

PRELIMINARY OFFICIAL STATEMENT

**NEW ISSUE
BANK QUALIFIED**

**NON RATED
[BOOK-ENTRY ONLY]**

In the opinion of Bond Counsel under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), the interest on the Bonds is excluded from gross income for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and is excluded from computation of Kansas adjusted gross income. The Bonds are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code, as amended. See "TAX MATTERS - Opinion of Bond Counsel" herein.

\$1,155,000*

**KANSAS RURAL WATER FINANCE AUTHORITY
REVENUE BONDS
SERIES A, 2012
(Rural Water District No. 3, Jackson County, Kansas)**

Dated: March 1, 2012

Due: September 1, as shown herein

The Series A, 2012 Bonds (the "Bonds" and "Series A, 2012 Bonds") will be issued by the Kansas Rural Water Finance Authority (the "Authority") pursuant to a Bond Resolution adopted by the Authority on February 14, 2012 (the "Resolution"), as fully registered bonds, without coupons, [and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds.] Purchases of the Bonds will be made [in book-entry form], in the denominations of \$5,000 or any integral multiple thereof (the "Authorized Denomination"). [Purchasers will not receive certificates representing their interests in Bonds purchased. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Bond owners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as herein defined) of the Bonds.] Principal will be payable upon presentation and surrender of the Bonds by the registered owners thereof at the office of the Treasurer of the State of Kansas, Topeka, Kansas, as bond registrar and paying agent (the "Paying Agent" and "Bond Registrar"). Interest payable on each Bond shall be paid to the persons who are the registered owners of the Bonds as of the close of business on the fifteenth day (whether or not a business day) of the calendar month preceding each interest payment date by check or draft of the Paying Agent mailed to such registered owner or, in the case of an interest payment to a registered owner of \$500,000 or more in aggregate principal amount of Bonds, by electronic transfer. [So long as DTC or its nominee, Cede & Co., is the Owner of the Bonds, such payments will be made directly to DTC. DTC is expected, in turn, to remit such principal and interest to the DTC Participants (herein defined) for subsequent disbursement to the Beneficial Owners.] Principal of the Bonds will be payable on each September 1, beginning in 2013, and semiannual interest will be payable on March 1 and September 1, beginning on March 1, 2013.

The principal of, and interest on the Bonds are payable solely and only from the Net Revenues (as defined in the Resolution) which have been pledged to the Authority by Rural Water District No. 3, Jackson County, Kansas (the "District"), under the provisions of a Pledge of Revenues Agreement dated as of March 1, 2012 (the "Pledge Agreement"), between the Authority and the District (see "THE BONDS - Security for the Bonds" herein). The Bonds do not constitute, nor shall they be construed to be, a general obligation of the State of Kansas, the Authority, the District, or any other governmental entity.

MATURITY SCHEDULE*
(See inside cover page)

Bonds maturing September 1, 2021 and thereafter are subject to optional redemption beginning September 1, 2020 as described herein (see "THE BONDS - Optional Redemption" herein).

This cover page contains only a brief description of the Bonds and the security therefore. It is not intended to be a summary of material information with respect to the Bonds. Investors must read this entire Preliminary Official Statement to obtain information essential to the making of an informed investment decision and should give particular attention to the matters referred to under the caption "INVESTMENT CONSIDERATIONS."

The Bonds are offered when, as and if issued and delivered by the Authority to the Underwriter, subject to the receipt of the approving legal opinion of Gilmore & Bell, P.C., Wichita, Kansas, Bond Counsel. It is expected that the Bonds will be available for delivery [through the facilities of DTC in New York, New York] on or about March 1, 2012.

**SEALED BIDS WILL BE ACCEPTED ON BEHALF OF
RURAL WATER DISTRICT NO. 3, JACKSON COUNTY, KANSAS
ON FEBRUARY 14, 2012 UNTIL 10:30 A.M. (CST) BY:
RANSON FINANCIAL CONSULTANTS, L.L.C.
AT 200 W. DOUGLAS, STE. 600
WICHITA, KS 67202
VOICE (316) 264-3400 FAX (316) 265-5403**

The date of this Preliminary Official Statement is January 10, 2011.

* Subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

\$1,155,000*
KANSAS RURAL WATER FINANCE AUTHORITY
REVENUE BONDS
SERIES A, 2012
(Rural Water District No. 3, Jackson County, Kansas)

MATURITY SCHEDULE

<u>Maturity Date</u> <u>September 1</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP</u> <u>Base:</u>
2013	\$95,000	_____ %	_____ %	
2014	110,000	_____ %	_____ %	
2015	110,000	_____ %	_____ %	
2016	110,000	_____ %	_____ %	
2017	115,000	_____ %	_____ %	
2018	115,000	_____ %	_____ %	
2019	120,000	_____ %	_____ %	
2020	125,000	_____ %	_____ %	
2021	125,000	_____ %	_____ %	
2022	130,000	_____ %	_____ %	

* Subject to change.

KANSAS RURAL WATER FINANCE AUTHORITY

Board of Representatives

Maurice Meirovsky, President
Patricia Schlesener, Vice President
Darrell Schlabach, Director
Allan Soetaert, Director
Elmer Ronnebaum, Secretary/Treasurer

Member Public Agencies

Allen County Rural Water District No. 8
Anderson County Consolidated Rural Water District No. 1
Anderson County Rural Water District No. 2
Anderson County Rural Water District No. 4
Atchison County Rural Water District No. 5
Barber County Rural Water District No. 3
Brown County Rural Water District No. 1
Brown County Rural Water District No. 2
Butler County Rural Water District No. 5
Butler County Rural Water District No. 7
Cherokee County Rural Water District No. 8
Clay County Rural Water District No. 2
Coffey County Rural Water District No. 3
Comanche County Rural Water District No. 2
Crawford County Rural Water District No. 1
Crawford County Rural Water District No. 6
Dickinson County Rural Water District No. 1
Dickinson County Rural Water District No. 2
Ellis County Rural Water District No. 7
Franklin County Rural Water District No. 4
Geary County Rural Water District No. 4
Greenwood County Rural Water District No. 1
Harvey County Rural Water District No. 1
Harper County Rural Water District No. 5
Jackson County Rural Water District No. 3
Jewell County Rural Water District No. 1
Johnson County Rural Water District No. 7
Jefferson County Rural Water District No. 2
Jefferson County Rural Water District No. 3
Jefferson County Rural Water District No. 7
Jefferson County Rural Water District No. 12
Jefferson County Rural Water District No. 13

Kingman County Rural Water District No. 1
Leavenworth County Rural Water District No. 7
Marion County Rural Water District No. 1
Marshall County Rural Water District No. 3
McPherson County Rural Water District No. 6
Miami County Rural Water District No. 2
Mitchell County Rural Water District No. 2
Mitchell County Rural Water District No. 3
Montgomery County Rural Water District No. 2
Montgomery County Rural Water District No. 4
Montgomery County Rural Water District No. 14
Nemaha County Rural Water District No. 3
Nemaha County Rural Water District No. 4
Osage County Rural Water District No. 3
Osage County Rural Water District No. 8
Ottawa County Rural Water District No. 2
Pottawatomie County Rural Water District No. 2
Pottawatomie County Rural Water District No. 3
Republic County Rural Water District No. 2
Rice County Rural Water District No. 1
Saline County Rural Water District No. 7
Shawnee County Cons. Rural Water District No. 3
Shawnee County Rural Water District No. 7
Smith County Rural Water District No. 1
Sumner County Rural Water District No. 5
Trego County Rural Water District No. 1
Washington County Rural Water District No. 1
Washington County Rural Water District No. 2
City of Colony
City of Toronto
Public Wholesale Water Supply District No. 5
Public Wholesale Water Supply District No. 6

Bond Counsel and General Counsel

Gilmore & Bell, P. C.
Wichita, Kansas

Paying Agent/Bond Registrar

Treasurer of the State of Kansas
Topeka, Kansas

Financial Advisor

Ranson Financial Consultants, L.L.C.
Wichita, Kansas

Underwriter

REGARDING THIS PRELIMINARY OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized by the Kansas Rural Water Finance Authority (the "Authority"), Rural Water District No. 3, Jackson County (the "District"), or by _____ (the "Underwriter") to give any information or to make any representations other than those contained in this Preliminary Official Statement and, if given or made, such information and representations must not be relied upon as having been authorized by the Authority, the District, the Financial Advisor or the Underwriter.

This Preliminary Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor will there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Preliminary Official Statement nor any sale made thereafter shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the District since the date hereof.

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\$1,155,000*
KANSAS RURAL WATER FINANCE AUTHORITY
REVENUE BONDS
Series A, 2012
(Rural Water District No. 3, Jackson County, Kansas)

INTRODUCTION

This Preliminary Official Statement, including the cover page and appendices hereto (the "Preliminary Official Statement"), is provided to furnish information with respect to the Kansas Rural Water Finance Authority (the "Authority") and the issuance and delivery of its Revenue Bonds, Series A, 2012 (Rural Water District No. 3, Jackson County, Kansas) (the "District") (the "Bonds" or "Series A, 2012 Bonds"), in the aggregate principal amount of \$1,155,000*. The Bonds are being issued pursuant to Bond Resolution No. ____ adopted by the Authority on February 14, 2012 (the "Resolution"). The Bonds are being issued for providing funds for the additions and improvements to the water distribution system of the District as more fully described in "The Project" herein.

The Authority is a body corporate and politic of the State of Kansas organized pursuant to K.S.A. 12-2901 *et seq.*, as amended (the "Act"). The Authority is authorized pursuant to the Act and the Resolution to issue bonds on behalf of the District for the benefit of the operation and management of the water distribution System (the "System") owned and operated by the District (see "THE KANSAS RURAL WATER FINANCE AUTHORITY" herein).

Pursuant to the Pledge Agreement, the Net Revenues of the System will be pledged by the District to the Authority to secure the payment of the principal of, redemption premium, if any, and interest on the Bonds, principal and interest on the District's Loan Agreement dated as of May 30, 2008, with the Kansas Department of Health and Environment (the "KDHE Loan") (see "INDEBTEDNESS OF THE DISTRICT" herein) as well as any other Parity Obligations. The Bonds are payable solely and only from the Net Revenues received by the District from the operation of the System pursuant to the Pledge Agreement and not from any other fund or source of the Authority or the District. Pursuant to the Resolution, the Authority will pledge and assign such Net Revenues to the payment of the Bonds and interest thereon on a parity of lien basis with the KDHE Loan and any Additional Bonds or any other Parity Obligations.

Certain capitalized terms used in this Preliminary Official Statement and not otherwise defined herein shall have the meanings given to such terms under the heading "DEFINITIONS OF WORDS AND TERMS" herein.

THE BONDS

General

The Bonds will be issued as fully registered [book-entry] only Bonds in the denomination of \$5,000 each or integral multiples thereof not exceeding the principal amount of the Bonds maturing on any Principal Payment Date. The Bonds will be dated March 1, 2012 and will mature, subject to prior redemption, in the years and amounts as shown on the inside cover page hereof and will bear interest from their dated date at the rates shown on the inside cover page. The principal of, redemption premium, if any, and interest on the Bonds will be payable in lawful money of the United States of America by check or draft of the Treasurer of the State of Kansas, Topeka, Kansas (the "Paying Agent" and "Bond Registrar"). Interest on the Bonds will be payable by check or draft of the Paying Agent to the registered owners of the Bonds at the address of each registered owner shown on the registration records maintained by the Bond Registrar as of the fifteenth day of the month preceding the interest payment date in which such interest payment is due. All amounts payable with respect to the Bonds will be paid only from (a) the Net Revenues and (b) all amounts from time to time deposited in the funds and accounts created under or described by the Pledge Agreement, including the proceeds received from the sale of the Bonds and investment earnings on amounts from time to time on deposit in such funds and accounts (less any amounts deposited into the Rebate Fund). The Bonds will be transferable at the office of the Bond Registrar. The Authority has agreed to pay the fees, charges and expenses of the Bond Registrar, which fees, charges and expenses shall include all costs incurred in connection with the issuance, transfer, exchange, registration, redemption or payment of the Bonds, except (a) the reasonable fees and expenses in connection with the replacement of any Bond or Bonds mutilated, stolen, lost or destroyed, or (b) any tax or other governmental charge imposed in relation to the transfer, exchange, registration, redemption or payment of the Bonds. Such additional costs shall be paid by the Owners of the Bonds. The Bond Registrar will not be required (a) to issue, transfer or exchange any Bonds during the period of 15 days immediately preceding any Payment Date; or (b) to issue, transfer or exchange any Bonds after the date specified in the notice of redemption (which shall be not less than 15 calendar days immediately preceding the mailing of the notice of redemption).

[SO LONG AS CEDE & CO., REMAINS THE REGISTERED OWNER OF THE BONDS, THE PAYING AGENT SHALL TRANSMIT PAYMENTS TO THE SECURITIES DEPOSITORY, WHICH SHALL REMIT SUCH PAYMENTS IN ACCORDANCE WITH ITS NORMAL PROCEDURES. See "THE BONDS – Book-Entry Bonds; Securities Depository."]

* Subject to change.

Security for the Bonds

The Bonds and the interest thereon are limited obligations of the Authority payable solely and only from a pledge of the Net Revenues of the System pursuant to the Pledge Agreement, and, in certain circumstances, from Bond proceeds from insurance and condemnation awards, and are secured by a pledge by the Authority of the Pledged Property in favor of the Owners of the Bonds, and any Additional Bonds or other Parity Obligations under the Pledge Agreement on a parity of lien basis with the KDHE Loan.

The District covenants and agrees that it shall fix, revise, charge and collect rates, fees and charges for water sold and distributed through the System so as to provide sufficient net revenues equal to at least 125% of the current year's principal and interest requirements on the Bonds and all other debt obligations secured by the Net Revenues of the System, including any Additional Bonds or Parity Obligations, as provided in the Pledge Agreement.

THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE AUTHORITY, THE DISTRICT, THE STATE OF KANSAS OR ANY POLITICAL SUBDIVISION THEREOF, AND ARE NOT PAYABLE IN ANY MANNER FROM THE LEVY OF AD VALOREM TAXES LEVIED BY THE STATE OF KANSAS OR ANY POLITICAL SUBDIVISION THEREOF.

Additional Bonds

The Resolution provides that the Authority may issue Additional Bonds from time to time payable from the Net Revenues of the System on a parity of lien basis with other Bonds, Outstanding under the Resolution and other parity of lien obligations of the District without notice to or consent from the Owners of other Bonds Outstanding. A description of the conditions to issuance of such Additional Bonds is set forth herein under "SUMMARY OF THE RESOLUTION - Additional Bonds." The District may also issue its own obligations to be secured on a parity of lien basis with the Bonds and other Parity Obligations upon satisfaction of such conditions and notice to the Authority.

Optional Redemption

The Bonds, including portions thereof, maturing on September 1, 2021 and thereafter are subject to redemption and payment prior to maturity, at the option of the Authority, upon instructions from the District, on and after September 1, 2020 as a whole or in part, on any date, at a redemption price of par value of the principal amount thereof, plus accrued interest thereon to the date of redemption, without premium.

Selection of Bonds to be Redeemed

Bonds shall be redeemed only in the principal amount of \$5,000 or integral multiples thereof. If less than all of the Bonds are to be called for redemption and payment prior to maturity, the particular Bonds or portions of Bonds to be redeemed will be redeemed in inverse order of maturity, and by lot within maturities. Bonds of less than a full maturity to be selected by the Bond Registrar in \$5,000 units of face value in such equitable manner as it may determine. Interest on Bonds so redeemed will be paid from the amount then available to Bonds.

Notice of Redemption

Notice of the call for any redemption identifying the Bonds or portions thereof to be redeemed shall be given by the Bond Registrar, in the name of the Authority, by mailing a copy of the redemption notice at least 30 days prior to the date fixed for redemption to the Underwriter and to the Owner of each Bond to be redeemed at the address shown on the registration books maintained by the Bond Registrar; provided, however, that failure to give such notice by mailing as aforesaid, or any defect therein, shall not affect the validity of any proceedings for the redemption of the Bonds. Any notice of redemption shall state the date of redemption, the place or places at which such Bonds shall be presented for payment, the series, maturities and numbers of the Bonds or portions of Bonds to be redeemed and the principal amount thereof being redeemed, the redemption price and shall state that interest on the Bonds described in such notice will cease to accrue from and after the redemption date.

[For so long as the Securities Depository is effecting book-entry transfers of the Bonds, the Bond Registrar shall provide the notices specified to the Securities Depository. It is expected that the Securities Depository shall, in turn, notify its Participants and that the Participants, in turn, will notify or cause to be notified the Beneficial Owners. Any failure on the part of the Securities Depository or a Participant, or failure on the part of a nominee of a Beneficial Owner of a Bond (having been mailed notice from the Bond Registrar, the Securities Depository, a Participant or otherwise) to notify the Beneficial Owner of the Bond so affected, shall not affect the validity of the redemption of such Bond.]

Bond Registrar's Duty to Redeem Bonds

The Bond Registrar shall call Bonds for redemption and payment and shall give notice of redemption as provided in the Resolution upon receipt by the Bond Registrar at least 45 days prior to the redemption date of a written request of the Authority together with the consent or request of the District. Such request shall specify the principal amount of and the respective maturities of the Bonds to be called for redemption, the applicable redemption price or prices and the provision or provisions of the Resolution pursuant to which such Bonds are to be called for redemption.

Effect of Call for Redemption

Prior to the date fixed for redemption, funds or Government Obligations, as defined in the Resolution, shall be deposited with the Paying Agent in an amount sufficient to provide for the payment of the Bonds called for redemption, accrued interest thereon to the redemption date and the redemption premium, if any. Upon the deposit of such funds or Government Obligations, and notice having been given as provided in the Resolution, the Bonds or portions of Bonds thus called for redemption shall cease to bear interest on the specified redemption date and shall not longer be entitled to the protection, benefit or security of the Resolution and not be deemed to be Outstanding after the provisions of the Resolution.

Continuing Disclosure

The Securities and Exchange Commission (the "SEC") has promulgated amendments to Rule 15c2-12 (the "SEC Rule"), requiring continuous secondary market disclosure. In the Pledge Agreement, hereinafter defined, the District has covenanted to provide annually certain financial information and operating data and other information necessary to comply with the SEC Rule, and to transmit the same to the Municipal Securities Rulemaking Board. This covenant is for the benefit of and is enforceable by the owners of the Series A, 2012 Bonds. This is the District's initial undertaking under the Rule. For more information regarding the Issuer's continuing disclosure undertaking, see "SUMMARY OF THE CONTINUING DISCLOSURE INSTRUCTIONS."

[Book-Entry Bonds: Securities Depository

The Bonds shall initially be registered to Cede & Co., the nominee for the Securities Depository, and no Beneficial Owner will receive certificates representing their respective interests in the Bonds, except in the event the Bond Registrar issues Replacement Bonds. It is anticipated that during the term of the Bonds, the Securities Depository will make book-entry transfers among its Participants and receive and transmit payment of principal of, premium, if any, and interest on, the Bonds to the Participants until and unless the Bond Registrar authenticates and delivers Replacement Bonds to the Beneficial Owners as described in the following paragraphs.

The issuer may decide, subject to the requirements of the Operational Arrangements of DTC (or a successor Securities Depository), and the following provisions of this section to discontinue use of the system of book-entry transfers through DTC (or a successor Securities Depository):

(a) If the Issuer determines (1) that the Securities Depository is unable to properly discharge its responsibilities, or (2) that the Securities Depository is no longer qualified to act as a securities depository and registered clearing agency under the Securities and Exchange Act of 1934, as amended, or (3) that the continuation of a book-entry system to the exclusion of any Bonds being issued to any Owner other than Cede & Co. is no longer in the best interests of the Beneficial Owners of the Bonds; or

(b) if the Bond Registrar receives written notice from Participants having interest in not less than 50% of the Bonds Outstanding, as shown on the records of the Securities Depository (and certified to such effect by the Securities Depository), that the continuation of a book-entry system to the exclusion of any Bonds being issued to any Owner other than Cede & Co. is no longer in the best interests of the Beneficial Owners of the Bonds, then the Bond Registrar shall notify the Owners of such determination or such notice and of the availability of certificates to owners requesting the same, and the Bond Registrar shall register in the name of and authenticate and deliver Replacement Bonds to the Beneficial Owners or their nominees in principal amounts representing the interest of each, making such adjustments as it may find necessary or appropriate as to accrued interest and previous calls for redemption; provided, that in the case of a determination under (a)(1) or (a)(2) of this paragraph, the Issuer, with the consent of the Bond Registrar, may select a successor securities depository in accordance with the following paragraph to effect book-entry transfers.

In such event, all references to the Securities Depository herein shall relate to the period of time when the Securities Depository has possession of at least one Bond. Upon the issuance of Replacement Bonds, all references herein to obligations imposed upon or to be performed by the Securities Depository shall be deemed to be imposed upon and performed by the Bond Registrar, to the extent applicable with respect to such Replacement Bonds. If the Securities Depository resigns and the Issuer, the Bond Registrar or Owners are unable to locate a qualified successor of the Securities Depository, then the Bond Registrar shall authenticate and cause delivery of Replacement Bonds to Owners, as provided herein. The Bond Registrar may rely on information from the Securities Depository and its Participants as to the names of the Beneficial Owners of the Bonds. The cost of printing, registration, authentication, and delivery of Replacement Bonds shall be paid for by the Issuer.

In the event the Securities Depository resigns, is unable to properly discharge its responsibilities, or is no longer qualified to act as a securities depository and registered clearing agency under the Securities and Exchange Act of 1934, as amended, the Issuer may appoint a successor Securities Depository provided the Bond Registrar receives written evidence satisfactory to the Bond Registrar with respect to the ability of the successor Securities Depository to discharge its responsibilities. Any such successor Securities Depository shall be a securities depository which is a registered clearing agency under the Securities and Exchange Act of 1934, as amended, or other applicable statute or regulation that operates a securities depository upon reasonable and customary terms. The Bond Registrar upon its receipt of a Bond or Bonds for cancellation shall cause the delivery of the Bonds to the successor Securities Depository in appropriate denominations and form as provided in the Bond Resolution.]

[THE DEPOSITORY TRUST COMPANY

General. The Bonds are available in book-entry only form. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds. Ownership interests in the Bonds will be available to purchasers only through a book-entry system (the "Book-Entry System") maintained by The Depository Trust Company ("DTC"), New York, New York.

The following information concerning DTC and DTC's book-entry system has been obtained from DTC. The Issuer takes no responsibility as to the accuracy or completeness thereof and neither the Indirect Participants nor the Beneficial Owners should rely on the following information with respect to such matters, but should instead confirm the same with DTC or the Direct Participants, as the case may be. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for the Bonds, and will be deposited with DTC.

DTC and its Participants. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Ownership Interests. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

Transfers. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Voting. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer

as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of Principal, Redemption Price and Interest. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Discontinuation of Book-Entry System. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed, registered in the name of DTC's partnership nominee, Cede & Co. (or such other name as may be requested by an authorized representative of DTC), and delivered to DTC (or a successor securities depository), to be held by it as securities depository for Direct Participants. If, however, the system of book-entry-only transfers has been discontinued and a Direct Participant has elected to withdraw its Bonds from DTC (or such successor securities depository), Bond certificates may be delivered to Beneficial Owners in the manner described in the Bond Resolution.]

SOURCES AND USES OF FUNDS

Sources of Funds	
Principal Amount of Bonds*	\$1,155,000.00
Cash from Issuer	
Total Sources of Funds	\$
 Uses of Funds	
Project Fund	\$
Underwriter's Discount	
Costs of Issuance	
Miscellaneous	
Total Uses of Funds	\$

* Subject to change.

INVESTMENT CONSIDERATIONS

THE PURCHASE OF THE BONDS IS SUBJECT TO CERTAIN RISKS. EACH PROSPECTIVE INVESTOR IN THE BONDS IS ENCOURAGED TO READ THIS PRELIMINARY OFFICIAL STATEMENT IN ITS ENTIRETY, AND TO GIVE PARTICULAR ATTENTION TO THE FACTORS DESCRIBED BELOW WHICH, AMONG OTHERS, COULD AFFECT THE PAYMENT OF DEBT SERVICE ON THE BONDS, AND WHICH COULD ALSO AFFECT THE MARKET PRICE OF THE BONDS TO AN EXTENT THAT CANNOT BE DETERMINED. THIS DISCUSSION OF RISK FACTORS IS NOT, AND IS NOT INTENDED TO BE, EXHAUSTIVE.

Security for the Bonds

The Bonds are special limited obligations of the Authority. Neither the Bonds nor the interest thereon constitute a general obligation or indebtedness of, nor is the payment thereof guaranteed by the Authority or any governmental subdivision, agency or instrumentality. The Bonds are not payable in any manner from tax revenues. The Bonds and the interest thereon are payable solely and only from the revenues received by the Authority from the District and not from any other fund or source (except to the extent paid out of monies attributable to Bond proceeds and the investment thereof) and, under certain circumstances, the proceeds of sale, insurance, condemnation awards or payments if any, received pursuant to the Resolution and Pledge Agreement.

Suitability of Investment

An investment in the Bonds involves a certain degree of risk and is speculative in nature. The tax-exempt feature of the Bonds is obviously more valuable to high tax bracket investors than to investors who are in low tax brackets, and so the value of the interest

compensation to any particular investor will vary with his or her individual tax rate. Each prospective investor should carefully examine this Preliminary Official Statement, including the Appendices hereto, and his own financial condition in order to make a judgment as to his ability to bear the economic risk of such an investment, and to determine whether or not the Bonds are an appropriate investment.

Economic Conditions

Operation of the District's System is subject to changes in the general economic conditions and the supply and demand for water in the area within the District, which are not within the District's control. Adverse changes could impair the District's ability to meet its obligations.

Water Supply

The District currently has sources of supply of water, which are adequate, in the opinion of the District's board of directors, to satisfy both present demand and that of the foreseeable future. If the District's present and anticipated future supplies of water should fail or be significantly diminished, whether through drought, depletion or pollution, the District has no assurance that it can procure alternate sources at reasonable cost. Without its present and anticipated future water supply resources, the District would not be able to meet its debt obligations in the manner anticipated.

Market for the Bonds

There is no established secondary market for the Bonds, and there is no assurance that a secondary market will develop for the purchase and sale of the Bonds. It is the present practice of the Underwriter however, to make a secondary market as dealers in issues of municipal bonds, which the Underwriter distributes. The Underwriter intends to continue this practice with respect to the Bonds, but is not obligated to do so. Prices of municipal bonds traded by the Underwriter in the secondary market, though, are subject to adjustment upward and downward in response to changes in the credit markets and changes in operating performance of the District. From time to time it may be necessary for the Underwriter to suspend indefinitely secondary market trading in selected issues of municipal bonds as a result of the financial condition or market position of the Underwriter, prevailing market conditions, lack of adequate current financial information about the District, or a material adverse change in the operations of that District, whether or not the subject bonds are in default as to principal and interest payments, and other factors which in the opinion of the Underwriter may give rise to uncertainty concerning prudent secondary market practices.

Taxation of Interest on the Bonds

An opinion of Bond Counsel will be obtained to the effect that interest earned on the Bonds is excluded from gross income for federal income tax purposes under current provisions of the Code, and applicable rulings and regulations under the Code; however, an application for a ruling has not been made and an opinion of counsel is not binding upon the Internal Revenue Service. There can be no assurance that the present provisions of the Code, or the rules and regulations thereunder, will not be adversely amended or modified, thereby rendering the interest earned on the Bonds includable in gross income for federal income tax purposes.

The Authority has covenanted in the Resolution and in other documents and certificates to be delivered in connection with the issuance of the Bonds to comply with the provisions of the Code, including those, which require the Authority to take or omit to take certain actions after the issuance of the Bonds. Because the existence and continuation of the excludability of the interest on the Bonds depends upon events occurring after the date of issuance of the Bonds, the opinion of Bond Counsel described under "TAX EXEMPTION" assumes the compliance by the Authority with the provisions of the Code described above and the regulations relating thereto. No opinion is expressed by Bond Counsel with respect to the excludability of the interest on the Bonds in the event of noncompliance with such provisions. The failure of the Authority to comply with the provisions described above may cause the interest on the Bonds to become includable in gross income as of the date of issuance.

THE KANSAS RURAL WATER FINANCE AUTHORITY

The Kansas Rural Water Finance Authority is a body corporate and politic of the State of Kansas organized pursuant to K.S.A. 12-2901 *et seq.*, as amended. The Authority was created for the primary purpose of enhancing the ability of rural water districts and other public agencies in Kansas operating water and/or wastewater systems to finance capital improvements for their respective projects and to meet other financing needs.

The powers of the Authority are vested primarily in the Board of Representatives, consisting of five members elected by the full membership of the Authority.

The names, offices and residences of the members of the Authority's Board and the dates of expiration of their terms are as follows:

<u>Name</u>	<u>Office Position</u>	<u>Term Expires</u>	<u>Residence</u>
Maurice Meirowsky	President	2013	Peabody, Kansas
Patricia Schlesener	Vice President	2014	Carlton, Kansas
Darrell Schlabach	Director	2014	Tampa, Kansas
Allan Soetaert	Director	2012	Gardner, Kansas
Elmer Ronnebaum	Secretary/Treasurer	2013	Baileyville, Kansas

The Authority has the rights, powers and privileges and is subject to the duties provided by the Act and by the Interlocal Cooperation Agreement creating it, including the borrowing of money and issuance of notes, bonds and other obligations, the making of secured or unsecured loans for any of the purposes for which it may issue bonds and the provision of technical assistance and advice regarding financing to its members and entering into contracts with other political subdivisions or private parties to provide such services.

**RURAL WATER DISTRICT NO. 3,
JACKSON COUNTY, KANSAS**

Organization

Rural Water District No. 3, Jackson County, Kansas (the "District") was organized through the adoption of its original By-Laws in 1971. The District serves approximately 1,800 customers, over five counties in the State of Kansas. The District obtains its water from Public Wholesale Water Supply District No. 18 and five wells.

The System

The District's water distribution system (the "System") is approximately 25 miles North of Topeka. The System consists of approximately 700 square miles of water transmission lines, three elevated water towers, and four standpipes for storage to deliver water service to its customers.

Operation and Management

The District is governed by a seven-member Board of Directors (the "Board"). Present officers and officials of the District are:

<u>Officers and Board Members</u>		<u>Term Expires</u>
Chairperson	David Allen	2012
Board Member	Gary Bernasek	2014
Board Member	James Booth	2014
Board Member	Larry Kathrens	2012
Board Member	Ron Klobnak	2014
Treasurer	Larry Savage	2013
Secretary	Karen Ohlsen	2013
<u>District Employees</u>		
General Manager/ Operator	Brenda Adkins	
Operator	Jerry Bowser	
Operator	Doug Sauvage	
Operator	Keither Wilson	
Bookkeeper	Barb Wilson	
Legal Advisor	Gary Hanson, Esq.	
Auditor	Douthett & Co. CPA, PA	

Sources of Water Supply

The District receives its water from the City of Ottawa and two wells.

Rate Structure

<u>Charges</u>	<u>Minimum</u>
Monthly Minimum	\$25.00
Step Fee	\$6.17/1,000 gallons

Number of Customers

<u>Year</u>	<u>Customers</u>
2010	1,796
2009	1,784
2008	1,768
2007	1,739
2006	1,709

Sales History

A five-year history of water pumped and sold for the time period listed is shown below:

<u>Year</u>	<u>Gallons Pumped/ Purchased</u>	<u>Gallons Sold</u>	<u>Accounted For Water Loss</u>	<u>Lost and Unaccounted for Water</u>	<u>% Loss</u>
2010	201,105,787	156,938,357	22,201,842	11,858,469	5.90%
2009	195,154,700	153,907,979	22,650,282	7,214,400	3.70%
2008	201,551,210	159,298,195	24,685,890	8,159,797	4.05%
2007	214,115,800	167,236,760	2,685,925	44,193,115	20.64%
2006	200,377,000	165,890,000	1,339,000	33,148,000	16.54%

Membership in Kansas Rural Water Finance Authority

On January 17, 2012, the Board of Directors of the District approved a Resolution which approved an Interlocal Cooperation Agreement and By-Laws to become a member of the Kansas Rural Water finance Authority.

Debt Payment Record

The District has never been delinquent in any payments of its debt agreements.

THE PROJECT

The proceeds of the Bonds will be used to finance the construction of more than 13 miles of water line improvements, including road and stream crossings, valves, meters and cleanouts, and to pay costs of issuance.

INDEBTEDNESS OF THE DISTRICT

**Revenue Bonds
(As of March 1, 2012)**

<u>Issue</u>	<u>Dated Date</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
Rev Bonds, Series A, 2012*	03/15/2011	\$1,155,000	<u>\$1,155,000</u>
TOTAL			<u>\$1,155,000</u>

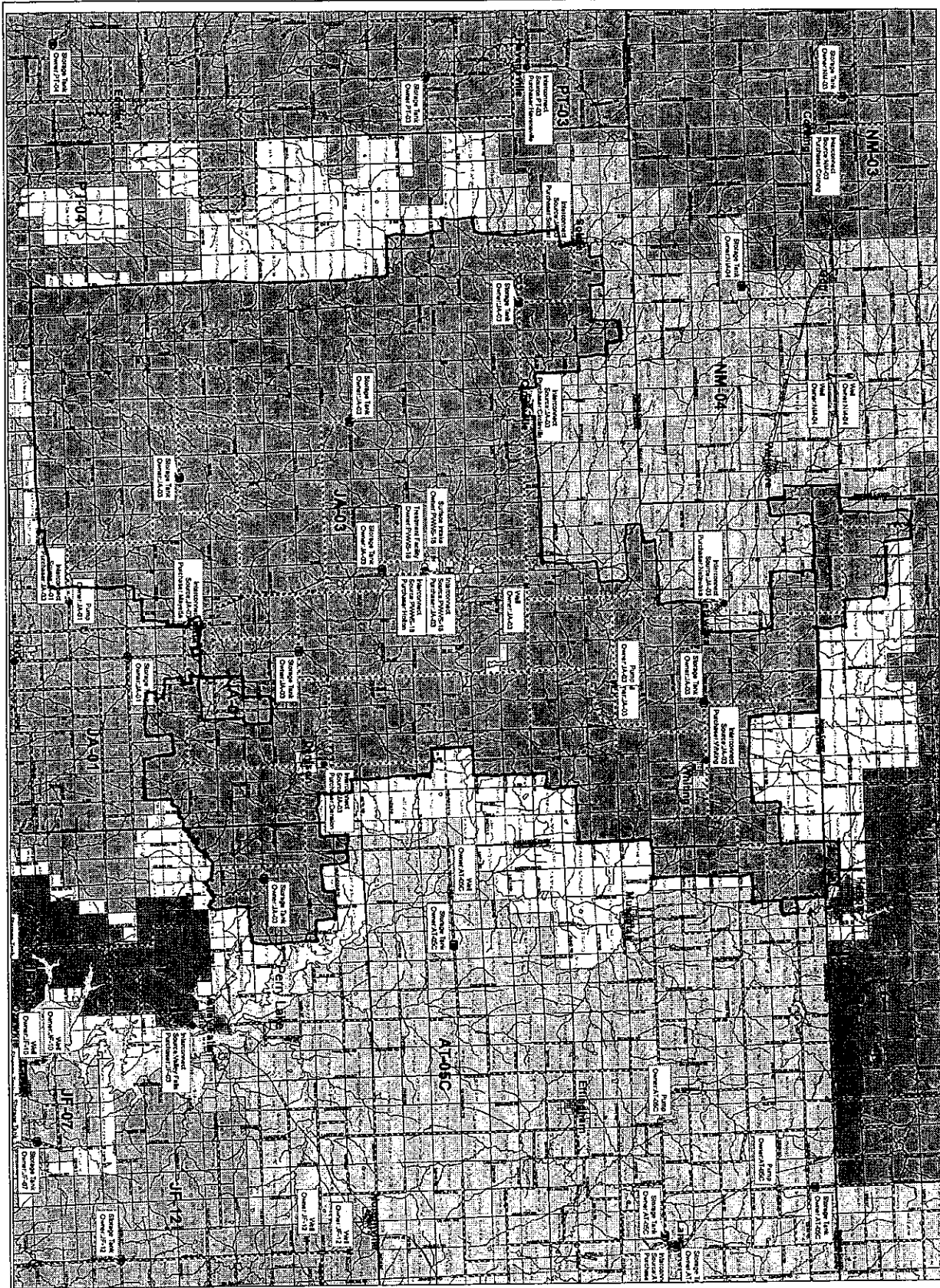
* This Issue and subject to change.

**Outstanding Loans
(As of March 1, 2012)**

<u>Issue</u>	<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
KDHE Loan	5/30/2008	\$995,324	<u>\$907,955.96</u>

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MAP OF RURAL WATER DISTRICT NO. 3,
JACKSON COUNTY, KANSAS



Jackson RWD #03

INCOME STATEMENT SUMMARY FOR THE DISTRICT

**Audited Statements of Revenues and Expenditures
For the Fiscal Years Ended December 31, 2007 – 2010**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Operating revenue				
Water sale	\$1,254,021	\$1,225,867	\$1,186,683	\$1,225,002
Debt charges	112,094	182,751	195,234	198,628
Penalty charges	25,398	24,986	19,273	34,112
Miscellaneous	36,344	20,107	8,886	7,357
Total cash receipts	<u>\$1,427,857</u>	<u>\$1,453,711</u>	<u>\$1,410,076</u>	<u>\$1,465,099</u>
Operating expenses				
Wages and salaries	\$170,298	\$156,374	\$161,910	\$171,734
Payroll taxes	12,799	12,084	11,496	13,758
Employee benefits	34,468	35,197	38,420	46,276
Accounting fees	8,084	13,722	6,860	7,646
Advertising	558	355	713	846
Board member pay stipend	0	0	6,320	6,560
Bank charges	18	0	0	0
Chemicals and analysis	7,753	11,526	13,166	14,001
Dues and subscriptions	870	720	1,095	1,620
Education and training	857	1,933	815	994
Engineering fees	32,446	31,447	16,583	10,741
Gas and fuel	16,439	17,363	13,168	17,572
Insurance	17,905	12,306	18,002	19,002
License and fees	0	656	172	1,554
Lawn mowing	0	0	4,000	4,305
Miscellaneous	2,434	4,319	927	1,768
Office expense	9,765	8,700	10,024	9,821
Postage	9,515	8,880	10,585	10,351
Printing	1,328	1,034	0	980
Professional fees	14,169	15,341	7,480	5,138
Rent	6,360	4,860	5,325	5,840
Repairs and maintenance	244,038	176,129	118,951	164,501
Taxes and fees	6,526	8,517	7,977	8,121
Telephone	6,110	7,093	6,489	7,801
Telemetry	0	0	6,465	6,758
Travel	2,392	2,341	2,075	1,366
Utilities	34,011	44,898	39,906	43,980
Water purchases	445,479	419,053	419,311	443,424
Amortization	3,967	3,967	4,486	4,589
Depreciation	305,514	315,599	328,226	326,145
Loss on disposal of capital assets	-	2,787	0	-4,500
Total expenditures	<u>\$1,394,103</u>	<u>\$1,317,201</u>	<u>\$1,260,947</u>	<u>\$1,352,692</u>
Operating Income	\$33,754	\$136,510	\$149,129	\$112,407
Nonoperating Income (Expense)				
Interest income	\$27,290	\$29,505	\$22,529	\$16,453
Interest expense	(47,071)	(42,068)	(34,838)	(47,197)
Meter sales	85,220	53,500	69,115	42,750
Line extension sales	130,475	61,484	62,524	23,210
Total Nonoperating Income (Expense)	<u>\$195,914</u>	<u>\$102,421</u>	<u>\$119,330</u>	<u>\$35,216</u>
Change in Net Assets	\$229,668	\$238,931	\$268,459	\$147,623
Net assets, beginning	\$6,468,325	\$6,697,993	\$6,936,924	\$7,205,383
Net assets, ending	\$6,697,993	\$6,936,924	\$7,205,383	\$7,353,006

**(This presentation of financial information has NOT been reviewed by any
Independent Certified Public Accountants)**

SUMMARY OF FINANCIAL INFORMATION OF THE DISTRICT

**Pro-forma Statements of Revenues and Expenditures
For the Fiscal Years Ended December 31, 2013 - 2015**

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Operating revenue			
Water sale	\$1,225,002	\$1,225,002	\$1,225,002
Debt charges	198,628	198,628	198,628
Penalty charges	25,942	25,942	25,942
Miscellaneous	7,357	7,357	7,357
Total cash receipts	<u>\$1,456,929</u>	<u>\$1,456,929</u>	<u>\$1,456,929</u>
Operating expenses			
Wages and salaries	\$187,658	\$193,288	\$199,087
Payroll taxes	15,034	15,485	15,949
Employee benefits	50,567	52,084	53,647
Accounting fees	9,920	10,217	10,524
Advertising	924	952	981
Board member pay stipend	7,168	7,383	7,605
Bank charges	5	5	5
Chemicals and analysis	15,299	15,758	16,231
Dues and subscriptions	1,770	1,823	1,878
Education and training	1,256	1,294	1,333
Engineering fees	24,919	25,666	26,436
Gas and fuel	19,201	19,777	20,371
Insurance	20,764	21,387	22,029
License and fees	1,698	1,749	1,802
Lawn mowing	4,704	4,845	4,991
Miscellaneous	2,581	2,658	2,738
Office expense	10,732	11,054	11,385
Postage	11,311	11,650	12,000
Printing	1,071	1,103	1,136
Professional fees	11,509	11,854	12,209
Rent	6,382	6,573	6,770
Repairs and maintenance	192,216	197,982	203,922
Taxes and fees	8,874	9,140	9,414
Telephone	8,524	8,780	9,043
Telemetry	7,385	7,606	7,834
Travel	2,233	2,300	2,369
Utilities	48,058	49,500	50,985
Water purchases	484,541	499,078	514,050
Amortization	5,015	5,165	5,320
Depreciation	356,387	367,079	378,091
Loss on disposal of capital assets	(468)	(482)	(496)
Total expenditures	<u>\$1,517,239</u>	<u>\$1,562,756</u>	<u>\$1,609,639</u>
Operating Income	-\$60,310	-\$105,827	-\$152,709
Nonoperating Income (Expense)			
Interest income	\$16,453	\$16,453	\$16,453
Interest expense	(60,462)	(44,565)	(41,422)
Meter sales	42,750	42,750	42,750
Line extension sales	23,210	23,210	23,210
Total Nonoperating Income (Expense)	<u>\$21,951</u>	<u>\$37,848</u>	<u>\$40,991</u>
Change in Net Assets	-\$38,359	-\$67,979	-\$111,718
Income Available for Debt Service	-\$38,359	-\$67,979	-\$111,718
Amortization	5,015	5,165	5,320
Depreciation	356,387	367,079	378,091
Interest expense	60,462	44,565	41,422
Income Available for Debt Service	<u>\$383,505</u>	<u>\$348,830</u>	<u>\$313,115</u>
Debt Service	\$204,201	\$205,178	\$203,982
Debt Service Coverage Ratio	187.81%	170.01%	153.50%

**(This presentation of financial information has NOT been reviewed by any
Independent Certified Public Accountants)**

DEFINITIONS OF WORDS AND TERMS

In addition to the words and terms defined elsewhere in this Preliminary Official Statement, the following are definitions of certain words and terms as used in the Pledge Agreement and the Bond Resolution:

"Act" means the constitution and statutes of the State of Kansas, including K.S.A. 12-2901 *et seq.*, and K.S.A. 82a-612 *et seq.*, all as may be amended.

"Additional Bonds" means any Bonds or Parity Obligations payable from the revenues of the District in addition to the Series A, 2012 Bonds issued as provided in Section 209 of the Resolution.

"Agreement" means the Pledge of Revenues Agreement dated as of March 1, 2012 and any additional agreement or agreements duly executed by the District and the Authority amending or supplementing the Pledge Agreement.

"Arbitrage Instructions" means the Arbitrage Instructions (dated as of the date of issuance of the Series A, 2012 Bonds) attached to the Arbitrage Certificate of the Authority and the District to be delivered at the time of issuance and delivery of the Bonds relating to certain matters within the scope of Section 148 of the Code, as the same may be amended or supplemented in accordance with its terms.

"Authority" means the Kansas Rural Water Finance Authority, a body corporate and politic organized and existing under the laws of the State of Kansas.

"Authorized District Representative" means the District Chairman or such other person at the time designated to act on behalf of the District as evidenced by written certificate furnished to the Authority containing the specimen signature of such person and signed on behalf of the District by the District Chairman. Such certificate may designate an alternate or alternates, each of whom shall be entitled to perform all duties of the Authorized District Representative.

"Board" means the Board of Directors of Rural Water District No. 3, Jackson County, Kansas.

"Bond Counsel" means the firm of Gilmore & Bell, P.C., or any other attorney or firm of attorneys whose expertise in matters relating to the issuance of obligations by states and their political subdivisions is nationally recognized and acceptable to the Authority and the District.

"Bond Registrar" means the Treasurer of the State of Kansas, and his/her successors and assigns.

"Bonds" means the fully registered Series A, 2012 Bonds and, to the extent applicable, any Additional Bonds.

"Business Day" means a day which is not a Saturday, Sunday or any day designated as a holiday by the Congress of the United States or by the Legislature of the State and on which banks in the State are not authorized to be closed.

"Change of Circumstances" means the occurrence of any of the following events:

- (1) title to, or the temporary use of, all or any part of the System shall be condemned by any authority exercising the power of eminent domain;
- (2) the System is damaged or destroyed, in whole or in part, by fire, theft or other casualty; or
- (3) as a result of changes in the Constitution of the State or any political subdivision thereof, or by the United States, or by reason of any action instituted in any court, the Pledge Agreement shall become void or unenforceable, or impossible of performance without unreasonable delay, or in any other way, by reason of such changes of circumstances, unreasonable burdens or excessive liabilities are imposed upon the District.

"Code" means the Internal Revenue Code of 1986, as amended, together with the regulations promulgated thereunder by the United States Department of the Treasury or applicable thereto.

"Costs of Issuance" means any and all expenses of whatever nature incurred in connection with the issuance and sale of the Series A, 2012 Bonds, including but not limited to bond and other printing expenses, administrative fees, fees of the Bond Registrar and Paying Agent, legal fees and expenses of Bond Counsel and other legal counsel, fees and expenses of financial advisors and underwriters and any expenses incurred in connection with determining Yield on the Bonds, or investment of the proceeds of the Bonds.

"Current Expenses" means all necessary expenses of operation, maintenance and repair of the System, including current maintenance charges, expenses of reasonable upkeep and repairs, charges for insurance, general administrative expenses and all other expenses incident to the operation of the System, but shall exclude debt service payments depreciation and all general administrative expenses of the District not related to the operation of the System.

"District" means Rural Water District No. 3, Jackson County, Kansas, as organized pursuant to the Act, or, if said District shall be abolished, the board, body, commission or authority succeeding to the principal functions thereof or to whom the powers given to the District shall be given by law.

"District Chairman" means the duly elected and acting Chairman of the District or, in the Chairman's absence, the duly appointed and/or elected Vice Chairman or Acting Chairman of the District.

"Event of Default" means, with respect to the Resolution, one of the following events:

- (a) Default in the due and punctual payment of any interest on any Bond.
- (b) Default in the due and punctual payment of the principal of or premium, if any, on any Bond; or
- (c) Default in the performance or observance of any other of the covenants, agreements or conditions on the part of the District in the Agreement, or of the Issuer in the Resolution or in the Bonds contained, and the continuance thereof for a period of 30 days after written notice thereof shall have been given to the District by the Authority, or to the Authority and the Board by the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding, provided, however, if any default shall be such that it cannot be corrected within such 30-day period, it shall not constitute an Event of Default if corrective action is instituted by the Authority or the District within such period and diligently pursued until such default is corrected.

"Event of Default" means, with respect to the Pledge Agreement, one of the following events:

- (a) There shall not be sufficient funds in the Principal and Interest Account (or the applicable debt service account for any Parity Obligations) to make payment of any installment of interest on the Parity Obligations or the Bonds or payment of the principal or of the redemption premium, if any, when the same shall become due and payable; or
- (b) The transfers required in the Pledge Agreement shall not be made as required; or
- (c) The District shall for any reason be rendered incapable of fulfilling its obligations hereunder, under the Resolution or under the provisions of any Resolution authorizing the issuance of any Parity Obligations; or
- (d) Any substantial part of the System shall be destroyed, damaged or condemned to the extent of impairing its efficient operation or usefulness, and except as otherwise provided in this Agreement, shall not be promptly repaired, replaced or reconstructed (whether such failure promptly to repair, replace or reconstruct the same be due to the impracticability or such repair, replacement or reconstruction or to any lack of funds therefore for any other reason); or
- (e) Final judgment for the payment of money shall be rendered against the District as a result of its ownership or operation or operation of the System and any such judgment shall not be discharged within one hundred eighty (180) days from entry thereof or an appeal shall not be taken there from or from the order, decree or process upon which or pursuant to which such manner as to stay the execution of or levy under such judgment, order, decrees or process or the enforcement thereof; or
- (f) Any proceeding shall be instituted, with the consent or acquiescence of the District, for the purpose of effecting a composition between the District and its creditors or for the purpose of adjusting the claims of such creditors, pursuant to any federal or state statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable out of Gross Revenues; or
- (g) The District shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in this Agreement on the part of the District to be performed, and such default shall continue for thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given the District by the Authority.

"Fiscal Year" means the fiscal year of the District as set forth in *Schedule II* of the Resolution.

"Government Obligations" means direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America.

"Gross Proceeds" shall have the meaning ascribed thereto in the Letter of Instructions.

"Gross Revenues" means all charges, fees, income and revenues (including interest earnings) derived and collected by the District from the ownership and operation of the System.

"Interest Payment Dates" means March 1 and September 1 of each year, commencing March 1, 2013, and ending at such time as the Bonds are paid or provision is made therefore.

"Investment Obligations" shall mean: (a) investments authorized by K.S.A. 12-1675 and amendments thereto; (b) Government Obligations; (c) interest-bearing time deposits in commercial banks or trust companies located in any county or counties in which any

member of the Authority is located which are insured by the Federal Deposit Insurance Corporation or collateralized by securities described in (b) above; (d) obligations of the federal national mortgage association, federal home loan banks or the federal home loan mortgage corporation; (e) repurchase agreements collateralized by securities described in (b) or (d) above; (f) investments agreements or other obligations of a financial institution the obligations of which at the time of the investment are rated in either of the two highest rating categories by Moody's Investors Service, Inc. or Standard & Poor's Rating Group; (g) investments and shares or units of a money market fund or trust the portfolio of which is comprised entirely of securities described in (b) or (d) above; (h) receipts evidencing ownership interest in securities or portions thereof described in (b) or (d) above; (i) municipal bonds or other obligations issued by any municipality of the state of Kansas as defined in K.S.A. 10-1101 which are general obligations of the municipality issuing the same; or (j) bonds of any municipality of the state of Kansas as defined in K.S.A. 10-1101 which have been refunded in advance of their maturity and are fully secured as to payment of principal and interest thereon by deposit in trust, under escrow agreement with a bank, of securities described in (b) or (d) above.

"Issuer" means the Kansas Rural Water Finance Authority.

"KDHE Loan" means the Loan Agreement of the Issuer dated May 30, 2008 with the Kansas Department of Health and Environment.

"Net Revenues" means Gross Revenues less Current Expenses.

"Notice Address"

1. With respect to the District:
Rural Water District No. 3, Jackson County, Kansas
P.O. Box 350
Holton, Kansas 66436
Attn: Brenda Adkins, General Manager / Operator

2. With respect to the Issuer:
Kansas Rural Water Finance Authority
PO Box 111
Seneca, Kansas 66538
Attn: Secretary

3. With respect to the Bond Registrar and Paying Agent
Treasurer of the State of Kansas
Landon State Office Building
900 S.W. Jackson, Suite 201
Topeka, Kansas 66612-1235
Attn: Municipal Bond Clerk

"Original Proceeds" means all proceeds, including accrued interest, derived from the sale of the Series A, 2012 Bonds to the Underwriter.

"Original Purchaser" means _____.

"Outstanding" means, as of a particular date, all Bonds theretofore issued, authenticated and delivered under the Resolution, except:

- (a) Bonds theretofore canceled by the Paying Agent or delivered to the Paying Agent for cancellation pursuant to the Resolution;
- (b) Bonds for the payment or redemption of which monies or investments have been deposited with the Paying Agent in accordance with the provisions of the Resolution; and
- (c) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered pursuant to the Resolution.

"Owner" shall mean the registered owner of any Series A, 2012 Bond.

"Parity Obligations" means the KDHE Loan, the Series A, 2012 Bonds and any other notes, bonds or other evidences of debt heretofore or hereafter issued by the District or the Issuer which are secured in whole or in part by a pledge of or a security interest in the District's Net Revenues, the lien of which is on a parity with the lien of the Bonds.

"Paying Agent" means the Treasurer of the State of Kansas, and any successors and assigns.

"Payment Date" means any date on which the principal of or interest on any Bond is payable.

"Pledge Agreement" means the Pledge of Revenues Agreement dated as of March 1, 2012 and any additional agreement or agreements duly executed by the District and the Authority amending or supplementing the Pledge Agreement.

"Pledged Property" means:

(a) All right, title and interest of the Authority in, to and under the Agreement, and all revenues and receipts derived by the Authority pursuant to the Agreement, all as pursuant to and subject to the provisions of the Agreement; provided that the pledge and assignment thereby made shall not impair or diminish the obligations of the Authority under the provisions of the Agreement.

(b) All moneys and securities from time to time held under the terms of the Resolution (excluding funds held in or accruing to the Rebate Fund), including, without limitation, any and all other real or personal property of every kind and nature from time to time hereafter, by delivery or by writing of any kind, pledged, assigned or transferred as and for additional security for the Bonds by the Authority.

"Principal and Interest Account" means that account authorized and established by the Resolution and designated "Principal and Interest Account for Kansas Rural Water Finance Authority Revenue Bonds (Rural Water District No. 3, Jackson County, Kansas)."

"Principal Payment Dates" means the first day of October in the years 2011 through 2030, inclusive, or until such time as the aggregate principal amount of the Bonds has been paid or provision is made therefore.

"Promissory Note" means the promissory note or notes executed and delivered by the District to the Authority evidencing the debt from the District to the Authority secured by the Agreement.

"Purchase Price" means the principal amount of the Bonds, plus accrued interest to the date of delivery, less any underwriter's discount.

"Rebate Fund" means the fund authorized and established by the Resolution and designated "Rebate Fund for Kansas Rural Water Finance Authority Revenue Bonds, Series A, 2012 (Rural Water District No. 3, Jackson County, Kansas)."

"Record Dates" means the fifteenth day of each month preceding the Interest Payment Dates.

"Resolution" means Bond Resolution No. _____ adopted by the Authority on February 14, 2012 as amended and supplemented by Supplemental Resolutions adopted in accordance with the provisions of the Resolution.

"Revenue Fund" means the fund authorized and established by the Pledge Agreement and designated "Revenue Fund for Rural Water District No. 3, Jackson County, Kansas."

"Series A, 2012 Bonds" means the Authority's Revenue Bonds, Series A, 2012 (Rural Water District No. 3, Jackson County, Kansas).

"State" means the State of Kansas.

"State Treasurer" means the Treasurer of the State of Kansas or, if the functions and duties under the Resolution of the State Treasurer shall be given by law to any other person or entity, such person or entity.

"System" means the entire water production, treatment, storage and distribution system of the District, including all administrative functions, together with all additions, enlargements and improvements thereto hereafter made or acquired by the District.

"Underwriter" means Original Purchaser.

SUMMARY OF THE PLEDGE AGREEMENT

The following is a summary of certain provisions of the Pledge Agreement. This summary does not purport to be complete, and reference is made to the full text of the Pledge Agreement for a complete recital of its terms, as well as a complete recital of the defined terms used therein.

Pledge of Net Revenues of the System by the District

Pursuant to the Pledge Agreement the District pledges the Net Revenues of the System, and no other fund or source, to the Authority, as security for the payment of the Promissory Note and the principal of, premium, if any, and interest on the Bonds and Parity Obligations. The District acknowledges that the Authority intends to pledge its rights under the Pledge Agreement so that the Bonds and all interest thereon will be made a lien on the Net Revenues on a parity of lien basis with the KDHE Loan, any Additional Bonds and any other Parity Obligation.

Revenue Fund

The District covenants that all Gross Revenues of the System shall be deposited as received to the credit of the District's Water System Revenue Fund (the "Revenue Fund"). Money in the Revenue Fund shall be expended and used only in the manner and order specified in the Pledge Agreement. All money in the Revenue Fund shall be held by the District in trust and applied as provided in the Pledge Agreement.

Application of Moneys in Funds and Accounts

The District covenants that from and after the delivery of the Bonds and continuing so long as any of the Bonds shall remain Outstanding and unpaid, it will, monthly, administer and allocate the moneys then held in the Revenue Fund to the credit of the following funds or accounts in the order and in the amounts, as follows:

(a) The cost of maintenance and operation of the System shall be paid currently from the Revenue Fund as bills accrue, and such bills shall be paid only upon approval of the Board. Such amounts as may be necessary in the opinion of the board of directors of the District to pay the reasonable and proper expenses of operation and maintenance of the System for a period of sixty (60) days shall be accrued in the operation and maintenance account before credits or transfers to the other accounts hereinafter provide for.

(b) The District shall set aside and credit monthly from the Revenue Fund to the Principal and Interest Account, beginning as of the Dated Date, any monthly payments due on Parity Obligations and proportionate monthly amounts (less accrued credits to such Account) of the (i) next maturing interest on the Bonds; and (ii) next maturing principal on the Bonds, to the end that at all times one (1) month prior to maturity of interest, principal, or mandatory call requirements, there shall be sufficient moneys credited to the Principal and Interest Account to transmit maturing interest and principal on the Bonds to the Paying Agent for payment when due. All amounts transferred and credited to the Principal and Interest Account shall be used solely and exclusively for the payment of principal of and interest on the Bonds and Parity Obligations when the same shall become due and payable. In addition, there shall be credited to the Principal and Interest Account sufficient sums to pay any fees and expenses of the Bond Registrar and Paying Agent.

(c) After all payments and credits required at the time to be made by the District under the provisions of paragraphs (a) and (b) above have been made, all moneys remaining in the Revenue Fund may be expended and used for all lawful purposes as determined by the board of directors of the District.

Deficiency of Payments into Funds and Accounts

If at any time the Net Revenues shall be insufficient to make any payment on the date or dates specified, the District will make good the amount of such deficiency by making additional payments or credits out of the first available Net Revenues thereafter received by the District, such payments and credits being made and applied in the order specified above.

General Covenants

The District covenants that it will promptly take such action as is required by the undertakings and agreements contained in the Pledge Agreement, the Promissory Note or in any Bond executed and delivered pursuant to the Resolution or in any proceedings of the District pertaining thereto. The District further represents and covenants that it is duly authorized under the constitution and laws of the State to execute and deliver the Promissory Note, and to pledge and assign the Net Revenues in the manner and to the extent herein set forth; that all action on its part for the issuance of the Promissory Note and the Bonds has been duly and effectively taken; and that such instruments, representations and covenants will be valid and enforceable special obligations according to the terms of the Pledge Agreement.

Deposits and Investments

All money deposited or held under the provisions of the Pledge Agreement and the Resolution shall be pledged funds under the terms thereof and shall not be subject to lien or attachment by a creditor. Such money shall be held and applied in accordance with the provisions of the Pledge Agreement and the Resolution. Money held for the credit of the funds and accounts referred to in the Pledge Agreement shall be invested by the District pursuant to the provisions of the Pledge Agreement.

Tax Covenants

The District and the Authority covenant and agree that neither will take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Series A, 2012 Bonds under Section 103 of the Code. The District and the Authority further covenant and agree that the proceeds of the Bonds will be used as soon as practicable and with all reasonable dispatch for the purpose for which the Series A, 2012 Bonds are issued, and that neither will directly nor indirectly use or permit the use of any proceeds of the Series A, 2012 Bonds or any other funds of the Authority or the District, or take or omit to take any action that would cause the Series A, 2012 Bonds to be "arbitrage bonds" within the meaning

of Section 148(a) of the Code. To that end, the Authority and the District covenant to comply with all requirements of Section 148 of the Code to the extent applicable to the Series A, 2012 Bonds.

The District shall cause to be deposited into the Rebate Fund from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code. This covenant shall survive payment in full or defeasance of the Series A, 2012 Bonds.

Covenants as to Liens

The District covenants that it will not create nor permit the creation of any lien, encumbrance or charge upon the System or upon the Net Revenues pledged under the Pledge Agreement or the Resolution except the pledge, lien and charge securing the Bonds, any Parity Obligations or any Additional Bonds (as defined in the Resolution), and any pledge, lien or charge created to secure any junior lien debt obligations issued by the District, as long as the rights of the owners of such obligations are subordinate in all respects to the covenants and provisions of the Pledge Agreement and the Resolution, and that, from the Gross Revenues and other funds available therefore, it will pay or cause to be discharged, or will make adequate provision to satisfy and discharge, within 60 days after the same shall accrue, all lawful claims and demands for labor, materials, supplies or other obligations constituting operating expenses of the System which, if unpaid, might by law become a lien upon the System or upon such Gross Revenues; provided, however, that nothing herein contained shall require the District to pay or cause to be discharged, or make provision for, any such lien, encumbrance or charge so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings. If the District issues any debt obligations to be secured by liens on the Net Revenue, the System, or any part thereof, written notice of such issuance shall be given to the Authority and the Original Purchaser.

Insurance Requirements

The District will carry and maintain such reasonable amount of all risk insurance on all properties and all operations of the System as would be carried by a privately owned utility with similar property and performing similar functions, insofar as the properties are of an insurable nature; and in the event of loss or damage, the District will use the proceeds of such insurance to reconstruct or replace the damaged or destroyed property, or if such reconstruction or replacement be unnecessary, then such proceeds shall be used in redeeming or paying off Outstanding Bonds or Parity Obligations, in accordance with their redemption provisions. The District also will carry general liability insurance in amounts not less than the then maximum liability of a governmental entity for claims arising out of a single occurrence, as provided by the Kansas Tort Claims Act or other similar future law (currently \$500,000.00 per occurrence). In lieu of the foregoing, the District may establish a self-insurance program, which will provide substantially the same protection for the Owners of the Bonds, upon the written approval of the Authority.

Efficient and Economical Operation

The District will continuously own and will operate the System in an efficient and economical manner and will keep and maintain the same in good repair and working order.

Rate Covenant

The District will fix, establish, maintain and collect such rates, fees and charges for water sold and distributed through the System, including all extensions, enlargements and improvements thereto hereafter constructed or acquired by the District, as will produce revenues sufficient to (a) pay the cost of the operation and maintenance of the System; (b) pay the principal of and interest on the Bonds and all Parity Obligations as and when the same become due; (c) enable the District to have in each Fiscal Year Net Revenues in an amount that will be not less than 125% of the debt service requirements required to be paid in such Fiscal Year on all Bonds and Parity Obligations at the time Outstanding; and (d) provide reasonable and adequate reserves for the payment of the Bonds and the interest thereon and for the protection and benefit of the System of the District as provided in this Agreement.

Reasonable Rates for All Services

None of the facilities or services provided by the System will be furnished to any user (excepting the District itself) without a reasonable charge being made therefore. In the event that the revenues derived by the District from the System shall at any time be insufficient to pay the reasonable expenses of operation and maintenance of the System and also to pay the debt service requirements of the Bonds as and when the same become due, then the District will thereafter pay into the Revenue Fund a fair and reasonable payment in accordance with effective applicable rates, fees and charges for all services or other facilities furnished to the District by the System, and such payments will continue so long as the same may be necessary in order to prevent or reduce the amount of any default in the payment of the interest on or principal of the Bonds.

Records and Accounts; Annual Financial Statement

The District covenants that it will keep or cause to be kept for each Fiscal Year accurate financial records and accounts of all items of cost and of all expenditures relating to the System, the Gross Revenues received and the application of such Gross Revenues. Such records and accounts shall be open to the inspection of the Authority, the Original Purchaser and any Owner of Bonds or authorized agents and representatives thereof during the normal business hours for the District. The District further covenants that, not later than four (4) months after the close of each Fiscal Year, it will file with the Authority an audited financial statement prepared by a certified

public accountant for such Fiscal Year, prepared for and approved by the District, reflecting in reasonable detail the financial condition and record of operation of the System. There shall also be sent to the Authority and the Original Purchaser a copy of each annual audited financial statement of the District.

As soon as possible after the completion of such annual audit, the Board of the District shall review such audited financial statements, and if any audit shall disclose that proper provision has not been made for all of the requirements of the Resolution or the Pledge Agreement and the law under which the Bonds are issued, the District covenants and agrees that it will promptly cure such deficiency and will promptly (within 60 days) proceed to consider increasing the rates, fees and charges to be charged for the use and services furnished by the System as may be necessary to adequately provide for such requirements.

Sale or Disposition of All or Any Part of the System

The District covenants that so long as any Bonds or Parity Obligations are Outstanding it will not sell or otherwise dispose of the System; provided, however, that the District may sell or otherwise dispose of or remove parts of the System but only if there shall be filed with the Authority prior to any such disposition or removal a certificate, signed by the Chairman of the District, stating that such disposition or removal and replacement shall not prejudice to any extent the payment of the principal of and the interest on the Bonds when due and payable.

The District may sell or otherwise dispose of any furniture, fixtures, apparatus, tools, instruments or other movable property acquired for or in connection with the System or any materials used in connection therewith, if the District shall determine that such articles are no longer needed or are no longer useful in connection with the construction of the system or the operation and maintenance of the System or normally in the ordinary course of business are routinely sold or disposed of.

The proceeds of any sale or other disposition made under the authority of the Pledge Agreement subject to applicable law, shall be applied to the replacement in the System of any facilities or property so sold or disposed of, and any such replacement shall become a part of the System and be subject to the provisions of the Pledge Agreement.

The District may otherwise sell or dispose of the System if full provision for payment of all Bonds and Parity Obligations is made at or prior to the closing of such sale. Provision for payment of all Bonds shall be made according to the provisions Article XIII of the Resolution, and for Parity Obligations according to the terms and provisions of the documents creating such obligations.

Remedies Upon Default

Upon the happening and continuance of any Event of Default under the Pledge Agreement, then and in every such case the Authority may proceed to protect and enforce its rights under the Pledge Agreement by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant or agreement contained in the Pledge Agreement or in aid or execution of any power granted therein or for the enforcement of any proper legal or equitable remedy, as the Authority shall deem most effectual to protect and enforce such rights or as may be required pursuant to the Resolution.

No Remedy Exclusive

No remedy conferred on the Authority by the Pledge Agreement is intended to be exclusive of any other remedy or remedies provided therein, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given thereunder.

Delay or Omission

No delay or omission of the Authority to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein; and every power and remedy given by the Pledge Agreement to the Authority may be exercised from time to time and as often as may be deemed expedient.

Amendment of Pledge Agreement

Except as otherwise provided in the Pledge Agreement or in the Resolution, the Pledge Agreement may not be amended, changed or modified except by an agreement in writing executed by the Authority and the District and upon the same terms and conditions as the Resolution may be amended. Prior to the execution of any such amendment, the Authority and the District shall furnish the Original Purchaser with a copy of the amendment, change or modification proposed to be made.

[THE CONTINUING DISCLOSURE INSTRUCTIONS

The Continuing Disclosure Instructions are executed and delivered by the District in connection with the issuance of the Series A, 2012 Bonds pursuant to the Bond Resolution, in which the District covenants to enter into an undertaking to provide certain financial and other information with respect to the Series A, 2012 Bonds in order to assist the Participating Underwriter in complying with the provisions of the SEC Rule. The District is the only "obligated person" with responsibility for continuing disclosure with respect to the Series A, 2012 Bonds.

DEFINITIONS

In addition to the definitions set forth in “DEFINITIONS OF WORDS AND TERMS,” unless otherwise defined herein, the following capitalized terms shall have the following meanings:

“**Annual Report**” means any Annual Report filed by the District pursuant to the Disclosure Instructions.

“**Designated Agent**” means Gilmore & Bell, P.C. or one or more other entities designated in writing by the District to serve as a designated agent of the District for purposes of these Disclosure Instructions.

“**Dissemination Agent**” means any entity designated in writing by the District to serve as dissemination agent pursuant to these Disclosure Instructions and which has filed with the District a written acceptance of such designation.

“**EMMA**” means the Electronic Municipal Market Access system for municipal securities disclosures established and maintained by the MSRB, which can be accessed at www.emma.msrb.org.

“**Financial Information**” means the financial information of the District described under the heading “**PROVISION OF ANNUAL REPORTS – Financial Information.**”

“**Material Events**” means any of the events listed under the heading “**REPORTING OF MATERIAL EVENTS.**”

“**MSRB**” means the Municipal Securities Rulemaking Board.

“**Operating Data**” means the operating data of the District described under the heading “**PROVISION OF ANNUAL REPORTS – Operating Data.**”

“**Participating Underwriter**” means any of the original underwriters of the Bonds required to comply with the SEC Rule in connection with offering of the Bonds.

“**Repository**” means the MSRB via EMMA.

“**SEC**” means the Securities and Exchange Commission of the United States.

PROVISION OF ANNUAL REPORTS

The District shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the District's Fiscal Year, commencing with the Fiscal Year ended in 2011, file with the Repository, the District's Financial Information and Operating Data (collectively, the “Annual Report”), as follows:

Financial Information. The audited financial statements of the District for such prior Fiscal Year, prepared in accordance with generally accepted auditing standards, in substantially the format contained in *Appendix A* to the Official Statement. If audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain summary unaudited financial information and the audited financial statements shall be filed in the same manner as the Annual Report promptly after they become available. The accounting basis and the method of preparation of the financial statements of the District is contained in *Appendix A* to the Official Statement. The method of preparation and basis of accounting of the Financial Information may not be changed to a basis less comprehensive than contained in the Official Statement, unless the District provides notice of such change in the same manner as for a Material Event.

Operating Data. Updates as of the end of the Fiscal Year of substantially all of the information and data contained in those sections of the Official Statement entitled “Indebtedness of the District” and “Income Statement Summary for the District,” and “Summary of Financial Information,” and all other operating information that is customarily prepared by the Issuer and is publicly available.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Issuer is an “obligated person” (as defined by the SEC Rule), which have been filed with the Repository, the MSRB or the SEC. If the document included by reference is a final official statement, it must be available from the MSRB via EMMA. The Issuer shall clearly identify each such other document so included by reference. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in this Section; provided that the audit report and accompanying financial statements may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Issuer's Fiscal Year changes, it shall give notice of such change in the same manner as for a Material Event

If no Dissemination Agent has been appointed, the Issuer file the Annual Report; or if the Annual Report is not filed within the time period specified, the Issuer shall send a notice to the Repository of the failure to timely file the Annual Report within 10 Business Days after the date the Annual Report is required to be filed as set forth herein.

REPORTING OF MATERIAL EVENTS

The Issuer shall give, or cause the Dissemination Agent, if any, to give, to the Repository within 10 Business Days after the occurrence of any of the following events with respect to the Series A, 2012 Bonds, notice of the following events:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions ; the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bond, or other material events affecting the tax-exempt status of the Series A, 2001 Bonds;
- (7) modifications to rights of Owners, if material;
- (8) bond calls, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution or sale of property securing repayment of the Series A, 2012 Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the Issuer;
- (13) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) appointment of a successor or additional Paying Agent or the change of name of the Paying Agent, if material.

Notwithstanding the foregoing, notice of Material Events described in (8) and (9) need not be given any earlier than the notice (if any) of the underlying event is given to the Owners of affected Series A, 2001 Bonds pursuant to the Bond Resolution.

DISSEMINATION AGENT

General. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Instructions, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

Annual Reports. If a Dissemination Agent shall be appointed, not later than 15 Business Days prior to the date specified for providing the Annual Report to the Repository, the Issuer shall provide the Annual Report to the Dissemination Agent or the Repository. The Dissemination Agent shall file a report with the Issuer certifying that the Annual Report has been provided pursuant to these Disclosure Instructions, stating the date it was provided, or that the Issuer has certified to the Dissemination Agent that the Issuer has filed the Annual Report with the Repository. If the Dissemination Agent has not received an Annual Report or has not received a written notice from the Issuer that it has filed an Annual Report with the Repository, by the date required in **Section 2(a)**, the Dissemination Agent shall send a notice to the Repository.

Material Event Notices.

(1) The Dissemination Agent shall, promptly after obtaining actual knowledge of the occurrence of the occurrence of any event that it believes may constitute a Material Event, contact the chief financial officer of the Issuer or his or her designee, or such other person as the Issuer shall designate in writing to the Dissemination Agent from time to time, inform such person of the event, and request that the Issuer promptly notify the Dissemination Agent in writing whether or not to report the event.

(2) The Issuer will promptly respond in writing to any such request. Whenever the Issuer obtains knowledge of the occurrence of a Material Event, because of a notice from the Dissemination Agent or otherwise, the Issuer shall promptly determine if such event constitutes a Material Event and shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence. If the Issuer has determined that knowledge of an event is listed in (2), (7), (10) or (13) of the definition of a Material Event, is not material, the Issuer shall notify the Dissemination Agent in writing not to report the occurrence.

(3) If the Dissemination Agent has been given written instructions by the Issuer to report the occurrence of a Material Event, the Dissemination Agent shall file a notice of such occurrence with the Repository within 10 Business Days after the occurrence, with copies to the Issuer[and the Bond Insurer]. Notwithstanding the foregoing, notice of Material Events described in paragraphs (8) and (9) need not be given any earlier than the notice (if any) of the underlying event is given to the Owners of affected Series A, 2001 Bonds pursuant to the Bond Resolution.

Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in the Disclosure Instructions. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer.

Other Designated Agents. The Issuer may, from time to time, appoint or designate a Designated Agent to submit Annual Reports, Material Event notices, and other notices or reports pursuant to the Disclosure Instructions. The Issuer hereby appoints the Dissemination Agent and the Designated Agent(s) solely for the purpose of submitting Issuer-approved Annual Reports, Material Event notices, and other notices or reports pursuant to the Disclosure Instructions. The Issuer may revoke this designation at any time upon written notice to the Designated Agent.

MISCELLANEOUS PROVISIONS

Termination of Reporting Obligation. The Issuer's obligations under the Disclosure Instructions shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series A, 2012 Bonds. If the Issuer's obligations are assumed in full by some other entity as permitted in the Bond Resolution, such person shall be responsible for compliance with under the Disclosure Instructions in the same manner as if it were the Issuer, and the Issuer shall have no further responsibility. If such termination or substitution occurs prior to the final maturity of the Series A, 2012 Bonds, the Issuer shall give notice of such termination or substitution in the same manner as for a Material Event

Amendment; Waiver. The Issuer and the Dissemination Agent, if any, may amend the Disclosure Instructions (and the Dissemination Agent shall not unreasonably refuse to execute any amendment so requested by the Issuer) and any provision of the Disclosure Instructions may be waived, provided that: (a) Bond Counsel or other counsel experienced in federal securities law matters provides the Issuer and the Dissemination Agent, if any, with its opinion that the undertaking of the Issuer, as so amended or after giving effect to such waiver, is in compliance with the SEC Rule and all current amendments thereto and interpretations thereof that are applicable to of the Disclosure; (b) if the amendment or waiver relates to the Annual Report or a Material Event, such amendment or waiver may only be made in connection with a change in circumstances that arises from a change in law or legal requirements, or change in the identity, nature or status of an obligated person with respect to the Series A, 2012 Bonds, or the type of business conducted; and (c) the amendment or waiver is either (1) approved by the Owners of the Series A, 2012 Bonds in the same manner as provided in the Bond Resolution with consent of the Owners, or (2) does not in the opinion of Bond Counsel materially impair the interests of the Owners or Beneficial Owners of the Series A, 2012 Bonds.

If there is an amendment or waiver, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of Financial Information or Operating Data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (a) notice of such change shall be given in the same manner as for a Material Event in the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Additional Information. Nothing shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in the Disclosure Instructions or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Material Event, in addition to that which is required by the Disclosure Instructions. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Material Event, in addition to that which is specifically required by the Disclosure Instructions, the Issuer shall have no obligation under the Disclosure Instructions to update such information or include it in any future Annual Report or notice of occurrence of a Material Event.

Noncompliance. In the event of a failure of the Issuer or the Dissemination Agent, if any, to comply with any provision of the Disclosure Instructions, the Participating Underwriter or any Beneficial Owner of the Series A, 2012 Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer or the Dissemination Agent, if any, as the case may be, to comply with its obligations under the Disclosure Instructions. Noncompliance with the provisions of the Disclosure Instructions shall not be deemed an Event of Default under the Bond Resolution, and the sole remedy under the Disclosure Instructions in the event of any failure of the Issuer or the Dissemination Agent, if any, to comply with the Disclosure Instructions shall be an action to compel performance.

Electronic Transactions. Actions taken under the Disclosure Instructions and the arrangements described therein may be conducted and related documents may be stored by electronic means.

Beneficiaries. The Disclosure Instructions shall inure solely to the benefit of the Issuer, the Dissemination Agent, if any, the Participating Underwriter and Beneficial Owners from time to time of the Series A, 2012 Bonds, and shall create no rights in any other person or entity.

Governing Law. The Disclosure Instructions shall be governed by and construed in accordance with the laws of the State.]

SUMMARY OF THE RESOLUTION

The following is a summary of certain provisions of the Resolution. This summary does not purport to be complete, and reference is made to the full text of the Resolution for a complete recital of its terms, as well as a complete recital of the defined terms used therein.

Revenue Fund

All of the Gross Revenues derived and collected by the District from the operation of the System will be paid and deposited into the Revenue Fund. The Revenue Fund shall be administered and applied solely for the purposes and in the manner provided in the Pledge Agreement.

Investments of Moneys in Funds

Obligations so purchased as an investment of money in any such fund or account shall be deemed at all times to be a part of such fund or account including accrued interest paid at the date of purchase until the payment of such interest on the next interest payment date. Investment earnings on all funds and accounts (except amounts required to be deposited into the Rebate Fund in accordance with the Arbitrage Instructions) shall be credited to such fund or account, and any loss resulting from any such investment shall be charged to such fund or account. All investment earnings on the Rebate Fund shall remain in such fund and be held and applied pursuant to the arbitrage instructions. Investment obligations shall be sold and reduced to cash in sufficient amounts whenever the cash balance in any fund or account is insufficient for the purposes of such fund or account. In determining the balance in any fund or account, Investment Obligations in such fund or account shall be valued as frequently as deemed necessary by the Authority or the District (not less frequently than annually) at the lower of their original cost or their fair market value as of such valuation date. Neither the Authority, the District, nor any member or officer thereof shall be liable or responsible for any loss resulting from any such investment.

Money held for the credit of the Revenue Fund may be invested in conformity with any applicable statute, subject to the provisions of the Resolution to the extent such provisions are not in conflict with any such statute.

Additional Bonds

(a) Additional Bonds or Parity Obligations may be issued by the Issuer or by the District equally and ratably secured on a parity of lien basis with the Series A, 2012 Bonds and any other Additional Bonds or Parity Obligations outstanding at any time and from time to time, upon compliance with the conditions hereinafter provided in the Resolution, for any of the following purposes:

(1) Provide funds to pay all or any part of the costs of acquisition, purchase or construction of such additions, improvements, extensions, alterations, expansions, or modifications of the System or any part thereof as the District may deem necessary or desirable and as will not impair the nature of the System.

(2) Provide funds for refunding all or a portion of the Bonds or any Parity Obligations of any series then Outstanding, including the payment of any premium thereon and interest to accrue to the designated redemption date and any expenses in connection with such refunding.

(b) Before any Additional Bonds or Parity Obligations shall be issued under the provisions of the Resolution, the following conditions must be met:

(1) The issuance of such additional Revenue Refunding Bonds of equal lien and priority is permitted by the statutes of the State of Kansas.

(2) The Net Revenues for the Fiscal Year preceding the issuance of such Additional Bonds or Parity Obligations shall have been in an amount at least equal to 125% of the principal and interest requirements of the Outstanding Bonds and Parity Obligations for such Fiscal Year, and the projected Net Revenues for the Fiscal Year succeeding the issuance of such Additional Bonds, together with the estimated additional Net Revenues resulting from any System rate increases adopted simultaneously with or prior to the issuance of such Bonds which would have been generated for the year preceding issuance of such Additional Bonds or Parity Obligations, shall be in an amount at least equal to 125% of the principal and interest requirements of all the Outstanding Bonds and Parity Obligations secured by the Net Revenues when added to the principal and interest requirements of the proposed Additional Bonds and Parity Obligations. Such projected Net Revenues shall be based upon a report prepared by an independent engineering consultant or certified public accountant.

(3) The District shall not be in default in the making of any payments at the time required to be made by it into the respective funds and accounts stated herein and shall not after the issuance of such Additional Bonds or Parity Obligations be in default in any covenants or procedures established in the Pledge Agreement or the Resolution of the District authorizing the Additional Bonds, or Parity Obligations.

(4) The District shall give written approval thereto if such Additional Bonds or Parity Obligations are to be issued by the Issuer, or the District shall give notice thereof to the Issuer and the Original Purchaser if such bonds or obligations are to be issued by the District; and

(5) The Issuer or the District shall adopt a resolution (i) authorizing the issuance of such Additional Bonds or Parity Obligations, fixing the amount and terms thereof and describing the purpose or purposes for which such Additional Bonds or Parity Obligations are being issued or describing the Bonds to be refunded, (ii) if applicable, authorizing the Issuer to enter into a Supplemental Resolution for the purpose of providing for the issuance of and securing such Additional Bonds or Parity Obligations and, if required by the Issuer, (iii) authorizing the Issuer to enter into a Supplemental Agreement with the District to provide for a pledge of revenues at least sufficient to pay the principal of, premium, if any, and interest on the Bonds then to be Outstanding (including the Additional Bonds or Parity Obligations to be issued) as the same become due, and for such other matters as are appropriate because of the issuance of the Additional Bonds or Parity Obligations proposed to be issued which, in the judgment of the Issuer, is not to the prejudice of the Issuer or the Owners of the Bonds previously issued.

(c) Additional Bonds, unless issued as Notes, shall be substantially in the form and executed in the manner set forth in the Resolution and shall be deposited with the Bond Registrar for authentication. Prior to or simultaneously with the authentication and delivery of such Additional Bonds by the Bond Registrar, there shall be filed with the Issuer and the Bond Registrar for such Additional Bonds the following:

(1) An original or certified copy of the resolution of the District or the Supplemental Resolution adopted by the Issuer authorizing the issuance of such Additional Bonds and the execution of the appropriate amendments or supplements to the Agreement.

(2) An original executed counterpart of the amendment or supplement to the Agreement, if required.

(3) An opinion of Bond Counsel to the effect that the Additional Bonds constitute valid and legally binding special obligations of the District or the Issuer, as the case may be, subject to such limitations and restrictions as shall be described therein.

(4) In the case of Additional Bonds being issued to refund Outstanding Bonds, such additional documents as shall be reasonably required by the Bond Registrar to establish that provision has been duly made for the payment of all of the Bonds to be refunded in accordance with the provisions of the Resolution.

(5) The written approval of the District, if applicable.

(6) Such other certificates, statements, receipts and documents as the Issuer or the District shall reasonably require for the delivery of such Additional Bonds.

(d) When the documents mentioned in the above paragraphs shall have been filed and when such Additional Bonds have been executed and authenticated as required by the Resolution, the Issuer or the District shall deliver such Additional Bonds to or upon the order of the purchasers thereof, but only upon payment of the purchase price of such Additional Bonds. The proceeds of the sale of such Additional Bonds (except Additional Bonds issued to refund Outstanding Bonds), including accrued interest and premium thereon, if any, shall be immediately deposited and applied as provided in the resolution authorizing the issuance of such Additional Bonds. The proceeds (excluding accrued interest and premium, if any, which shall be deposited in the Principal and Interest Account) of all Additional Bonds issued to refund Outstanding Bonds shall be deposited, after payment or making provision for payment of all expenses incident to such financing, to the credit of a special trust fund, appropriately designated, to be held in trust for the sole and exclusive purpose of paying the principal of, premium, if any, and interest on the Bonds to be refunded, as provided in the Resolution and in the resolution authorizing the issuance of such refunding Bonds.

(e) Except as provided in the Resolution, neither the Issuer nor the District will otherwise issue any obligations ratably secured and on a parity lien basis with the Bonds, but the Issuer or the District may issue other obligations specifically subordinate and junior to the Bonds with only the express written approval of the District.

Notice of Default

If an Event of Default shall have occurred and be continuing, the Authority shall request the Bond Registrar and Paying Agent to promptly notify the Owners of such default.

Acceleration of Maturity in Event of Default

If an Event of Default shall have occurred and be continuing, the Authority may, and shall upon the written request of the Owners of not less than 66 2/3% in aggregate principal amount of Bonds then Outstanding by notice in writing delivered to the Authority and the District, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest thereupon become and be immediately due and payable.

If, at any time after such declaration, but before the Bonds shall have matured by their terms, all overdue installments of principal and interest on the Bonds, together with the reasonable and proper expenses of the Bond Registrar and Paying Agent, and all other sums then payable by the Authority under the Resolution shall either be paid or provision shall be made for such payment, then and in every such case the Authority shall, but only with the approval of the Owners of not less than 50% in aggregate principal amount of the Bonds Outstanding, rescind such declaration and annul such default in its entirety.

In case of any rescission, then and in every such case the Authority, the District and the Bondowners be restored to their former position and rights respectively, but no such rescission shall extend to any subsequent or other default or Event of Default or impair any right consequent thereon.

Remedies on Default

Upon the happening and continuance of any Event of Default then and in every such case any Owner may proceed, subject to the provisions of the Resolution, to protect and enforce the rights of the Owners by a suit, action or special proceeding in equity, or at law, either for the specific performance of any covenant or agreement contained herein or in aid or execution of any power herein granted or for the enforcement of any proper legal or equitable remedy as such Owner shall deem most effectual to protect and enforce such rights.

Anything in the Resolution to the contrary notwithstanding, if at any time the moneys in the Principal and Interest Account, together with any Net Revenues then available or thereafter becoming available for such purpose, whether through the exercise of the remedies provided for in the Resolution or otherwise, shall be applied as follows:

(a) If the principal of all the Bonds and Parity Obligations shall not have become due and payable, all such moneys shall be applied:

first: to the payment of persons entitled thereto of all installments of interest then due and payable in the order in which such installments became due and payable, and, if the amount available shall not be sufficient to pay in full any particular installments, then to the payment, ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference, except as to any difference in the respective rates of interest specified in the Bonds or Parity Obligations;

second: to the payment of persons entitled thereto of the unpaid principal of any of the Bonds or Parity Obligations which shall have become due and payable (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Resolution), in the order of their due dates, with interest on the principal amount of such Bonds or Parity Obligations at the respective rates specified therein from the respective dates upon which such Bonds became due and payable, and, if the amount available shall not be sufficient to pay in full the principal of the Bonds or Parity Obligations due and payable on any particular date, together with such interest, then to the payment first of such interest, ratably, according to the amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference; and

third: to the payment of the interest on and the principal of the Bonds or Parity Obligations, to the purchase and retirement of Bonds and to the redemption of Bonds, all in accordance with the provisions of the Resolution.

(b) If the principal of all the Bonds or Parity Obligations shall have become due and payable, all such moneys shall be applied:

first: to the payment to the persons entitled thereto of all installments of interest due and payable on or prior to maturity, if any, in the order in which such installments became due and payable and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment, ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds or Parity Obligations, and then to the payment of any interest due and payable after maturity on the Bonds or Parity Obligations, ratably, to the persons entitled thereto, without any discrimination or preference, except as to any difference in the respective rates of interest specified in the Bonds or Parity Obligations; and

second: to the payment of the principal of the Bonds or Parity Obligations, ratably, to the persons entitled thereto, without preference or priority of any obligation over any other obligation.

Whenever moneys are to be applied by the Authority or Paying Agent pursuant to the provisions of the Resolution, such moneys shall be applied by the Authority at such times, and from time to time, as the Authority in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future; the deposit of such moneys with the Paying Agent in trust for the proper purpose shall constitute proper application by the Authority; and the Authority shall incur no liability whatsoever to any Owner or to any other persons for any delay in applying any such moneys, so long as the Authority acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of the Resolution as may be applicable at the time of application by the Paying Agent. Whenever the Authority shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an interest payment date unless the Authority shall deem another date more suitable) upon which such application is to be made

and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Authority shall give such notice as it may deem appropriate of the fixing of any such date, and shall not be required to make payment to the owner of any unpaid Bond until such Bond shall be surrendered to the Bond Registrar for appropriate endorsement, or for cancellation if fully paid.

In case any proceeding taken by any Owner on account of any default shall have been discontinued or abandoned for any reason, then and in every such case the Authority and the Owners shall be restored to their former positions and rights hereunder, respectively, and all rights and remedies of the Owners shall continue as though not such proceedings had been taken.

No Owner of any of the Bonds shall have any right in any manner whatever to affect, disturb or prejudice the security of the Resolution or to enforce any right hereunder, except in the manner herein provided, and all proceedings at law or in equity shall be instituted, had and maintained for the equal benefit of all Owners.

No remedy herein conferred on the Owners is intended to be exclusive of any other remedy or remedies, and each and every remedy conferred shall be cumulative and shall be in addition to every other remedy given hereunder and under the Act or now or hereafter existing at law or in equity or by statute.

No delay or omission of any Owner to exercise any right or power accruing upon any default occurring and continuing as aforesaid shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Resolution to the Owners may be exercised from time to time and as often as may be deemed expedient.

Limitation on Exercise of Remedies by Bondowners

No Owner of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Resolution or the Agreement for the appointment of a receiver or any other remedy hereunder, unless (i) an Event of Default shall have occurred, (ii) the Owners of 25% in aggregate principal amount of Bonds then Outstanding shall have made written request to the Authority, shall have offered it reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, and (iii) the Authority shall thereafter fail or refuse to exercise the powers herein granted or to institute such action, suit or proceeding in its own name; and such notification, request and offer of indemnity are hereby declared in every case, at the option of the Authority, to be conditions precedent to the execution of the powers and trusts of the Resolution and to any action or cause of action for the enforcement of the Resolution or the Agreement, or for the appointment of a receiver or for any other remedy hereunder, it being understood and intended that not one or more Owners of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the Resolution by its, his or their action or to enforce any right hereunder except in the manner therein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner therein provided and for the equal benefit, prorata, of all Bonds and Parity Obligations then outstanding. Nothing in the Resolution contained shall, however, affect or impair the right of any Owner to payment of the principal of and interest on any Bond at and after the maturity thereof or the obligation of the Authority to pay the principal of, premium, if any, and interest on each of the Bonds issued hereunder to the respective Owners thereof at the time, place, from the source and in the manner in the Resolution and in the Bonds expressed.

Right of Owners to Direct Proceedings

Anything in the Resolution to the contrary notwithstanding, the Owners of 50% in aggregate principal amount of Bonds and Parity Obligations then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Authority, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Resolution or the Agreement, or for the appointment of a receiver or any other proceedings thereunder, provided that such direction shall not be otherwise than in accordance with the provisions of law and of the Resolution.

Exercise of Remedies

If an Event of Default shall have occurred and be continuing, the Authority shall pursue and exercise any available remedy at law or in equity by suit, action, mandamus or other proceeding or exercise such one or more of the rights and powers conferred by the Resolution as the Authority, being advised by counsel, shall deem most expedient in the interests of the Owners to enforce the payment of the principal of, premium, if any, and interest on the Bonds then Outstanding.

All rights of action under the Resolution or under any of the Bonds may be enforced by the Authority without the possession of any of the Bonds or the production thereof in any trial or other proceedings relating thereto, and any such suit or proceeding instituted by the Authority shall be brought in its name without necessity of joining as plaintiffs or defendants any Registered Owners of the Bonds, and any recovery of judgment shall be for the equal benefit, prorata, of all the Outstanding Bonds and Parity Obligations.

Supplemental Resolutions Not Requiring Consent of Owners

The Authority may from time to time, without the consent of or notice to any of the Owners, adopt such Supplemental Resolution or Supplemental Resolutions as shall not be inconsistent with the terms and provisions of the Resolution, for any one or more of the following purposes:

- (a) To cure any ambiguity or formal defect or omission in the Resolution or to make any other change not prejudicial to the Owners;
- (b) To grant to or confer upon the Bond Registrar for the benefit of the Owners any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners;
- (c) To more precisely identify the System or to add additional property thereto;
- (d) To subject to the Resolution additional revenues, properties or collateral; or
- (e) To issue Additional Bonds.

Supplemental Resolutions Requiring Consent of Owners

Exclusive of Supplemental Resolutions described above and subject to the terms and provisions contained in the Resolution, and not otherwise, the Owners of not less than 66-2/3% in aggregate principal amount of the Bonds then Outstanding shall have the right from time to time, anything contained in the Resolution to the contrary notwithstanding, to consent to and approve the adoption by the Authority of such other Supplemental Resolution or Supplemental Resolutions as shall be deemed necessary and desirable by the Authority for the purpose of modifying, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Resolution or in any Supplemental Resolution; provided, however, that nothing herein contained shall permit or be construed as permitting (1) an extension of the maturity of the principal of or the interest on any Bond issued hereunder, or (2) a reduction in the principal amount of any Bond or the rate of interest thereon, or (3) a privilege or priority of any Bond or Bonds over any other Bond or Parity Obligation, or (4) a reduction in the aggregate principal amount of Bonds the Owners of which are required for consent to any such Supplemental Resolution.

Any provision of the Resolution may be amended with the written consent of the owners of 100% in aggregate principal amount of Bonds and Parity Obligation Outstanding.

Anything hereinabove set forth to the contrary notwithstanding, a Supplemental Resolution which affects any rights of the District shall not become effective unless and until the District shall have consented in writing to the execution and delivery of such Supplemental Resolution.

Satisfaction of Lien

When the principal of, premium, if any, and interest on all of the Bonds shall have been paid in accordance with their terms or provision has been made for such payment, and provision shall also be made for paying all other sums payable under the Resolution, then the right, title, interest and lien of the Owners in the Net Revenues under the Resolution and the Agreement shall thereupon cease. Thereupon the Authority shall release the covenants of the Resolution and the Agreement and shall execute, acknowledge and deliver such instruments of satisfaction and release and as may be required to evidence such release. The Authority is authorized to accept a certificate by the Bond Registrar and Paying Agent that the principal of, premium, if any, and interest due and payable upon all of the Bonds then Outstanding have been paid or such payment provided for as evidence of satisfaction of the Resolution.

Bonds Deemed to be Paid

The Bonds shall be deemed to be paid within the meaning of the Resolution when payment of the principal of, premium, if any, and interest thereon to the due date thereof (whether such due date be by reason of maturity or upon redemption, or otherwise), either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided for by depositing with a qualified Kansas bank or trust company, in trust and irrevocably set aside exclusively for such payment (1) moneys sufficient to make such payment or (2) Government Obligations maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment. At such time as a Bond shall be deemed to be paid, it shall not longer be secured by or entitled to the benefits of the Resolution or the Agreement, except for the purposes of any such payment from such moneys or Government Obligations.

Notwithstanding the foregoing, in the case of Bonds which by their terms may be redeemed prior to the stated maturities thereof, no deposit under clause (ii) of the preceding paragraph shall be deemed a payment of such Bonds as aforesaid until, as to all such Bonds which are to be redeemed prior to their respective stated maturities, proper notice of such redemption shall have been given in accordance with the Resolution or irrevocable instructions shall have been given to the Bond Registrar and Paying Agent to give such notice.

All moneys or Government Obligations set aside and held in trust for the payment of the Bonds (including premium thereon, if any) and interest thereon shall be applied to and used solely for the payment of the particular Bonds (including premium thereon, if any) and interest thereon with respect to which such moneys and Government Obligations have been so set aside in trust.

NON-LITIGATION CERTIFICATION

Upon delivery of the Bonds, the Authority and the District will furnish a certificate dated the date of delivery of the Bonds, to the effect that (a) to the knowledge of the signer or signers thereof there is not litigation pending or threatened against the Authority or the District affecting the validity of the Pledge Agreement the Resolution or the Bonds; and (b) the execution, delivery and performance by the Authority or the District of the Pledge Agreement or the Resolution will not violate any provision of the Constitution, statutes or other laws of the State or any other applicable judgment, order or regulation of any court or of any public or governmental agency or authority of the State and will not conflict with or result in any breach of any of the provisions of, or constitute a default under, any agreement or instrument to which the Authority or the District is a party or by which either of the Authority or the district or any of their respective property is or may be bound, nor will such action result in any violation of the provisions of any statute, order, rule or regulation applicable to the Authority or the District of any court or any federal, state or other regulatory authority or other governmental body.

LEGAL MATTERS

Approval of Bonds

All legal matters relating to the authorization and issuance of the Bonds are subject to the approving opinion of Gilmore & Bell, P.C., Wichita, Kansas, Bond Counsel. Bond Counsel has not participated in the preparation of the information contained in this Preliminary Official Statement except for the matters appearing in the sections captioned "THE BONDS," "DEFINITIONS OF WORDS AND TERMS," "SUMMARY OF THE PLEDGE AGREEMENT," "SUMMARY OF THE RESOLUTION," "LEGAL MATTERS" and "TAX MATTERS." An original approving opinion will be delivered at closing to the Original Purchasers of the Bonds.

TAX MATTERS

General

The following is a summary of the material federal and State income tax consequences of holding and disposing of the Series A, 2012 Bonds. This summary is based upon laws, regulations, rulings and judicial decisions now in effect, all of which are subject to change (possibly on a retroactive basis). This summary does not discuss all aspects of federal income taxation that may be relevant to investors in light of their personal investment circumstances or describe the tax consequences to certain types of holders subject to special treatment under the federal income tax laws (for example, dealers in securities or other persons who do not hold the Series A, 2012 Bonds as a capital asset, tax-exempt organizations, individual retirement accounts and other tax deferred accounts, and foreign taxpayers), and, except for the income tax laws of the State of Kansas, does not discuss the consequences to an owner under state, local or foreign tax laws. The summary does not deal with the tax treatment of persons who purchase the Series A, 2012 Bonds in the secondary market at a premium or a discount. Prospective investors are advised to consult their own tax advisors regarding federal, state, local and other tax considerations of holding and disposing of the Series A, 2012 Bonds.

Tax Matters Applicable to the Series A, 2012 Bonds

Sale, Exchange or Retirement of Series A, 2012 Bonds. Upon the sale, exchange or retirement (including redemption) of a Series A, 2012 Bond, an owner of the Series A, 2012 Bond generally will recognize gain or loss in an amount equal to the difference between the amount of cash and the fair market value of any property received on the sale, exchange or retirement of the Series A, 2012 Bond (other than in respect of accrued and unpaid interest) and such owner's adjusted tax basis in the Series A, 2012 Bond. To the extent the Series A, 2012 Bonds are held as a capital asset, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the Series A, 2012 Bond has been held for more than 12 months at the time of sale, exchange or retirement.

Reporting Requirements. In general, information reporting requirements will apply to certain payments of principal, interest and premium paid on Series A, 2012 Bonds, and to the proceeds paid on the sale of Series A, 2012 Bonds, other than certain exempt recipients (such as corporations and foreign entities). A backup withholding tax will apply to such payments if the owner fails to provide a taxpayer identification number or certification of foreign or other exempt status or fails to report in full dividend and interest income. The amount of any backup withholding from a payment to an owner will be allowed as a credit against the owner's federal income tax liability.

Opinion of Bond Counsel

Federal Tax Exemption. In the opinion of Bond Counsel, under existing law, the interest on the Series A, 2012 Bonds [(including any original issue discount properly allocable to an owner thereof)] is excluded from gross income for federal income tax purposes. Interest on the Series A, 2012 Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations but is taken into account in determining adjusted current earnings for the purpose of computing the

alternative minimum tax imposed on certain corporations. The opinions set forth in this paragraph are subject to the condition that the Issuer comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series A, 2012 Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Series A, 2012 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series A, 2012 Bonds.

Bank Qualification. The Series A, 2012 Bonds are “qualified tax-exempt obligations” for purposes of Code § 265(b)(3), and, in the case of certain financial institutions (within the meaning of Code § 265(b)(5)), a deduction is allowed for 80% of that portion of such financial institutions' interest expense allocable to interest on the Series A, 2012 Bonds.

Kansas Tax Exemption. The interest on the Series A, 2012 Bonds is excluded from computation of Kansas adjusted gross income.

[Original Issue Discount. In the opinion of Bond Counsel, under existing law, the original issue discount in the selling price of each Series A, 2012 Bond purchased in the original offering at a price less than the principal amount thereof, to the extent properly allocable to each owner of such Series A, 2012 Bond, is excludable from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such Series A, 2012 Bond over its initial offering price to the public (excluding underwriters and intermediaries) at which price a substantial amount of the Bonds were sold. Under Code § 1288, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner during any accrual period generally equals: (a) the issue price of such Series A, 2012 Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (b) the yield to maturity on such Series A, 2012 Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), minus (c) any interest payable on such Series A, 2012 Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excludable from gross income for federal income tax purposes, and will increase the owner's tax basis in such Series A, 2012 Bond. Owners of any Series A, 2012 Bonds purchased at an original issue discount should consult with their tax advisors regarding the determination and treatment of original issue discount for federal income tax purposes and the state and local tax consequences of owning such Series A, 2012 Bonds.]

[Original Issue Premium. An amount equal to the excess of the purchase price of a Series A, 2012 Bond over its stated principal amount at maturity constitutes premium on such Series A, 2012 Bond. An owner of a Series A, 2012 Bond must amortize any premium over such Series A, 2012 Bond's term using constant yield principles, based on the Series A, 2012 Bond's yield to maturity. As premium is amortized, the owner's basis in such Series A, 2012 Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to such owner. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of such Series A, 2012 Bond prior to its maturity. Even though the owner's basis is reduced, no federal income tax deduction is allowed. Owners of any Series A, 2012 Bonds purchased at a premium, whether at the time of initial issuance or subsequent thereto, should consult their individual tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Series A, 2012 Bonds.]

No Other Opinions. Bond Counsel expresses no opinion regarding other federal, state or local tax consequences arising with respect to the Series A, 2012 Bonds.

Other Tax Consequences

Prospective purchasers of the Series A, 2012 Bonds should be aware that ownership of the Series A, 2012 Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with “excess net passive income,” foreign corporations subject to the branch profits tax, life insurance companies, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the Series A, 2012 Bonds. Bond Counsel expresses no opinion regarding these tax consequences. Purchasers of Series A, 2012 Bonds should consult their tax advisors as to the applicability of these tax consequences and other federal income tax consequences of the purchase, ownership and disposition of the Series A, 2012 Bonds, including the possible application of state, local, foreign and other tax laws.

FINANCIAL ADVISOR

Ranson Financial Consultants, L.L.C., Wichita, Kansas serves as financial advisor (“Financial Advisor”) to the Authority and the District. The Financial Advisor has participated in the preparation of this Preliminary Official Statement, but has not verified all of the factual information contained herein, nor has it conducted a detailed investigation of the affairs of the Authority and the District for the purpose of passing upon the accuracy or completeness of this Preliminary Official Statement. The Financial Advisor's fee is contingent upon the actual issuance and delivery of the Bonds.

UNDERWRITING

_____ (the "Underwriter") has agreed, subject to certain customary conditions of closing, to purchase the Series A, 2012 Bonds from the Authority at an aggregate discount of ___% from the initial public offering prices set forth on the inside cover page of this Preliminary Official Statement. The Underwriter will be obligated to purchase all of the Bonds if any of the Bonds are purchased. The Series A, 2012 Bonds may be offered and sold to certain dealers (including the Underwriter and other dealers depositing such Bonds into investment trusts at prices lower than such public offering prices), and such public offering prices may be changed, from time to time, by the Underwriter.

RATING

The Authority has not made an application for an independent rating on the Series A, 2012 Bonds.

ELIGIBILITY TO SECURE THE DEPOSIT OF PUBLIC FUNDS

Pursuant to K.S.A. 9-1402, banks are allowed to hold revenue bonds of any municipality or quasi-municipal corporation of the State of Kansas, as security for the deposit of public funds, if approved by the State Bank Commissioner. An application will be submitted to the State Bank Commissioner requesting that the Bonds be approved as security for deposit of public funds.

MISCELLANEOUS

The Authority has not participated in the preparation of the information contained in this Preliminary Official Statement except for the matters appearing in the sections captioned "INTRODUCTION," "THE KANSAS RURAL WATER FINANCE AUTHORITY" and "NON-LITIGATION CERTIFICATION." Information contained herein relating to the District and the System was provided by officials of the District, which information the Authority believes to be correct. However, the Authority has not made an independent investigation of such information and does not make representations as to its accuracy or completeness.

ADDITIONAL INFORMATION

Additional information with respect to the Authority and the Bonds may be obtained upon request from the Kansas Rural Water Finance Authority, PO Box 111, Seneca, Kansas 66538.

Any statements in this Preliminary Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. This Preliminary Official Statement is not to be construed as a contract or agreement between the Authority and Bondowners.

This Preliminary Official Statement is submitted only in connection with the sale and delivery of the Bonds and may not be reproduced or used in whole or in part for any other purpose.

AUTHORIZATION OF PRELIMINARY OFFICIAL STATEMENT

The preparation of this Preliminary Official Statement and its distribution has been authorized by the Authority and the District. This Preliminary Official Statement has been duly approved by the governing body of the Authority and the governing body of the District and "deemed final" in accordance with the Securities and Exchange Commission Rule 15c2-12 as of the date of on the cover page.

KANSAS RURAL WATER FINANCE AUTHORITY

By _____
Maurice Meirovsky, President

RURAL WATER DISTRICT NO. 3,
JACKSON COUNTY, KANSAS

By _____
David Allen, Chairperson

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\$1,155,000*
KANSAS RURAL WATER FINANCE AUTHORITY
REVENUE BONDS
SERIES A, 2012
(Rural Water District No. 3, Jackson County, Kansas)

APPENDIX A

Audited Financial Statements of the District
(Fiscal Year Ended December 31, 2010)

* Subject to change.

RURAL WATER DISTRICT NO. 3
JACKSON COUNTY, KANSAS

Financial Statements
with
Independent Auditors' Report
For the years ended December 31, 2010 and 2009

By

DOUTHETT & CO. CPA, PA
Certified Public Accountants
1100 SW Wanamaker Road, Suite 102
Topeka, Kansas 66604-3805
(785) 272-4832 FAX (785) 272-4917

RURAL WATER DISTRICT NO. 3
JACKSON COUNTY, KANSAS

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Douthett & Co. CPA, PA

Certified Public Accountants

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Email: douthepa@aol.com

By Appointment
SENECA, HIAWATHA, SABETHA,
HOLTON, MANHATTAN
TOLL FREE: 888-464-1342

INDEPENDENT AUDITORS' REPORT

Board of Directors
Rural Water District No. 3
Jackson County, Kansas

We have audited the accompanying financial statements of the governmental activities of Rural Water District No. 3, Jackson County, Kansas as of December 31, 2010 and 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

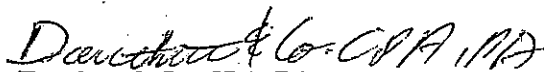
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Rural Water District No. 3, Jackson County, Kansas as of December 31, 2010 and 2009 and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. However, management has elected to omit this information.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Rural Water District No. 3, Jackson County, Kansas. The supplemental schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basis financial statements taken as a whole.

This report is intended solely for the information and use of the District's members and management of Rural Water District No. 3, Jackson County, Kansas and should not be used for any other purposes.


Douthett & Co. CPA, PA
Certified Public Accountants
February 14, 2011

RURAL WATER DISTRICT NO. 3
 JACKSON COUNTY, KANSAS

STATEMENTS OF NET ASSETS
 December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,260,756	\$ 1,256,906
Accounts receivable	108,264	92,115
Accrued interest receivable	1,091	1,043
Inventory	60,690	92,281
Prepaid insurance	<u>7,725</u>	<u>7,282</u>
Total Current Assets	1,438,526	1,449,627
Noncurrent Assets:		
Certificates of deposit	174,650	174,650
Investment in Joint Venture	275,901	275,901
Capital Assets:		
Property, plant and equipment, net of accumulated depreciation	6,449,521	6,151,481
Other Assets:		
Loan costs, less accumulated amortization	15,268	19,858
Reserve account	<u>76,266</u>	<u>31,883</u>
Total Other Assets	<u>91,534</u>	<u>51,741</u>
 TOTAL ASSETS	 <u>8,430,132</u>	 <u>8,103,400</u>

See accompanying notes to financial statements

RURAL WATER DISTRICT NO. 3
JACKSON COUNTY, KANSAS

STATEMENTS OF NET ASSETS (Continued)
December 31, 2010 and 2009

	2010	2009
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 64,566	21,815
Due to PWWS #18	-	34,200
Accrued wages	14,709	6,240
Accrued payroll taxes	3,607	3,240
Accrued interest	17,982	5,936
Current portion of long-term debt	261,810	268,709
Total Current Liabilities	362,674	340,140
Noncurrent Liabilities:		
Notes payable	56,395	128,010
SRF note payable	658,057	284,867
Bonds payable	-	145,000
Total Noncurrent Liabilities	714,452	557,877
TOTAL LIABILITIES	1,077,126	898,017
NET ASSETS		
Invested in capital assets, net of related debt	5,473,258	5,324,894
Restricted net assets	174,650	174,650
Unrestricted net assets		
Designated - Emergency Capital Outlay	99,199	100,266
Undesignated	1,605,899	1,605,573
Total Unrestricted Net Assets	1,705,098	1,705,839
TOTAL NET ASSETS	\$ 7,353,006	\$ 7,205,383

See accompanying notes to financial statements

RURAL WATER DISTRICT NO. 3
JACKSON COUNTY, KANSAS

STATEMENTS OF ACTIVITIES
For the years ended December 31, 2010 and 2009

	2010	2009
OPERATING REVENUES:		
Water sale	\$ 1,225,002	\$ 1,186,682
Debt charges	198,628	195,234
Penalty charges	34,112	19,273
Miscellaneous	7,357	8,886
	1,465,099	1,410,076
OPERATING EXPENSES:		
Wages and salaries	171,734	161,910
Payroll taxes	13,758	11,496
Employee benefits	46,276	38,420
Accounting fees	7,646	6,860
Advertising	846	713
Board member pay stipend	6,560	6,320
Chemicals and analysis	14,001	13,166
Dues and subscriptions	1,620	1,095
Education and training	994	815
Engineering fees	10,741	16,583
Gas and fuel	17,572	13,168
Insurance	19,002	18,002
License and fees	1,554	-
Lawn mowing	4,305	4,000
Miscellaneous	1,768	1,099
Office expense	9,821	10,024
Postage	10,351	10,585
Printing	980	-
Professional fees	5,138	7,480
Rent	5,840	5,325
Repairs and maintenance	164,501	118,949
Taxes and fees	8,121	7,977
Telephone	7,801	6,489
Telemetry	6,758	6,465
Travel	1,366	2,075
Utilities	43,980	39,906
Water purchases	443,424	419,311
Amortization	4,589	4,486
Depreciation	326,145	328,226
Loss on disposal of capital assets	(4,500)	-
	1,352,692	1,260,947
Total Operating Expenses		
Operating Income	112,407	149,129

See accompanying notes to financial statements

RURAL WATER DISTRICT NO. 3
JACKSON COUNTY, KANSAS

STATEMENTS OF ACTIVITIES (Continued)
For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
NONOPERATING INCOME (EXPENSE):		
Interest income	16,453	22,529
Interest expense	(47,197)	(34,838)
Meter sales	42,750	69,115
Line extension sales	23,210	62,524
	<u>35,216</u>	<u>119,330</u>
Nonoperating Income (Expenses)		
	<u>147,623</u>	<u>268,459</u>
Change in Net Assets		
NET ASSETS, beginning of period	<u>7,205,383</u>	<u>6,936,924</u>
NET ASSETS, end of period	<u>\$ 7,353,006</u>	<u>\$ 7,205,383</u>

See accompanying notes to financial statements

RURAL WATER DISTRICT NO. 3
JACKSON COUNTY, KANSAS

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,448,950	\$ 1,447,950
Payments to suppliers	(814,657)	(770,839)
Payments to employees	(163,264)	(161,732)
Net Cash Provided by Operating Activities	471,029	515,379
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on capital debt	(268,709)	(225,236)
Advances from capital debt	418,385	318,829
Interest paid on capital debt	(35,151)	(36,148)
Meters purchased by members	42,750	69,115
Contributions by members for construction	23,209	62,524
Loan costs for issuance of debt	-	(12,442)
Reserve account on long-term debt	(44,383)	(31,883)
Proceeds from sale of assets	4,500	-
Purchase of property and equipment	(624,185)	(335,919)
Net Cash Used by Capital and Related Financing Activities	(483,584)	(191,160)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	16,405	23,354
Net Cash Provided by Investing Activities	16,405	23,354
Net Increase in Cash and Cash Equivalents	3,850	347,573
CASH, beginning of year	1,431,556	1,083,983
CASH, end of year	\$ 1,435,406	\$ 1,431,556

See accompanying notes to financial statements

RURAL WATER DISTRICT NO. 3
JACKSON COUNTY, KANSAS

STATEMENTS OF CASH FLOWS (Continued)
For the years ended December 31, 2010 and 2009

	2010	2009
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$ 112,407	\$ 149,129
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	326,145	328,226
Amortization expense	4,589	4,486
Gain on disposal of capital assets	(4,500)	-
Change in assets and liabilities:		
Accounts receivable	(16,148)	37,875
Inventory	31,592	(12,927)
Prepaid insurance	(443)	(969)
Accounts payable	8,550	9,539
Accrued wages	8,470	178
Accrued payroll taxes	367	(158)
Net Cash Provided by Operating Activities	\$ 471,029	\$ 515,379
 CASH RECONCILIATION:		
Cash and cash equivalents	\$ 1,260,756	\$ 1,256,906
Certificates of deposit	174,650	174,650
CASH, end of year	\$ 1,435,406	\$ 1,431,556

See accompanying notes to financial statements

RURAL WATER DISTRICT NO. 3
JACKSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose of Organization

Rural Water District No. 3, Jackson County, Kansas (the District) is a quasi-municipal corporation located in Holton, Kansas. It was established for the purpose of operating a water supply and distribution system to the benefit units within its geographic area.

The District is not included in any other governmental "reporting entity" as defined in GASB pronouncements, since Board members are elected by the patrons of the District, have decision-making authority, power to designate management, the ability to influence operations and primary accountability for fiscal matters.

Basis of Accounting

The financial statements of Rural Water District No. 3, Jackson County, Kansas are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standard Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The District has the option to apply FASB pronouncements issued after that date and has elected to apply those when applicable. The more significant accounting policies established in GAAP and used by the District are discussed below.

In June, 1999 the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time, GASB requires the financial statements to include:
 - A Management's Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations. Management has elected to omit the Management Discussion and Analysis.
 - Financial statements are prepared using full accrual accounting for all of the District's activities.

Financial Reporting Entity

The District's basic financial statements include the accounts of all District operations. The District is a separate legal entity created by the Kansas Legislature as described above.

Basis of Presentation

Rural Water District No. 3, Jackson County, Kansas is accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets.

RURAL WATER DISTRICT NO. 3
JACKSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The financial statements are reported using the economic resources measurement and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities are included on the Statement of Net Assets and the operating statement presents increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash includes all monies in the bank and highly liquid investments. The carrying value of cash approximates fair value because of the short maturities of those financial instruments.

Capital Assets

All capital assets are valued at historical cost. Depreciation is based upon the estimated useful lives of the assets, using the straight-line method. Expenditures for major renewals and betterments that extend the lives of property and equipment are capitalized. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation are reduced and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is expensed as incurred.

Membership Equity

The sales price of benefit unit certificates is considered a contribution to the District. Contributions for meter setbacks and extensions are also considered a contribution to the District. These are recorded as other income and are included in the net assets of the District.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowings used for the acquisition. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions. The District has restricted net assets as a result of bond and debt agreements at December 31, 2010 and 2009. See Note 14 for component of restricted net assets.

RURAL WATER DISTRICT NO. 3
JACKSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The District is a quasi-municipal governmental unit, which is exempt from federal and state income taxes.

Budget

The District is not required to operate under the Kansas budget laws. For the years ended December 31, 2010 and 2009, a budget was prepared as required by Kansas Rural Water Association.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2010 consist of the following:

	<u>Current Assets</u>	<u>Noncurrent Assets</u>	<u>Total</u>
Cash on hand	\$ 66	\$ -	\$ 66
Denison State Bank:			
Checking - Operating	30,999	-	30,999
Money Market - Construction	396,290	-	396,290
Money Market - Debt Fund	289,612	-	289,612
Money Market - Emergency			
Capital Outlay	99,199	-	99,199
Money Market - Reserve	321,113	-	321,113
Farmers State Bank:			
Certificates of Deposit	<u>123,477</u>	<u>174,650</u>	<u>298,127</u>
Total Cash	<u>\$ 1,260,756</u>	<u>\$ 174,650</u>	<u>\$ 1,435,406</u>

Cash and cash equivalents at December 31, 2009 consist of the following:

	<u>Current Assets</u>	<u>Noncurrent Assets</u>	<u>Total</u>
Cash on hand	\$ 192	\$ -	\$ 192
Denison State Bank:			
Checking - Operating	73,338	-	73,338
Checking - Soldier Construction	-	-	-
Money Market - Construction	400,277	-	400,277
Money Market - Debt Fund	247,175	-	247,175
Money Market - Emergency			
Capital Outlay	100,266	-	100,266
Money Market - Reserve	318,292	-	318,292
Farmers State Bank:			
Certificates of Deposit	<u>117,365</u>	<u>174,650</u>	<u>292,015</u>
Total Cash	<u>\$ 1,256,906</u>	<u>\$ 174,650</u>	<u>\$ 1,431,556</u>

RURAL WATER DISTRICT NO. 3
JACKSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2010 and 2009

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

The District maintains several accounts for specific purposes. Descriptions of these accounts are as follows:

Construction	The District maintains money in a money market account for new construction.
Debt Fund	This money market account is maintained so that annual debt payment requirements are met on a timely basis.
Emergency Capital Outlay	The Board has designated this money to be used for unexpected large capital expenditures and fixed asset purchases. The Board has set a minimum account balance of \$25,000 and a maximum of \$100,000 for this account. When the account reaches the maximum, the Board can vote to either stop funding this account or to use excess funds for infrastructure improvements above ordinary repairs and maintenance.

The District had no noncash financing transactions nor made cash payments for income taxes.

NOTE 3 – ACCOUNTS RECEIVABLE

The District offers unsecured credit for water service, however collections of accounts receivable are generally current. At December 31, 2010 and 2009, there were minimal amounts of uncollected accounts due over ninety days. Uncollectible accounts are written off in the period they become worthless. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct-write off method is not materially different from the results that would have been obtained under the allowance method.

NOTE 4 – PREPAID EXPENSES

Prepaid expenses consist of prepaid insurance. Payments for insurance coverage are amortized over the term of the premium payment.

NOTE 5 – INVENTORIES

Inventories are stated at the lower of cost or market and are valued using the first-in, first-out (FIFO) method. Inventory amounts include materials and pipe for expansion of the water system. As these materials are used, they are charged to the property or maintenance accounts as appropriate.

RURAL WATER DISTRICT NO. 3
JACKSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2010 and 2009

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows:

	Balance January 1	Additions/ Completions	Retirements/ Adjustments	Balance December 31
Capital Assets Not Being Depreciated:				
Land	\$ 71,898	\$ 3,393	\$ -	\$ 75,291
Capital Assets Being Depreciated:				
Buildings	-	31,673	-	31,673
Dam construction costs	373,000	-	-	373,000
Equipment	103,573	20,887	18,882	105,578
Filtration plant	533,072	-	-	533,072
Leasehold improvements	7,821	-	-	7,821
Line extensions	4,803,071	475,746	-	5,278,817
Office equipment	10,588	2,165	-	12,753
Plant	1,396,549	81,859	-	1,478,408
Reservation construction	428,779	-	-	428,779
Soldier water tower	954,598	-	-	954,598
Standpipe	58,395	-	-	58,395
Tank	752,820	-	-	752,820
Telemetry	144,343	-	-	144,343
Wells	291,084	-	-	291,084
Whiting annex	775,620	8,462	-	784,082
Total Being Depreciated	10,633,313	620,792	18,882	11,235,223
Less Accumulated Depreciation	4,553,730	326,145	18,882	4,860,993
Net Being Depreciated	6,079,583	294,647	-	6,374,230
Total Capital Assets	\$ 6,151,481	\$ 298,040	\$ -	\$ 6,449,521

RURAL WATER DISTRICT NO. 3
JACKSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2010 and 2009

NOTE 6 – CAPITAL ASSETS (Continued)

Capital asset activity for the year ended December 31, 2009 was as follows:

	Balance January 1	Additions/ Completions	Retirements/ Adjustments	Balance December 31
Capital Assets Not Being Depreciated:				
Land	\$ 71,898	\$ -	\$ -	\$ 71,898
Capital Assets Being Depreciated:				
Dam construction costs	373,000	-	-	373,000
Equipment	89,630	13,943	-	103,573
Filtration plant	533,072	-	-	533,072
Leasehold improvements	7,821	-	-	7,821
Line extensions	4,481,095	321,976	-	4,803,071
Office equipment	10,588	-	-	10,588
Plant	1,396,550	-	-	1,396,550
Reservation construction	428,779	-	-	428,779
Soldier water tower	954,598	-	-	954,598
Standpipe	58,395	-	-	58,395
Tank	752,820	-	-	752,820
Telemetry	144,343	-	-	144,343
Wells	291,084	-	-	291,084
Whiting annex	775,620	-	-	775,620
Total Being Depreciated	10,297,395	335,919	-	10,633,314
Less Accumulated Depreciation	4,225,504	328,226	-	4,553,730
Net Being Depreciated	6,071,891	7,694	-	6,079,584
Total Capital Assets	\$ 6,143,789	\$ 7,694	\$ -	\$ 6,151,481

Depreciation expense for years ended December 31, 2010 and 2009 was \$326,145 and \$328,226, respectively.

NOTE 7 – LOAN FEES

In 2001 the District issued revenue bonds to refinance outstanding bonds and for construction. Loan costs were paid in order to issue these bonds. The fees are being amortized over the life of the bonds. Loan costs at December 31 were the following:

	2010	2009
Loan costs	\$ 52,114	\$ 52,115
Less accumulated amortization	(36,846)	(32,257)
Net Loan Costs	\$ 15,268	\$ 19,858

Amortization expense for the years ended December 31, 2010 and 2009 was \$4,589 and \$4,486, respectively.

RURAL WATER DISTRICT NO. 3
JACKSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2010 and 2009

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees. The District purchases insurance to provide insurance coverage for these risks. If claims arise they are submitted and paid by the insurance. There were no significant reductions in insurance coverage from the prior years.

NOTE 9 – DEPOSITS AND INVESTMENTS

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka.

The bank carrying amounts of the District's deposits was \$1,467,412 at December 31, 2010. Of this amount, \$500,000 of the bank balance was covered by FDIC insurance and the remaining \$967,412 was covered by securities pledged by the bank.

The bank carrying amounts of the District's deposits was \$1,431,365 at December 31, 2009. Of this amount, \$500,000 of the bank balance was covered by FDIC insurance and the remaining \$931,365 was covered by securities pledged by the bank.

NOTE 10 – COMPLIANCE WITH KANSAS MUNICIPAL AUDIT GUIDE STATUTES

Kansas Statutes K.S.A. 9-1402 and K.S.A. 9-1405 requires public funds to be secured by a personal bond, corporate surety bond or pledged securities. At December 31, 2010 and 2009, the District was fully insured by one of the above methods and is not in violation of any Kansas Statutes.

NOTE 11 – LONG-TERM DEBT OBLIGATIONS

The District has three long-term notes payable outstanding. Originally payable to Farmers Home Administration, these mortgages have been sold to a private investor group. These mortgages bear an interest rate of 5% and require yearly payments of \$105,886. They are secured by real estate, chattels, contract rights, accounts and general intangibles. The loan agreement requires that 10% of the payment be deposited in a reserve account accumulated to an amount equal to one year's payment. Certificates of deposits in the amount of \$125,000 have been reserved to meet the loan requirements. During the year ended December 31, 2010 and 2009, principal payments of \$94,748 and \$90,236, respectively, were required on the notes. Loan balances and maturity dates are as follows:

Date Issued	Maturity Date	Original Amount	Out-standing 1-1-10	Issued	Principal Payments	Out-standing 12-31-10
12-18-74	12-18-14	\$ 978,600	\$ 152,745	\$ -	\$ 49,866	\$ 102,879
9-10-79	9-10-19	100,000	16,456	-	5,161	11,295
11-20-80	11-20-20	727,500	53,557	-	39,721	13,836
Total		\$ 1,806,100	\$ 222,758	\$ -	\$ 94,748	\$ 128,010

RURAL WATER DISTRICT NO. 3
JACKSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2010 and 2009

NOTE 11 – LONG-TERM DEBT OBLIGATIONS (Continued)

Future maturities of notes payable are as follows as of December 31, 2010:

	Principal	Interest
2011	71,615	6,400
2012	56,211	2,820
2013	184	9
Total	\$ 128,010	\$ 9,229

Revenue bonds in the amount of \$1,210,000 were issued December, 2001 with a range of maturity of 2002 to 2011 with varying interest rates of 3.0% to 4.6%, payable semi-annually from utility revenues. The bonds were issued to refinance bonds which had been issued in 1996 and to provide funds for construction in the amount of \$503,050.

Date Issued	Maturity Date	Original Amount	Out-standing 1-1-10	Issued	Principal Payments	Out-standing 12-31-10
1-10-01	9-10-11	\$ 1,210,000	\$ 285,000	\$ -	\$ 140,000	\$ 145,000

Future maturities of revenue bonds payable are as follows as of December 31, 2010:

	Principal	Interest
2011	\$ 145,000	\$ 6,670

The District has entered into a loan agreement during 2009 with the Kansas Public Water Supply Loan Fund for a total amount of \$995,324. At December 31, 2010, the District had draw \$762,661 on this loan. This loan bears an interest rate of 3.46% and require semi-annual payments of \$35,782. They are secured by real estate, chattels, contract rights, accounts and general intangibles. The loan agreement requires that 10% of the payment be deposited in a reserve account. Each advance has had the 10% reserve amount withheld and deposited into a reserve account held by the Kansas Public Water Supply Loan Fund. The entire amount available has not been advanced to the District. However, the District has plans to paint several water towers and improvements to the water lines. These plans will require the remaining balance of \$232,663 to be advanced. Principal payments on this loan were \$59,409 in the year ending December 31, 2010. There were no principal payments in the year ending December 31, 2009. Loan balances and maturity dates are as follows:

Date Issued	Maturity Date	Original Amount	Out-standing 1-1-10	Issued	Principal Payments	Out-standing 12-31-10
5-30-08	8-1-29	\$ 995,324	318,829	443,832	59,409	\$ 703,252

RURAL WATER DISTRICT NO. 3
JACKSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2010 and 2009

NOTE 11 – LONG-TERM DEBT OBLIGATIONS (Continued)

Future maturities of this loan are as follows as of December 31, 2010:

	Principal	Interest
2011	45,195	23,945
2012	46,934	22,367
2013	48,739	20,727
2014	50,613	19,025
2015	52,560	17,257
Thereafter	459,211	65,243
Total	\$ 703,252	\$ 168,564

Interest expense on outstanding debt for the years ended December 31, 2010 and 2009 was \$47,197 and \$34,838, respectively.

NOTE 12 – COMPENSATED ABSENCES

Personnel policies entitle all full time employees to accrue one week of vacation time after one full year of employment. After two years service, each employee may take up to two weeks per year. After 10 years of service, employees will accrue one day for every two years of service, up to a maximum of 4 weeks total vacation. Sick leave accumulates at the rate of eight hours per month for full time employees up to a maximum of 500 hours. The District's policy is to recognize the costs of compensated absences when actually paid to employees.

NOTE 13 – EMPLOYEE RETIREMENT PLAN

The District participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas, Suite 100; Topeka, KS 66603) or by calling 1-888-275-5737.

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers.

The employer rate established for the period January 1, 2010 to December 31, 2010 was 7.14%, January 1, 2009 to December 31, 2009 was 6.54%. The District's contributions to KPERS for the years ended December 31, 2010 and 2009 were \$11,920 and \$9,205, respectively, which is equal to the required contributions for the years.

RURAL WATER DISTRICT NO. 3
JACKSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2010 and 2009

NOTE 14 – RESTRICTED ASSETS

Restricted assets consisted of the following at December 31, 2010 and 2009:

	2010	2009
Principal and interest	\$ 49,650	\$ 49,650
Mortgage reserve account	125,000	125,000
Total Restricted Net Assets	\$ 174,650	\$ 174,650

NOTE 15 – ADEQUACY OF RATES CHARGES CUSTOMERS FOR SERVICES

The financial statements, together with the requirements of the bond issue, indicate that the district has met the requirements for reserve and debt service. At December 31, 2010 and 2009, the District was serving 1,796 and 1,749 customers.

NOTE 16 – PUBLIC WHOLESALE WATER DISTRICT

During 1997, the District entered into an agreement with the City of Holton, Kansas to form a public wholesale water district for the purposes of securing an adequate source of water for the members. At December 31 2010 and 2009, the District has paid costs of \$275,901 which is reflected in the Investment in Joint Venture on the accompanying Statement of Net Assets. Separate financial statements are available from The Public Wholesale Water District.

During the years ended December 31, 2010 and 2009, the District paid \$443,424 and \$419,311, respectively, to Public Wholesale Water District No. 18 for the purchase of water. At December 31, 2010 the District did not have a balance due to Public Wholesale for water purchases. At December 31, 2009, the District owed Public Wholesale \$34,200.

NOTE 17 – LEASES

The District entered into a lease for office space in June, 2007. The lease expired June 1, 2009 and required monthly rental payments of \$200. This lease was renewed when it expired for another two years, to expire on June 1, 2011. However, in November, 2010 the District purchased the building. No future rental payments are due as of December 31, 2010. The District also entered into a lease for a copy machine on September 1, 2007. This lease expired on September 1, 2010 and is on a month-to-month lease with payments of \$150. Throughout the year, the District also leased miscellaneous places for meetings. Total rental expense at December 31, 2010 and 2009 was \$5,840 and \$5,325, respectively.

NOTE 18 – LITIGATION

In 2006, the District increased the fees for water service to all of its patrons. The City of Mayetta felt that this increase was unwarranted and has refused to pay the amount of the price increase to the District. The City has been paying for water service at the rate before the increase. The difference between the old and new rate has been escrowed by the City. The District filed a claim with the District Court of Jackson County, Kansas seeking payment for the amount that is unpaid by the City of Mayetta. The District is seeking the balance of the escrow account. The City of Mayetta has filed a counter claim that alleges the District has been charging excessive rates over the past five years and is seeking an amount in excess \$75,000 for its costs. This suit was settled in 2009 with no payment by either party.

SUPPLEMENTAL INFORMATION

RURAL WATER DISTRICT NO. 3
JACKSON COUNTY, KANSAS

SCHEDULES OF CASH RECEIPTS AND DISBURSEMENTS
For the years ended December 31, 2010 and 2009

	2010	2009
Sources of Cash Funds		
Sale of water	\$ 1,208,852	\$ 1,224,558
Debt charges	198,628	195,234
Penalty charges	34,112	19,273
Interest income	16,405	23,354
Benefit units	42,750	69,115
New service	23,210	62,524
Other	7,357	8,886
Decrease in inventory	31,592	-
Advances on SRF loan	443,834	318,829
	2,006,740	1,921,774
Total Sources of Cash Funds		
Applications of Cash Funds:		
Capital improvements	569,588	335,919
Mortgage payments - principal	94,748	90,236
Mortgage payments - interest	11,144	16,239
Bond payments - principal	140,000	135,000
Bond payments - interest	12,970	19,908
SRF loan payments - principal	59,408	-
SRF loan payments - interest	11,038	-
Loan costs on issuance of debt	-	12,442
Reserve account for long-term debt	44,383	31,883
Purchase of inventory	-	12,927
Wages and salaries	163,264	161,732
Payroll taxes	13,391	11,655
Employee benefits	46,276	38,420
Accounting fees	7,596	6,860
Advertising	793	723
Board member pay stipend	6,560	6,320
Chemicals and analysis	14,847	12,571
Dues and subscriptions	1,620	1,095
Education and training	709	815
Engineering fees	11,931	15,393
Gas and fuel	18,242	11,842
Insurance	19,445	18,972
Licenses and fees	4,305	4,000
Miscellaneous	1,554	172
Office expense	1,768	1,029
Postage	10,029	10,241
Printing	11,331	10,585
Professional fees	5,138	9,640
Rent	5,840	5,325
Repairs and maintenance	169,819	111,328
Taxes and fees	8,121	7,977

See accompanying notes to financial statements

RURAL WATER DISTRICT NO. 3
JACKSON COUNTY, KANSAS

SCHEDULES OF CASH RECEIPTS AND DISBURSEMENTS (Continued)
For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Application of Cash Funds (Continued):		
Telephone	7,810	6,648
Telemetry	6,758	6,465
Travel	1,366	2,075
Utilities	43,199	39,657
Water purchases	477,899	418,106
	<u>2,002,890</u>	<u>1,574,201</u>
Total Applications of Cash Funds		
Net Change in Cash Funds	3,850	347,573
Cash, beginning of year	<u>1,431,556</u>	<u>1,083,983</u>
Cash, end of year	<u>\$ 1,435,406</u>	<u>\$ 1,431,556</u>

See accompanying notes to financial statements

\$1,155,000*
KANSAS RURAL WATER FINANCE AUTHORITY
REVENUE BONDS
SERIES A, 2012
(Rural Water District No. 3, Jackson County, Kansas)

APPENDIX B

Debt Service Schedule

* Subject to change.

\$1,155,000*
Kansas Rural Water Finance Authority
Revenue Bonds
Series A, 2012
(Rural Water District No. 3, Jackson County)

Payment Date	Principal	Interest Rate	Interest	Total Debt Service	Fiscal Year Debt Service
03/1/2013					
09/1/2013	\$95,000.00				
03/1/2014					
09/1/2014	110,000.00				
03/1/2015					
09/1/2015	110,000.00				
03/1/2016					
09/1/2016	110,000.00				
03/1/2017					
09/1/2017	115,000.00				
03/1/2018					
09/1/2018	115,000.00				
03/1/2019					
09/1/2019	120,000.00				
03/1/2020					
09/1/2020	125,000.00				
03/1/2021					
09/1/2021	125,000.00				
03/1/2022					
09/1/2022	130,000.00				
Totals	\$1,155,000.00		\$	\$	\$