report defining the scope of the project.

We look forward to receiving your immediate written response to this letter and, hopefully, your specific response that fulfills five contingencies within thirty (30) days of the date of this letter.

Sincerely,



Alan Miller, EIT
Associate Engineer

- c: Senator Shawn Keough, P.O. Box 101, Sandpoint, ID 83864
Margaret Mjelde, City of Kootenai, PO Box 566, Kootenai, ID 83840
Lou Vermeer, P.E., 11647 Baldy Mtn. Road, Sandpoint, ID 83864
Gary A. Finney Attorney at Law, 120 East Lake Street, Sandpoint, ID 83864
Kody Van Dyk, City of Sandpoint, 1123 Lake Street, Sandpoint, ID 83864
Gwen Fransen, Roger Tinkey, DEQ, CdA
File: Kootenai Heights (#8387_ L-2)

Election by a Small Business Corporation
(Under section 1362 of the Internal Revenue Code)

▶ See Parts II and III on back and the separate instructions.

- Notes:**
1. Do not file Form 1120S, U.S. Income Tax Return for an S Corporation, for any tax year before the year the election takes effect.
 2. This election to be an S corporation can be accepted only if all the tests are met under *Who May Elect* on page 1 of the instructions; all shareholders have signed the consent statement; and the exact name and address of the corporation and other required form information are provided.
 3. If the corporation was in existence before the effective date of this election, see *Taxes an S Corporation May Owe* on page 1 of the instructions.

Part I Election Information

Please Type or Print	Name of corporation (see instructions) KOOTENAI HEIGHTS WATER SYSTEM, INC.	A Employer identification number 20 2163044
	Number, street, and room or suite no. (If a P.O. box, see instructions.) 34215 HIGHWAY 200, P.O. BOX 1925	B Date incorporated DECEMBER 1, 2004
	City or town, state, and ZIP code SANDPOINT, ID 83864	C State of incorporation IDAHO
D Check the applicable box(es) if the corporation, after applying for the EIN shown in A above, changed its name <input type="checkbox"/> or address <input type="checkbox"/>		
E Election is to be effective for tax year beginning (month, day, year) ▶ 01 / 01 / 05		
F Name and title of officer or legal representative who the IRS may call for more information FLOYD N. MCGHEE		G Telephone number of officer or legal representative (208) 265-4440
H If this election takes effect for the first tax year the corporation exists, enter month, day, and year of the earliest of the following: (1) date the corporation first had shareholders, (2) date the corporation first had assets, or (3) date the corporation began doing business		
I Selected tax year: Annual return will be filed for tax year ending (month and day) ▶ DECEMBER 31, 2005 If the tax year ends on any date other than December 31, except for a 52-53-week tax year ending with reference to the month of December, you must complete Part II on the back. If the date you enter is the ending date of a 52-53-week tax year, write "52-53-week year" to the right of the date.		

J Name and address of each shareholder; shareholder's spouse having a community property interest in the corporation's stock; and each tenant in common, joint tenant, and tenant by the entirety. (A husband and wife (and their estates) are counted as one shareholder in determining the number of shareholders without regard to the manner in which the stock is owned.)	K Shareholders' Consent Statement. Under penalties of perjury, we declare that we consent to the election of the above-named corporation to be an S corporation under section 1362(a) and that we have examined this consent statement, including accompanying schedules and statements, and to the best of our knowledge and belief, it is true, correct, and complete. We understand our consent is binding and may not be withdrawn after the corporation has made a valid election. (Shareholders sign and date below.)		L Stock owned		M Social security number or employer identification number (see instructions)	N Shareholder's tax year ends (month and day)
	Signature	Date	Number of shares	Dates acquired		
FLOYD N. MCGHEE P.O. BOX 1925 SANDPOINT, ID 83864	<i>Floyd N. McGhee</i>	3/11/05	1	01/01/05		12/31
COMMUNITY INTEREST: MICKIE MCGHEE P.O. BOX 1925 SANDPOINT, ID 83864	<i>Mickie McGhee</i>	2/11/05		01/01/05		12/31

COPY

Under penalties of perjury, I declare that I have examined this election (including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Signature of officer ▶ *Floyd N. McGhee* Title ▶ **PRESIDENT**

Date ▶ *2/11/05*

Part II Selection of Fiscal Tax Year (All corporations using this part must complete item O and item P, Q, or R.)

- O** Check the applicable box to indicate whether the corporation is:
1. A new corporation adopting the tax year entered in item I, Part I.
 2. An existing corporation retaining the tax year entered in item I, Part I.
 3. An existing corporation changing to the tax year entered in item I, Part I.
- P** Complete item P if the corporation is using the automatic approval provisions of Rev. Proc. 2002-38, 2002-22 I.R.B. 1037, to request (1) a natural business year (as defined in section 5.05 of Rev. Proc. 2002-38) or (2) a year that satisfies the ownership tax year test (as defined in section 5.06 of Rev. Proc. 2002-38). Check the applicable box below to indicate the representation statement the corporation is making.
1. Natural Business Year ► I represent that the corporation is adopting, retaining, or changing to a tax year that qualifies as its natural business year as defined in section 5.05 of Rev. Proc. 2002-38 and has attached a statement verifying that it satisfies the 25% gross receipts test (see instructions for content of statement). I also represent that the corporation is not precluded by section 4.02 of Rev. Proc. 2002-38 from obtaining automatic approval of such adoption, retention, or change in tax year.
 2. Ownership Tax Year ► I represent that shareholders (as described in section 5.06 of Rev. Proc. 2002-38) holding more than half of the shares of the stock (as of the first day of the tax year to which the request relates) of the corporation have the same tax year or are concurrently changing to the tax year that the corporation adopts, retains, or changes to per item I, Part I, and that such tax year satisfies the requirement of section 4.01(3) of Rev. Proc. 2002-38. I also represent that the corporation is not precluded by section 4.02 of Rev. Proc. 2002-38 from obtaining automatic approval of such adoption, retention, or change in tax year.
- Note:** If you do not use item P and the corporation wants a fiscal tax year, complete either item Q or R below. Item Q is used to request a fiscal tax year based on a business purpose and to make a back-up section 444 election. Item R is used to make a regular section 444 election.
- Q** Business Purpose—To request a fiscal tax year based on a business purpose, you must check box Q1. See instructions for details including payment of a user fee. You may also check box Q2 and/or box Q3.
1. Check here ► if the fiscal year entered in item I, Part I, is requested under the prior approval provisions of Rev. Proc. 2002-39, 2002-22 I.R.B. 1046. Attach to Form 2553 a statement describing the relevant facts and circumstances and, if applicable, the gross receipts from sales and services necessary to establish a business purpose. See the instructions for details regarding the gross receipts from sales and services. If the IRS proposes to disapprove the requested fiscal year, do you want a conference with the IRS National Office?
 Yes No
 2. Check here ► to show that the corporation intends to make a back-up section 444 election in the event the corporation's business purpose request is not approved by the IRS. (See instructions for more information.)
 3. Check here ► to show that the corporation agrees to adopt or change to a tax year ending December 31 if necessary for the IRS to accept this election for S corporation status in the event (1) the corporation's business purpose request is not approved and the corporation makes a back-up section 444 election, but is ultimately not qualified to make a section 444 election, or (2) the corporation's business purpose request is not approved and the corporation did not make a back-up section 444 election.
- R** Section 444 Election—To make a section 444 election, you must check box R1 and you may also check box R2.
1. Check here ► to show the corporation will make, if qualified, a section 444 election to have the fiscal tax year shown in item I, Part I. To make the election, you must complete **Form 8716, Election To Have a Tax Year Other Than a Required Tax Year**, and either attach it to Form 2553 or file it separately.
 2. Check here ► to show that the corporation agrees to adopt or change to a tax year ending December 31 if necessary for the IRS to accept this election for S corporation status in the event the corporation is ultimately not qualified to make a section 444 election.

Part III Qualified Subchapter S Trust (QSST) Election Under Section 1361(d)(2)*

Income beneficiary's name and address	Social security number
Trust's name and address	Employer identification number
Date on which stock of the corporation was transferred to the trust (month, day, year) ► / /	

In order for the trust named above to be a QSST and thus a qualifying shareholder of the S corporation for which this Form 2553 is filed, I hereby make the election under section 1361(d)(2). Under penalties of perjury, I certify that the trust meets the definitional requirements of section 1361(d)(3) and that all other information provided in Part III is true, correct, and complete.

Signature of income beneficiary or signature and title of legal representative or other qualified person making the election _____ Date _____

*Use Part III to make the QSST election only if stock of the corporation has been transferred to the trust on or before the date on which the corporation makes its election to be an S corporation. The QSST election must be made and filed separately if stock of the corporation is transferred to the trust after the date on which the corporation makes the S election.



Form SS-4 (Rev. December 2001) Department of the Treasury Internal Revenue Service		Application for Employer Identification Number (For use by employers, corporations, partnerships, trusts, estates, churches, government agencies, Indian tribal entities, certain individuals, and others.) ▶ See separate instructions for each line. ▶ Keep a copy for your records.		EIN 20-2163044 OMB No. 1545-0003		
1* Legal name of entity (or individual) for whom the EIN is being requested KOOTENAI HEIGHTS WATER SYSTEM						
2 Trade name of business (if different from name on line 1)			3 Executor, trustee, "care of" name			
4a* Mailing address (room, apt., suite no. and street, or P.O. box) PO BOX 1925			5a Street address (if different) (Do not enter a P.O. box)			
4b* City, state, and ZIP code SANDPOINT ID 83864			5b City, state, and ZIP code			
6* County and state where principal business is located County BONNER State ID						
7a* Name of principal officer, general partner, grantor, owner, or trustor FN MCGHEE			7b* SSN, ITIN, EIN			
8a* Type of entity (check only one)						
<input type="checkbox"/> Sole Proprietor (SSN)		<input type="checkbox"/> Estate (SSN of decedent)		<input type="checkbox"/> Plan administrator (SSN)		
<input type="checkbox"/> Partnership		<input type="checkbox"/> Trust (SSN of grantor)		<input type="checkbox"/> National Guard		
<input checked="" type="checkbox"/> Corporation (enter form number to be filed) ▶ 1120 S		<input type="checkbox"/> Farmers' cooperative		<input type="checkbox"/> State/local government		
<input type="checkbox"/> Personal Service		<input type="checkbox"/> REMIC		<input type="checkbox"/> Federal government/military		
<input type="checkbox"/> Church or church-controlled organization		<input type="checkbox"/> Group Exemption NO. (GEN) ▶		<input type="checkbox"/> Indian tribal government/enterprises		
<input type="checkbox"/> Other nonprofit organization (specify) ▶		<input type="checkbox"/> Other (specify) ▶				
8b* If a corporation, name the state or foreign country (if applicable) where incorporated			State ID	Foreign country		
9* Reason for applying (check only one)						
<input checked="" type="checkbox"/> Started new business (specify type) ▶ REAL ESTATE		<input type="checkbox"/> Banking purpose (specify purpose) ▶		<input type="checkbox"/> Changed type of organization (specify new type) ▶		
<input type="checkbox"/> Hired employees (Check the box and see line 12)		<input type="checkbox"/> Purchased going business		<input type="checkbox"/> Created a trust (specify type) ▶		
<input type="checkbox"/> Compliance with IRS withholding regulations		<input type="checkbox"/> Created a pension plan (specify type) ▶				
<input type="checkbox"/> Other (specify) ▶						
10* Date business started or acquired (month, day, year) DEC 1 2004			11* Closing month of accounting year DEC			
12 First date wages or annuities were paid or will be paid (month, day, year) Note: if applicant is a withholding agent, enter date income will first be paid to nonresident alien. (month, day, year)						
13 Highest number of employees expected in the next twelve months Note: if the applicant does not expect to have any employees during the period, enter "-0-"						
			Agriculture 0	Household 0	Other 0	
14* Check box that best describes the principal activity of your business						
<input type="checkbox"/> Construction		<input type="checkbox"/> Rental & leasing		<input type="checkbox"/> Health care & social assistance		
<input checked="" type="checkbox"/> Real estate		<input type="checkbox"/> Transportation & warehousing		<input type="checkbox"/> Accommodation & food service		
<input type="checkbox"/> Other (specify)		<input type="checkbox"/> Manufacturing		<input type="checkbox"/> Finance & insurance		
				<input type="checkbox"/> Wholesale agent/broker		
				<input type="checkbox"/> Wholesale other		
15* Indicate principal line of merchandise sold; specific construction work done; products produced; or services provided. REAL ESTATE						
16a* Has the applicant ever applied for an employer identification number for this or any other business? Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> Note if "Yes" please complete lines 16b and 16c						
16b If you checked "Yes" on line 16a, give applicant's legal name and trade name shown on prior application if different from line 1 or 2 above.						
Legal name ▶						
Trade name ▶						
16c Approximate date when, and city and state where, the application was filed. Enter previous employer identification number if known.						
Approximate date when filed (month, day, year)		City and state where filed		Previous EIN		
Complete section only if you want to authorize the named individual to receive the entity's EIN and answer questions about the completion of this form						
Third Party Designee	Designee's name GARY A FINNEY ATTORNEY AT LAW			Designee's telephone number (include area code) (208) 263 - 7712		
	Address and ZIP code 120 E LAKE ST STE 317 SANDPOINT ID 83864			Designee's fax number (include area code) (208) 263 - 8211		
Under penalties of perjury, I declare that I have examined this application, and to the best of my knowledge and belief, it is true, correct, and complete.					Applicant's telephone number (include area code)	
Name and title (type or print clearly)						

▶ <u>FN MCGHEE PRESIDENT</u>			
Signature ▶ <u>Not Required</u>	Date ▶	January 14, 2005 GMT	(208) 265 - 4440
			Applicant's fax number (include area code)
			(208) 265 - 4440



Internal Revenue Service

DEPARTMENT OF THE TREASURY

The
Digital
Daily

Federal Tax ID / EIN

This is your provisional Employer Identification Number:

20-2163044

Today's Date is: January 14, 2005 GMT

You will receive a confirmation letter in U.S. mail within fifteen days.
The letter will also contain useful tax information for your business or organization.

If you have input any of the information on your application in error, please wait seven days and contact the EIN Toll Free area at 1-800-829-4933, Monday - Friday 7:30am - 5:30pm. If you do not want to call, please make corrections on the letter you receive confirming your EIN and return it to the IRS.

If you are going to complete other on-line applications that require your Employer Identification Number (EIN) you can copy it by performing the following steps:

- 1) Use your mouse to highlight your EIN (blue number on top of page) by moving your pointer on top of the number.
- 2) Press the Ctrl key at the same time pressing the C key.

Once you copy your EIN you can paste it in the appropriate place by pressing the Ctrl key at the same time pressing the V key.

You may click on the buttons below for different print options or to fill out another Form SS-4.

[Review and Print Form SS-4](#)

[Fill Out Another Form SS-4](#)

[Click here to return to the Internet Employer Identification Number landing \(start\) page.](#)

Application for Employer Identification Number

(For use by employers, corporations, partnerships, trusts, estates, churches, government agencies, Indian tribal entities, certain individuals, and others.)

EIN 20-2163044
 OMB No. 1545-0003

▶ See separate instructions for each line. ▶ Keep a copy for your records.

Type or print clearly.

1 Legal name of entity (or individual) for whom the EIN is being requested
Kootenai Heights Water System, Inc.

2 Trade name of business (if different from name on line 1)

3 Executor, trustee, "care of" name

4a Mailing address (room, apt., suite no. and street, or P.O. box)
P.O. Box 1925

5a Street address (if different) (Do not enter a P.O. box.)

4b City, state, and ZIP code
Sandpoint, ID 83864

5b City, state, and ZIP code

6 County and state where principal business is located
Bonner, Idaho

7a Name of principal officer, general partner, grantor, owner, or trustee
F.N. McGhee

7b SSN, ITIN, or EIN

8a Type of entity (check only one box)

Sole proprietor (SSN) _____

Partnership

Corporation (enter form number to be filed) ▶ 1120 S

Personal service corp.

Church or church-controlled organization

Other nonprofit organization (specify) ▶ _____

Other (specify) ▶ _____

Estate (SSN of decedent) _____

Plan administrator (SSN) _____

Trust (SSN of grantor) _____

National Guard State/local government

Farmers' cooperative Federal government/military

REMIC Indian tribal governments/enterprises

Group Exemption Number (GEN) ▶ _____

8b If a corporation, name the state or foreign country (if applicable) where incorporated

State Idaho Foreign country _____

9 Reason for applying (check only one box)

Started new business (specify type) ▶ _____

Banking purpose (specify purpose) ▶ _____

Changed type of organization (specify new type) ▶ _____

Purchased going business

Created a trust (specify type) ▶ _____

Created a pension plan (specify type) ▶ _____

Hired employees (Check the box and see line 12.)

Compliance with IRS withholding regulations

Other (specify) ▶ _____

10 Date business started or acquired (month, day, year)
12/1/04

11 Closing month of accounting year
December

12 First date wages or annuities were paid or will be paid (month, day, year). Note: If applicant is a withholding agent, enter date income will first be paid to nonresident alien. (month, day, year) _____

13 Highest number of employees expected in the next 12 months. Note: If the applicant does not expect to have any employees during the period, enter "0-"

_____ Agricultural Household Other

14 Check one box that best describes the principal activity of your business.

Construction Rental & leasing Transportation & warehousing Health care & social assistance Wholesale-agent broker

Real estate Manufacturing Finance & insurance Accommodation & food service Wholesale-other Retail

Other (specify) _____

15 Indicate principal line of merchandise sold; specific construction work done; products produced; or services provided.

16a Has the applicant ever applied for an employer identification number for this or any other business? Yes No
 Note: If "Yes," please complete lines 16b and 16c.

16b If you checked "Yes" on line 16a, give applicant's legal name and trade name shown on prior application if different from line 1 or 2 above.

Legal name ▶ _____ Trade name ▶ _____

16c Approximate date when, and city and state where, the application was filed. Enter previous employer identification number if known.

Approximate date when filed (mo., day, year) _____ City and state where filed _____ Previous EIN _____

Complete this section only if you want to authorize the named individual to receive the entity's EIN and answer questions about the completion of this form.

Third Party Designee

Designee's name
GARY A. FINNEY, ATTORNEY AT LAW

Designee's telephone number (include area code)
(208) 263-7712

Address and ZIP code
120 E. LAKE ST., STE 317 SANDPOINT, ID 83864

Designee's fax number (include area code)
(208) 263-8211

Under penalties of perjury, I declare that I have examined this application and to the best of my knowledge and belief it is true, correct, and complete.

Name and title (type or print clearly) ▶ F.N. McGhee

Signature ▶ [Signature] Date ▶ DEC. 21, 2004

Applicant's telephone number (include area code)
(208) 265-4440

Applicant's fax number (include area code)
(208) 265-4440

FILED EFFECTIVE



ARTICLES OF INCORPORATION

(General Business) 2004 DEC -1 05:06

(Instructions on back of application)

The undersigned, in order to form a Corporation under the provisions of Title 30, Chapter 1, Idaho Code, submits the following articles of incorporation to the Secretary of State.

Article 1: The name of the corporation shall be:

KOOTENAI HEIGHTS WATER SYSTEM, INC.

Article 2: The number of shares the corporation is authorized to issue: 500,000

Article 3: The street address of the registered office is: 34215 Highway 200, Sandpoint, ID 83864
and the registered agent at such address is: F. N. MCGHEE

Article 4: The name of the incorporator is: F. N. MCGHEE

and address of the incorporator is: F. N. MCGHEE PO Box 1925 Sandpoint ID 83864

Article 5: The mailing address of the corporation shall be:

P.O. BOX 1925, SANDPOINT, IDAHO 83864

Optional Articles:

Article 6: Corporate Purpose The Purpose for which this corporation is Organized is the transaction of any and all lawful business.

Article 7: Cumulative Voting All shareholders are entitled to cumulate their votes for directors.

Article 8: Preemptive Rights All shareholders are entitled to preemptive rights.

Signature of at least one incorporator:

Typed Name: FLOYD N. MCGHEE, PRESIDENT

Typed Name: _____

Customer Acct #:

(if us no personal accounts)

Secretary of State use only

RECEIVED 12/01/2004 05:00

IDAHO SECRETARY OF STATE
12/01/2004 05:00
CK: 10740 CT: 30773 BH: 779176
1 @ 100.00 = 100.00 CORP # 2

C157537