

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 14, 2012

SERIES 2012

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

**NEW ISSUE
Book-Entry Only
Bank Qualified**

**RATINGS: Standard & Poor's: AAA
Moody's: Aa1**

In the opinion of Kutak Rock, LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representation and continuing compliance with certain covenants, interest on the 2012 Bonds is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is further of the opinion that the interest on the 2012 Bonds is exempt from State of Kansas income taxation. The 2012 Bonds are designated as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS" herein.

\$ 6,860,000*

**WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS
Water Revenue Refunding Bonds, Series 2012**

Dated: November 8, 2012

Due: January 1 and July 1, as shown on the inside cover

The 2012 Bonds, as herein defined, are being issued as fully registered bonds 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 2012 Bonds. Purchases of the 2012 Bonds will be made in book-entry form, in the denominations of \$5,000 or integral multiples thereof. Beneficial Owners (herein defined) of the 2012 Bonds will not receive certificates representing their interests in the 2012 Bonds purchased. So long as Cede & Co. is the Registered Owner of the 2012 Bonds, as nominee of the DTC, references herein to Registered Owners shall mean Cede & Co., as aforesaid, and shall not mean Beneficial Owners of the 2012 Bonds. See "THE 2012 BONDS - Book-Entry Only System".

Interest on the 2012 Bonds (payable on July 1, 2013, and each January 1 and July 1 thereafter) shall be paid by check or draft mailed by the Paying Agent, as herein defined (or, under certain circumstances, by electronic transfer of funds) to the person in whose name such 2012 Bond is registered at the close of business on the 15th day of the month next preceding such interest payment date. Principal of and premium, if any, on the 2012 Bonds is payable by check or draft of the Paying Agent (or, under certain circumstances, by electronic transfer of funds) upon presentation and surrender of the 2012 Bonds at the office of the Treasurer of the State of Kansas in the City of Topeka, Kansas, as Bond Registrar and Paying Agent.

The 2012 Bonds are special obligations of the Water District payable, together with certain Outstanding Second Lien Bonds as described herein, solely from and secured by a pledge of and lien on the Pledged Revenues derived by the Water District from the operation of the Water System and are subordinate to the Senior Parity Bonds. The 2012 Bonds are not an obligation of Johnson County, Kansas, the State of Kansas or any political subdivision thereof, and are not payable in whole or in part from the proceeds of ad valorem taxes. See "SECURITY AND REMEDIES" herein.

The 2012 Bonds are offered when, as and if issued by the Water District, subject to approval of legality by Kutak Rock, LLP, Kansas City, Missouri, Bond Counsel. Certain legal matters will be passed upon for the Water District by its General Counsel. It is expected that the 2012 Bonds in definitive form will be available for delivery through the Depository Trust Company in New York, New York with the closing of the issue, on or about November 8, 2012.

This cover page contains certain information for convenient reference only. It is not a summary of issues. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Dated: September 12, 2012.

**PIPER JAFFRAY & CO.
Financial Advisor**

** Preliminary, Subject to Change*

MATURITY SCHEDULE
\$6,860,000* WATER REVENUE REFUNDING BONDS, SERIES 2012

SERIAL BONDS \$6,860,000*

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield or Price</u>	<u>CUSIP</u>
7/1/2013	\$445,000			<u>478754</u>
1/1/2014	470,000			
7/1/2014	525,000			
1/1/2015	490,000			
7/1/2015	835,000			
1/1/2016	755,000			
7/1/2016	180,000			
1/1/2017	155,000			
7/1/2017	300,000			
1/1/2018	300,000			
7/1/2018	605,000			
1/1/2019	600,000			
7/1/2019	705,000			
1/1/2020	495,000			

(Accrued interest, if any, to be added)

* Preliminary, Subject to Change

Water District No. 1 of Johnson County, Kansas
10747 Renner Blvd
Lenexa, Kansas 66219

DISTRICT BOARD

Robert S. Olson.....	<i>Chairman</i>
Brenda Cherpitel	<i>Vice Chairman</i>
Terrence D. Frederick	<i>Board Member</i>
H. Richard (Dick) Noon	<i>Board Member</i>
Robert P. Reese	<i>Board Member</i>
James E. Vader.....	<i>Board Member</i>
Joe Vaughan.....	<i>Board Member</i>

GENERAL MANAGEMENT

Michael J. Armstrong.....	<i>General Manager</i>
Eric R. Arner.....	<i>General Counsel · Director of Legal/Auditing</i>
Ronald E. Appletoft	<i>Treasurer · Director of Finance</i>
Tom Schrempf.....	<i>Director of Production</i>
Daniel J. Smith.....	<i>Director of Distribution</i>
Dan Graves	<i>Director of Customer Relations</i>
Colleen Browne	<i>Director of Administration/Human Resources</i>
C.J. George	<i>Director of Information Technology</i>

BOND COUNSEL
KUTAK ROCK, LLP
Kansas City, Missouri

FINANCIAL ADVISOR
PIPER JAFFRAY & CO.
Leawood, Kansas

GENERAL COUNSEL
ERIC R. ARNER
Water District No. 1 of Johnson County, Kansas

CONSULTING ENGINEER
BLACK & VEATCH CORPORATION
Kansas City, Missouri

INDEPENDENT ACCOUNTANTS
RUBINBROWN, LLP
Overland Park, Kansas

No dealer, broker, salesperson or other person has been authorized by the Water District to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2012 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from the Water District and other sources, which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the underwriters. The information herein is subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Water District since the date hereof.

The statements contained in this Official Statement, and in any other information provided by the Water District, that are not purely historical, are forward-looking statements, including statements regarding the Water District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any expressed or implied by such forward-looking statements. As events or circumstances occur that may change the underlying assumptions, the Water District does not intend to update or otherwise revise these forward-looking statements as related to the Official Statement (see "CONTINUING DISCLOSURE" herein).

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**OFFICIAL STATEMENT
Relating to
\$6,860,000*
Water Revenue Refunding Bonds, Series 2012
of WATER DISTRICT NO. 1
OF JOHNSON COUNTY, KANSAS**

INTRODUCTION AND SUMMARY

Water District No. 1 of Johnson County, Kansas (the “Water District”) furnishes this Official Statement in connection with the offering of \$6,860,000* aggregate principal amount of Water Revenue Refunding Bonds, Series 2012, dated November 1, 2012 (the “2012 Bonds”). This Official Statement, which includes the cover page and appendices, provides information concerning the Water District, the 2012 Bonds and the water supply and distribution system owned and operated by the Water District (see “THE WATER SYSTEM”).

The following material is qualified in its entirety by the more complete information contained throughout this Official Statement, and detachment or other use of this “INTRODUCTION AND SUMMARY” without the entire Official Statement, including the cover page and the appendices, is unauthorized.

The Water District

The Water District is a quasi-municipal body corporate of the State of Kansas. When the Water District was organized in 1953, it encompassed approximately 47 square miles in the western portion of the Kansas City metropolitan area. Currently, the Water District encompasses approximately 272 square miles. The Water District has the exclusive right to provide treated pressurized water by pipeline within its boundaries, providing water on a retail basis to all or a portion of 17 municipalities as well as certain unincorporated areas. The Water District's December 2011 population was estimated to be 405,000. The weighted average number of customers served in 2011 totaled 138,142 (see “THE WATER DISTRICT” and “THE WATER SYSTEM”).

The 2012 Bonds

The 2012 Bonds are to be issued as fully registered bonds pursuant to an authorizing bond resolution (the “2012 Bond Resolution”) adopted on October 2, 2012, by the Water District's governing board (the “Board”). The 2012 Bonds mature and bear interest as set forth on the inside cover page. The 2012 Bonds, 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 (see “THE 2012 BONDS – Book-Entry Only System”).

Certain capitalized words and phrases used in this Official Statement have the meanings as defined in the 2012 Bond Resolution unless the context shall clearly indicate that another meaning is intended (see the “Summary of Certain Provisions of the 2012 Bond Resolution” attached hereto as Appendix A).

Purpose

See “THE REFUNDING PLAN”. In order to structure a lower debt service, create interest cost savings and provide an orderly plan of financing the Water District's current objectives, the proceeds of the 2012 Bonds together with available Water District funds, will be used to:

- 1) Current refund \$6,785,000 of the Water District's Water Revenue Refunding Bonds, Series 2002, maturing June 1, 2013 through December 1, 2019, (the “Refunded Bonds”), bonds maturing on June 1, 2013 through December 1, 2019 will be called on December 1, 2012 at 100% of principal amount;
- 2) Pay the cost of the issuance for the 2012 Bonds.

** Preliminary, Subject to Change*

Security

The 2012 Bonds are special obligations of the Water District payable solely from and secured by a pledge of and lien on the Pledged Revenues (as hereinafter defined) which lien is subordinate to the lien of the Water District's Outstanding 2007 Bonds and 2003 Bonds (the "Senior Parity Bonds"), outstanding as of July 1, 2012 in the amount of \$179,950,000, but are on parity with the 2009 Bonds and 2010 Bonds (the "Outstanding Second Lien Parity Bonds") outstanding as of July 1, 2012 in the amount of \$47,780,000. The principal of and interest on the 2012 Bonds are not payable from any general or special taxation fund or source. The Water District has agreed in the 2012 Bond Resolution to maintain Second Lien Net Revenues, adjusted to exclude any revenues or expenses resulting from a gain or loss, or mark-to-market change in Hedge Agreements, if any, in each Fiscal Year in an amount equal to at least 125% of the amount required to be paid on account of the principal and interest required to be paid on account in such Fiscal Year on the 2012 Bonds (see the section herein titled "SECURITY AND REMEDIES").

As long as the 2012 Bonds remain outstanding, the Water District agrees that it will not issue any additional bonds payable out of the Net Revenues of the Water System which are superior in lien to the 2012 Bonds. The Water District may issue additional Second Lien Parity Bonds without limit upon compliance with the additional bonds test as described in "SECURITY AND REMEDIES – Additional Bonds". The 2009 Bonds, the 2010 Bonds, the 2012 Bonds, and any additional bonds hereafter issued in accordance with Section 1002 of the Second Lien Parity Bond Resolutions are hereinafter collectively referred to as the "Second Lien Parity Bonds."

The 2012 Bonds are not an obligation of Johnson County, Kansas, the State of Kansas, or any political subdivision thereof, and are not payable in whole or in part from the proceeds of ad valorem taxes. There is no mortgage securing the 2012 Bonds.

Independent Accountants

The financial statements as of December 31, 2011 have been audited by RubinBrown, LLP, the Water District's independent auditor, and are included in this Official Statement as Appendix B. RubinBrown, LLP, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. RubinBrown, LLP also has not performed any procedures related to this Official Statement. The financial statements for the period ending December 31, 2010 were audited by McGladrey & Pullen, LLP.

ESTIMATED SOURCES AND USES OF FUNDS

The table that follows summarizes the estimated sources and uses of funds (exclusive of accrued interest, if any) to be derived from the sale of the 2012 Bonds.

		<u>Series 2012</u>
Source of Funds:		
Par Amount of 2012 Bonds		\$
Transfer from existing Principal & Interest Funds		
Water District Available Funds		_____
 Total		\$
 Use of Funds:		
Deposit to the paying agent for the 2002 Bonds		\$
Deposit to Cost of Issuance Fund		
Deposit to the 2012 Bond Reserve Fund for Second Lien Parity Bonds		_____
 Total		\$

THE 2012 BONDS

Description

The 2012 Bonds are water revenue refunding bonds to be issued by the Water District in the total principal amount of \$6,860,000* and dated November 1, 2012. The 2012 Bonds will be issued as fully registered bonds in denominations of \$5,000 or integral multiples thereof, bearing interest from date of issuance to maturity at specified rates payable semiannually on January 1 and July 1 in each year (computed on the basis of a 360-day year composed of twelve 30-day months), commencing on July 1, 2013, and maturing on January 1 and July 1, all as set forth on the inside cover page of this Official Statement.

For a complete statement of the details and conditions of the issuance of the 2012 Bonds, reference is made to the 2012 Bond Resolution, copies of which are available from the Water District upon written request. A Summary of Certain Provisions of the 2012 Bond Resolution is included herein as Appendix A.

Authorization

The 2012 Bonds are being issued by the authority of and in full compliance with the provisions, restrictions and limitations of the constitution and statutes of the State of Kansas, including K.S.A. 19-3501 through 19-3521a and K.S.A. 10-116a, all as amended and all other provisions of the laws of the State of Kansas applicable thereto, and in accordance with the covenants contained in the 2012 Bond Resolution.

Bond Registrar and Paying Agent

The Treasurer of the State of Kansas in the City of Topeka, Kansas, will serve as the bond registrar (the "Bond Registrar") and paying agent (the "Paying Agent") for the 2012 Bonds.

Payment of Principal and Interest; Record Date

The principal of the 2012 Bonds is payable to the Registered Owners of the 2012 Bonds by check or draft of the Paying Agent (or, under certain circumstances, by electronic transfer of funds), upon presentation and surrender of the 2012 Bonds for payment and cancellation at the office of the Paying Agent. Interest on the 2012 Bonds is payable by check or draft mailed by the Paying Agent (or, under certain circumstances, by electronic transfer of funds), to the Registered Owners of the 2012 Bonds as of the close of business on the fifteenth (15th) day (whether or not a business day) of the calendar month next preceding any interest payment date at the addresses appearing in the registration books maintained by the Bond Registrar.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds and Notes (referred to in this discussion of Book-Entry-Only Issuance as the "Securities"). The Securities 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 Security certificate will be issued for each maturity of the Securities, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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 3.5 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 rating: AA+. 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.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("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 Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

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.

Redemption notices shall be sent to DTC. If less than all of the Securities 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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Water District 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption and interest payments on the Securities 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 Water District or Paying Agent on 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, or the Water District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Water District or the 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.

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the Water District or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

The Water District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Water District believes to be reliable, but the Water District takes no responsibility for the accuracy thereof.

THE WATER DISTRICT WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO: THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SECURITIES; THE TRANSMITTAL TO BENEFICIAL OWNERS OR DTC PARTICIPANTS OF ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO OWNERS OF THE SECURITIES UNDER THE APPLICABLE BOND ORDINANCE OR NOTE ORDINANCE, THE SELECTION BY DTC OR ANY DTC PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SECURITIES; OR ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDOWNER.

THE REFUNDING PLAN

In order to structure a lower debt service, create interest cost savings and provide an orderly plan of financing the Water District's current objectives, the proceeds of the 2012 Bonds, together with available Water District funds, will be used to:

- 1) Current refund \$6,785,000 of the Refunded Bonds, bonds maturing on June 1, 2013 through December 1, 2019 will be called on December 1, 2012 at 100% of principal amount;
- 2) Pay the cost of the issuance for the 2012 Bonds.

See also "ESTIMATED SOURCES AND USES OF FUNDS".

A portion of the proceeds of the 2012 Bonds along with Water District funds shall be deposited with the paying agent for the 2002 Bonds with irrevocable instructions to use such funds for the redemption of the 2002 Bonds on December 1, 2012. Upon making the deposit of such monies with the paying agent, the Water District, in the opinion of Bond Counsel will have affected the defeasance of the Refunded Bonds in accordance with the proceedings, which authorized their issuance. As a result of such defeasance, it is the opinion of Bond Counsel that the Refunded Bonds will be deemed to have been paid and discharged within the meaning of the resolution pursuant to which they were issued, and the requirements contained in the resolution pursuant to which they were issued with respect to the Refunded Bonds, the pledge of revenues made thereunder for the payment of the Refunded Bonds and all rights granted thereby to the owners of the Refunded Bonds will terminate.

SECURITY AND REMEDIES

Lien on Pledged Revenues

The 2012 Bonds are special obligations of the Water District payable solely from and secured by a pledge of and lien on the Pledged Revenues which lien is subordinate to the lien of the Senior Parity Bonds outstanding in the amount of \$179,950,000 as of July 1, 2012, but are on parity with the Outstanding Second Lien Parity Bonds outstanding as of July 1, 2012 in the amount of \$47,780,000.

"Pledged Revenues" includes Net Revenues (as hereinafter described), Hedge Receipts (as defined in Appendix A hereto), and all moneys paid or required to be paid into, and all moneys and securities on deposit, from time to time, in the funds and accounts specified in the 2012 Bond Resolution, but only to the extent the resolutions of the Water District authorizing the issuance of Bonds permit such funds and accounts to be used to pay the principal of, premium, if any, and interest on such series of Bonds. "Revenues" includes as all revenues derived by the Water District from the operation of the Water System, including, but not limited to, the income from system development charges, as described herein, and the investment of any of the funds created by the Senior Parity Bond Resolutions, the Second Lien Bond Resolutions, and the resolutions authorizing any other revenue bonds or other obligations of the Water District and unrestricted income from any other source, and "Net Revenues" is Revenues less the reasonable expenses necessary to keep the Water System in good repair and working order, including, without limiting the generality of the foregoing, salaries, wages, costs of materials, water and supplies, insurance, cost of

power; any payments authorized by the Board under any retirement or other plan authorized by law and adopted by the Board for the benefit of its employees; any required deposits or payments of rebate to the United States in accordance with the resolutions of the Water District authorizing the issuance of the Bonds; and excluding expenses for extending or enlarging the Water System or for other purposes generally defined as capital additions.

The 2012 Bonds stand on parity with respect to the payment of principal and interest from the Pledged Revenues of the Water District with the 2009 Bonds, the 2010 Bonds, any Second Lien Parity Bonds hereafter issued by the Water District, and with the pledge of the Pledged Revenues hereafter made by the Water District in any Hedge Agreements to secure Hedge Payments. The 2012 Bonds and the pledge of the Pledged Revenues hereafter made in any Hedge Agreement to secure Hedge Payments will be subordinate with respect to the payment of the principal of and interest on the Senior Parity Bonds.

The 2012 Bonds are not an obligation of Johnson County, Kansas, the State of Kansas, or any political subdivision thereof, and are not payable in whole or in part from the proceeds of ad valorem taxes. There is no mortgage securing the 2012 Bonds (see the “Summary of Certain Provisions of the 2012 Bond Resolution” included herein as Appendix A).

Maintenance of Net Revenues

The Water District has agreed in the 2012 Bond Resolution to maintain Second Lien Net Revenues, adjusted to exclude any revenues or expenses resulting from a gain or loss, or mark-to-market change into any Hedge Agreement, in each Fiscal Year in an amount equal to at least 125% of the amount required to be paid on account of the principal and interest due in such Fiscal Year on the 2012 Bonds. The 2012 Bond Resolution defines “Second Lien Net Revenues” to mean the Net Revenues less the Revenues necessary to pay the principal of, premium, if any, and interest on the Senior Parity Bonds less the Revenues necessary to maintain the Required Reserve Amount for the Senior Parity Bonds in the Bond Reserve Fund for the Senior Parity Bonds and to provide funding for the reserves required by Section 703(d) of the 2012 Bond Resolution which includes: (i) an adequate reserve for operating and extraordinary renewal and replacement cost contingencies of not less than \$2,000,000, (ii) the payment of Operation and Maintenance Expenses for the ensuing 60 days, (iii) the necessary material purchase requirements for the ensuing 60 days and (iv) reasonable reserves for unfunded contracts and commitments (the “Section 703(d) Reserve”).

Water System General Fund

The 2012 Bond Resolution ratifies the Water System General Fund and provides that, from and after the delivery of the 2012 Bonds, and continuing as long as any of the 2012 Bonds remain outstanding and unpaid, all revenues derived and collected by the Water District from the operation of the Water System will be paid and deposited into the Water System General Fund and used only for the purposes authorized by law, including, in the following order of priority:

- a) paying the costs of operation and maintenance of the Water System, including any required rebate payments;
- b) paying the principal of and interest on the Senior Parity Bonds of the Water District;
- c) funding the Bond Reserve Fund for Senior Parity Bonds, if required;
- d) as long as the Senior Parity Bonds are outstanding, creating and maintaining Section 703(d) Reserve;
- e) paying the principal of and interest on the Second Lien Parity Bonds and any Hedge Payments due;
- f) paying any amount due under a Credit Facility Agreement; and
- g) funding the Bond Reserve Fund for the Second Lien Parity Bonds, if required.

The 2012 Bond Resolution further states that *after the Senior Parity Bonds* are no longer outstanding and the foregoing provisions have been funded, then amounts in the Water System General Fund will also be used for the following purposes in the order specified below:

- h) paying the principal and interest of any Bonds with a lien on Pledged Revenues that is subordinate to the lien of the Second Lien Bonds and an amount necessary to make any Hedge Payments and the Hedge Contingency Payments for subordinate Hedge Agreements;
- i) funding the Required Reserve Amount for any Bonds with a lien on the Pledged Revenues that is subordinate to the lien of the Second Lien Parity Bonds;

- j) creating and maintaining reserves as set out in Section 703(j) of the 2012 Bond Resolution for renewal and replacement, operation and maintenance, material purchases and unfunded contracts; and
- k) for any lawful purpose.

Principal and Interest Fund – Second Lien Parity Bonds

The 2012 Bond Resolution ratifies the Principal and Interest Fund for Second Lien Parity Bonds within which there is established a 2012 Principal and Interest Account. After payment of all amounts due for operation and maintenance expenses, after fulfilling any obligation to the Principal and Interest Fund and the Bond Reserve Fund for the Senior Parity Bonds, and after funding the Section 703(d) Reserve, the Water District will deposit into the Principal and Interest Fund for Second Lien Parity Bonds, from the Water System General Fund, to the extent necessary to pay all interest on and principal of the Second Lien Parity Bonds, the following sums: (i) an amount equal to not less than the pro rata amount of interest that will become due on the Second Lien Parity Bonds on the next succeeding interest payment date; (ii) an amount equal to not less than the pro rata amount of principal that will become due on the Second Lien Parity Bonds on the next succeeding principal payment date; (iii) the amount required to pay the fees, if any, of the Paying Agent to become due in the next month, plus (iv) any amount required to pay Hedge Payments due within 30 days.

Bond Reserve Fund

Second Lien Parity Bonds

As further security for the Second Lien Parity Bonds, the 2012 Bond Resolution ratifies a Bond Reserve Fund for Second Lien Parity Bonds within which there is established a Bond Reserve Account for each series of Second Lien Parity Bonds. Each account includes a reserve amount (the “Required Reserve Amount”), which may be cash or Equivalent Security, for the payment of principal and interest on the applicable series of the Second Lien Parity Bonds. See Appendix A, “Summary of Certain Provisions of the 2012 Bond Resolution”, definitions “Required Reserve Amount”. The Required Reserve Amount for the 2012 Bonds will be funded by available Water District funds (see “ESTIMATED SOURCES AND USES OF FUNDS”). The Bond Reserve Account for the 2009 Second Lien Bonds is fully funded at a balance of \$1,309,500. The Bond Reserve Account for the 2010 Second Lien Bonds is fully funded at a balance of \$1,499,900.

Senior Parity Bonds

The 2012 Bond Resolution ratifies the Bond Reserve Fund for the Senior Parity Bonds. Such Fund is required to equal the Required Reserve Amount, the lesser of 125% of the average annual debt service for the Senior Parity Bonds or the maximum annual debt service requirements on the Senior Parity Bonds. Prior to November 2008 the Bond Reserve Fund for the Senior Parity Bonds was covered by Equivalent Securities. MBIA Corporation provided the 2003 Surety Bond concurrently with the issuance of the 2003 Bonds, having a stated amount of \$9,818,043.77 and Financial Security Assurance Inc. (“Financial Security”) issued the 2007 Reserve Policy, collectively “the Policies”. The Senior Parity Bond Resolutions covenant that any provider of an Equivalent Security maintain a rating of “AAA” from Standard and Poor’s Corporation and “Aaa” from Moody’s Investors Service in order to meet the definition of Equivalent Security. The providers of the two Policies do not currently meet that requirement. Therefore the Water District met the funding requirement by cash funding the Bond Reserve Fund for the Senior Parity Bonds. The Bond Reserve Fund for the Senior Parity Bonds is fully funded at a balance of \$15,820,698.60.

2012 Rebate Fund

The 2012 Bond Resolution establishes the 2012 Rebate Fund and provides that such amounts will be deposited therein as required pursuant to the Letter of Instructions provided by Bond Counsel, and that all money at any time deposited in the 2012 Rebate Fund will be held in trust, to the extent required to pay rebatable arbitrage (as described in the Letter of Instructions), to the federal government of the United States of America, and neither the Water District nor the owner of any 2012 Bonds will have any rights in or claim to such money.

Surplus Net Revenues

The 2012 Bond Resolution provides that amounts within the Water District's General Fund be used in the order stipulated by Section 703 of the 2012 Bond Resolution. See "SECURITY AND REMEDIES – Water System General Fund".

Additional Bonds*Second Lien Parity Bonds*

As long as any of the 2012 Bonds remain outstanding, the Water District will not issue any additional bonds payable out of the revenues of the Water System which are superior in lien or any other matter to the 2012 Bonds.

As long as any of the 2012 Bonds remain Outstanding, the Water District will not issue any additional bonds, including refunding bonds, or other long-term obligations payable out of the revenues of the Water System or any part thereof which stand on a parity or equality with the 2012 Bonds unless all of the following conditions are met:

(a) The Water District is not in default in making any payment at the time required to be made by it into any of the funds created by or referred to in Section 703 of the 2012 Bond Resolution; and

(b) The Director of Finance certifies that the average annual Net Revenues of the Water District, adjusted to exclude any revenues or expenses resulting from a gain or loss, or mark-to-market change into any Hedge Agreement, for the two Fiscal Years next preceding the issuance of additional bonds, is equal to at least 125% of the Maximum Annual Debt Service, including the additional bonds proposed to be issued. In the event that: (i) the Water District has duly adopted a resolution increasing the rates or charges of its Water System and such increased rates or charges have not been in effect during all of the two Fiscal Years immediately preceding the issuance of the additional bonds, (ii) the Water District has acquired a water system within said two-year period that was in operation at the time of its acquisition by the Water District, or (iii) the Water District proposes to issue additional revenue bonds for the purpose of acquiring an existing water system which has been in operation during said two-year period, then, for the purpose of this subsection, the certification required by this subsection will be made by a Consultant and such Consultant may adjust the Net Revenues by adding thereto the estimated amount of additional Net Revenues which would have resulted from the operation of the Water System during said two preceding Fiscal Years if the increased rates or charges would have been in effect during the whole of said two years and if the Water District had included the revenues from any such water system so acquired or proposed to be acquired.

In addition to the foregoing, any Variable Rate Bonds issued by the Water District on parity with the 2012 Bonds will have a maximum interest rate which is determined at the time such Variable Rate Bonds are sold.

Nothing in the 2012 Bond Resolution prohibits or restricts the right of the Water District to issue Second Lien Parity Bonds without such certificate and with only complying with the requirements of subparagraph (a) set out hereinabove provided such Second Lien Parity Bonds are for the purpose of paying for a project necessary to comply with the requirements of any governmental agency having jurisdiction over the Water System.

Third Lien Parity Bonds

The Water District may issue bonds that have a lien on the Pledged Revenues which is subordinate to the lien of the Second Lien Parity Bonds upon the terms and conditions set forth in the resolution of the Water District authorizing such Bonds.

Refunding Bonds

The Water District has the right to refund any of the 2012 Bonds under the provisions of any law then available. The 2012 Bonds or any part thereof may be refunded and the refunding bonds so issued will enjoy complete equality of pledge with any of the Second Lien Parity Bonds provided the Water District has met the requirements of Section 1002(a) of the 2012 Bond Resolution (see "SECURITY AND REMEDIES – Water System General Fund") and, if the aggregate Annual Debt Service requirements for the refunding bonds is greater than the aggregate Annual Debt Service requirements for the 2012 Bonds being refunded, the Water District will also comply with the requirements of Section 1002(b) of the 2012 Bond Resolution.

Legal Matters

Various state and federal laws, constitutional provisions, and regulations apply to the operations of the Water District and to the obligations created by the issuance of the 2012 Bonds. There is no assurance that there will not be any change in, interpretation of, or addition to the applicable laws, provisions, and regulations which would have a material effect, directly or indirectly, on the affairs of the Water District.

Limitations on Remedies Available to Beneficial Owners of the 2012 Bonds

The enforceability of the rights and remedies of the Beneficial Owners of the 2012 Bonds, and the obligations incurred by the Water District in issuing the 2012 Bonds, are subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of Kansas and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Beneficial Owners of the 2012 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

Water System Debt Service Coverage History

The largest source of the Water District's operating revenue has historically been derived from water sales. As defined in the 2012 Bond Resolution, for purposes of calculating debt service coverage, system development charges, income received from delinquent service charges, administrative service charges, and miscellaneous income are additional sources of operating revenue for the Water District. The Water District's non-operating revenue is primarily derived from interest income earned on Water District investments. For the purposes of the following table, unrealized gains and losses from investments are excluded from investment income available for debt service. Non-operating expenditures primarily include the payment of principal and interest on the Water District's Outstanding Bonds.

The following table provides a five-year history of funds available for debt service coverage prepared by the Water District and, as such, does not purport to present the Water District's results of operations in conformity with generally accepted accounting principles.

The Water District budgets Revenues and Expenditures for a "normal" year, however, actual water sales and certain operating expenses can vary largely year to year depending on if the irrigation months are wetter or drier than budgeted. As the Water District experiences an increase of water sales from drier weather and higher gallons produced, it can also experience increases in production costs such as power and chemicals.

The annual debt service amounts are based on the Fiscal Year's monthly funding amounts to the principal and interest funds and may vary slightly from the debt service payments of principal and interest to the paying agent.

Five-Year History of Income, Expenses and Debt Service Coverage
Years Ending December 31

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating Revenues & System Development Charges:					
Water Sales (a).....	\$75,008,168	\$69,234,490	\$69,257,450	\$80,897,855	\$92,044,865
System Development Charges (SDCs).....	7,730,795	7,053,480	4,263,060	5,050,313	4,100,786
Other Operating Revenues.....	<u>1,283,034</u>	<u>1,289,301</u>	<u>1,204,691</u>	<u>1,330,771</u>	<u>1,235,783</u>
Total Operating Revenues & SDCs.....	\$84,021,997	\$77,577,271	\$74,725,201	\$87,278,939	\$97,381,434
Operating Expenses (excluding depreciation):					
Water Source, Treatment and Pumping.....	\$18,869,978	\$19,685,874	\$19,620,232	\$19,591,583	\$21,940,400
Transmission & Distribution	8,961,567	9,966,143	9,885,911	10,141,354	9,964,532
Customer Services.....	3,534,171	3,670,861	3,603,193	3,411,357	3,295,362
Administrative & General.....	<u>8,718,059</u>	<u>8,667,280</u>	<u>8,493,025</u>	<u>8,266,352</u>	<u>8,412,358</u>
Total Operating Expenses (excluding depreciation)	\$40,083,775	\$41,990,158	\$41,602,361	\$41,410,646	\$43,612,652
Net Operating Revenues Available for Debt Service	<u>\$43,938,222</u>	<u>\$35,587,113</u>	<u>\$33,122,840</u>	<u>\$45,868,293</u>	<u>\$53,768,782</u>
Investment Income (excluding unrealized gains/losses) Available for Debt Service.....	<u>8,851,026</u> (b)	<u>6,635,112</u>	<u>973,226</u>	<u>346,812</u>	<u>312,432</u>
Net Revenues Avail. for Total Debt Service	<u>\$52,789,248</u>	<u>\$42,222,225</u>	<u>\$34,096,066</u>	<u>\$46,215,105</u>	<u>\$54,081,214</u>
Annual Debt Service Funding -Sr. Parity and Second Lien Debt.....	<u>\$16,494,500</u>	<u>\$18,735,372</u>	<u>\$18,887,555</u>	<u>\$21,171,389</u>	<u>\$22,116,799</u>
Coverage of Annual Senior Parity and Second Lien Debt Service	3.20	2.25	1.81	2.18	2.45
Weighted Average Number of Customers.....	135,631	136,701	137,153	137,620	138,142

See the discussion of water rate changes in "THE WATER SYSTEM - System Rates and Charges".

- (a) The summers of 2008 and 2009 were cooler and wetter than normal resulting in lower water sales and lower debt service coverage.
- (b) In April 2007, the Water District issued \$180 million of Improvement Bonds. Most of the proceeds were deposited into an interest bearing construction fund.

Source: The Water District

Budget Comparison

The following table sets forth a budget-to-actual comparison for 2011 and the budget for the 12 months of 2012. The comparison includes a presentation of funds available for debt service coverage prepared by the Water District and, as such, the table does not purport to present the Water District's results of operations in conformity with generally accepted accounting principles.

The annual debt service amounts are based on the Fiscal Year's monthly funding amounts to the principal and interest funds and may vary from the debt service payments of principal and interest.

	Audited Actual 2011	Budget 2011	Budget 2012
Operating Revenues & System Development Charges:			
Water Sales	\$92,044,865	\$89,670,338	\$93,107,544
System Development Charges (SDCs)	4,100,786	2,490,000	2,913,000
Other Operating Revenues	1,235,783	1,185,000	1,230,000
Total Operating Revenues & SDCs	\$97,381,434	\$93,345,338	\$97,250,544
Operating Expenses (excluding depreciation):			
Water Source, Treatment and Pumping	\$21,940,400	\$21,586,002	\$22,874,583
Transmission & Distribution	9,964,532	9,950,801	10,370,476
Customer Services	3,295,362	3,665,976	3,711,804
Administrative & General	8,412,358	9,272,905	9,247,576
Total Operating Expenses (excluding depreciation)	\$43,612,652	\$44,475,684	\$46,204,439
Net Operating Revenues Avail. for Debt Service	\$53,768,782	\$48,869,654	\$51,046,105
Investment Income (excluding unrealized gains and losses)	\$312,432	\$190,000	\$210,000
Net Revenues Avail. for Total Debt Service	\$54,081,214	\$49,059,654	\$51,256,105
Annual Debt Service Funding-Sr. Parity & Second Lien Debt	\$22,116,799	\$22,457,007	\$18,923,282
Coverage of Annual Senior Parity and Second Lien Debt	2.45	2.18	2.71
Weighted Average Number of Customers	138,142	138,039	138,742

Source: The Water District

The Water District's Total Combined Debt Service

Set forth in the following table are the total debt service requirements of the Water District, including the Outstanding Bonds as of July 1, 2012. Also included is total Debt Service on the 2012 Bonds.

<u>Year</u>	<u>Outstanding Second Lien Debt Service</u>	<u>Debt Service for 2012 Bonds</u>	<u>TOTAL SECOND LIEN DEBT SERVICE</u>	<u>Outstanding Senior Parity Debt Service</u>	<u>TOTAL DEBT SERVICE</u>
2012 (as of July 1)	\$2,188,431	(a)		\$8,370,000	
2013	5,137,438			15,401,912	
2014	6,392,213			18,478,539	
2015	5,046,950			17,986,742	
2016	4,963,888			15,931,589	
2017	4,064,313			16,368,275	
2018	4,134,963			16,353,650	
2019	3,968,875			16,376,587	
2020	3,218,438			17,259,129	
2021	2,477,438			17,146,233	
2022	2,470,150			17,236,437	
2023	2,480,625			10,640,282	
2024	3,405,788			7,216,159	
2025	3,378,813			7,253,761	
2026	2,015,450			7,295,545	
2027	2,022,231			7,354,026	
2028	2,016,475			7,469,375	
2029	2,007,850			7,584,378	
2030	1,005,931			7,695,391	
2031	0			7,798,416	
2032	0			<u>3,263,745</u>	
Total	\$62,396,256			\$250,480,169	

(a) The 2012 Debt Service includes accrued interest, if any, of \$_____.

THE WATER SYSTEM

Service Area

The Water District provides service to an approximately 272 square mile area located in Johnson, Miami, and Wyandotte Counties, Kansas. Included within this area are the cities of Fairway, Lake Quivira, Leawood, Lenexa, Merriam, Mission, Mission Hills, Mission Woods, Overland Park, Prairie Village, Roeland Park, Shawnee, Westwood, Westwood Hills, portions of the cities of Olathe, Spring Hill and Desoto as well as certain unincorporated areas. See "THE WATER SYSTEM - Customer Information" hereafter.

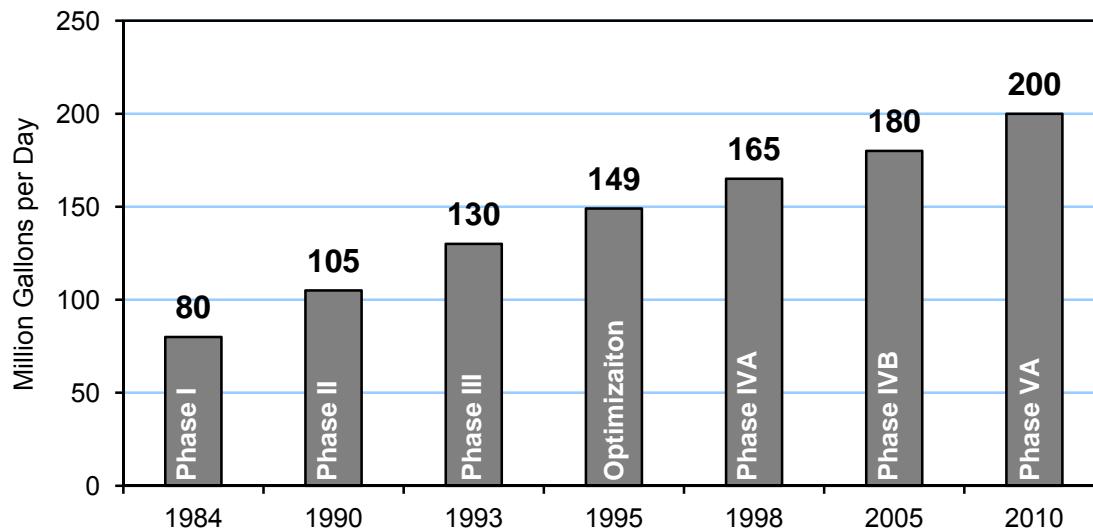
History and the 1977 Missouri River Plan

Organized in 1953, the Water District commenced operations in 1957 following the purchase of a private water system owned by the former Kansas City Suburban Water Company. The purchase price of approximately \$15,250,000 was approved at a special election on September 7, 1957, and was financed by the Water District through the issuance of revenue bonds. Initially, the Water District had a four million gallon per day (mgd) summer peaking treatment plant supported by wells. In addition, the Water District purchased wholesale water from Kansas City, Missouri and Kansas City, Kansas. In the years following the purchase, the Water District's Water System was expanded and in 1961 a 55 mgd water intake on the Kansas River was installed as an additional water supply source.

In 1977, the governing Board of the Water District adopted a plan (the "Master Plan") to use the Missouri River as a supplemental source of water supply and to expand treatment and distribution facilities in order to meet the projected growing demands of the Water District's customers. The Phase I portion of the expansion plan was completed in 1984 and resulted in a production capacity of 80 million gallons per day. Over the next 20 years, the Water District's Consulting Engineer completed updates to the Master Plan to reflect increased water demands, updated population projections, new and expanded wholesale customer demands and increased service area due to the annexations of surrounding rural water districts. System improvements through Phase IV-B culminated with an expansion of firm production capacity to 180 mgd per day in 2005. Other improvements through Phase IV-B included treated water transmission and distribution mains and distribution system pumping and storage improvements.

In 2007, the Water District began the Phase V-A portion of the Master Plan related to construction of a new treatment plant facility and collector well along the Missouri River (the "Wolcott Treatment Plant"). The majority of Phase V-A facilities are in service and the new Wolcott Treatment Plant, Collector Well and Transmission mains added an additional 20 mgd of firm capacity to the Water District's treatment, pumping and storage capacity. The new Wolcott Treatment Plant and Supply facilities are designed to be expanded for more capacity as the water demands and population served by the Water District increase.

PRODUCTION CAPACITY



Population and Demand Forecasting

In 2011 the Consulting Engineers completed an update to the Water District's Master Plan (the 2011 Update). The objectives of the 2011 Update were to review and update population projections for the Water District's service area, update future water demands using recent trends, evaluate existing facilities, and prepare recommendations for future water supply and treatment facilities and transmission and distribution improvements. The 2011 Update used the 2010 census data to update the population and demand forecasts and to validate in-service dates for Phase V-B, Phase VI and Phase VII.

Population Projections- 2011 Update		
Year	Water District	Johnson County
2010	400,968	544,179
2020	453,290	625,979
2030	512,290	714,979
2040	571,290	802,979

The recommendations developed for water supply and treatment facilities will meet projected demands beyond year 2044. The detailed transmission and distribution recommendations will meet projected demands to year 2030. The 2011 Update concluded that population growth has slowed and that average day and maximum day demands have declined from previous projections.

Phased Expansion - 2011 Update		
Phase	Additional Capacity (mgd)	Year In Service
V-B	15	2026
VI	30	2032
VII	30	2044

Sources of Water Supply

The Water District's water supply consists of ground water and surface water derived from multiple sources. The Source and Treatment facilities built during Master Plan Phases I through IV-B (the Hansen Facilities) are served by a water intake on the Kansas River, 21 wells located in the Kansas River Valley, a water intake on the Missouri River, and warm water supplies from the Board of Public Utilities' Nearman Creek Power Station, all of which are located in Wyandotte County. The Wolcott Plant's source consists of a Horizontal Collector Well located in Leavenworth County which draws surface and ground water from the Missouri River. The following chart sets forth the not-to-exceed volume of water for which the Water District has approved applications and/or rights to annually appropriate water for beneficial use:

<u>Source</u>	<u>Acre Feet</u>	
	<u>Per Year</u>	
Kansas River (surface & wellfield not-to-exceed))	74,280	(a)
Missouri River (surface & wellfield not-to-exceed)	75,962	(b&c)
Total from all sources (not-to-exceed)	<u>150,242</u>	

- (a) See "Kansas River Water Rights" below
- (b) See "Missouri River Water Rights, Hansen Facilities" below
- (c) See "Missouri River Water Rights, Wolcott Plant" below

The combined annual appropriations for the Hansen Facilities and the Wolcott facilities of 150,242 acre feet (an average of 134 mgd diversion), if fully utilized by the Water District, would provide an adequate water supply for an average daily system usage of 121 million gallons after adjusting for water consumed during the treatment process. The actual annual average daily demand in 2011 (a normal year) was 61.20 million gallons and in 2009 (a wet year) it was 50.83 million gallons.

In conjunction with annual appropriation rights, the Kansas Division of Water Resources (“KDWR”) also approves rights related to the maximum day diversion. For the Hansen Facilities, the Water District has 125 mgd of maximum day diversion rights on the Missouri River and 72 mgd for the Kansas River. The Wolcott facility has 31 mgd of maximum day diversion rights at its Missouri River collector well for a total of 228 maximum day diversion right. The maximum daily system demand to date was 157.53 million gallons occurring in July 2012.

In 2011, the last full year of record, the Water District derived 42% of its requirements from the Kansas River and the adjoining wellfield in the Kansas River Basin and 58% from the Missouri River. Improvements at both the Kansas and the Missouri River Intake facilities has given the Water District the operational flexibility to suspend operations at either facility as needed in order to make capital improvements and do major inspections and maintenance.

Kansas River Water Rights – As of March 1997 the Water District had perfected water rights totaling 31,757 acre feet with the KDWR. Perfection of a water appropriation right is the process that the Water District is required to follow to demonstrate to the KDWR that the allocated water has been put to beneficial use. In September 2008, the Water District received a new permit to appropriate an additional 42,253 acre feet at its existing intake subject to perfection on or before 2028.

The Water District is a member of the Kansas River Water Assurance District No. 1 (the “Assurance District”). The Assurance District was formed in 1987 and presently has 13 members. The purpose of the Assurance District is to assure, during drought periods, adequate water flows on the Kansas River for the exclusive use of its members. The Assurance District entered into a contract with the State of Kansas for Municipal and Industrial Water Supply Assurance effective December 22, 1989. The contract calls for the State to file for the appropriate water reservation rights on three reservoirs and to divert and store water in those reservoirs. Releases have been made from the reservoirs every winter since 2003 to maintain adequate water flows in the Kansas River for the benefit of the Assurance District members. As a group, the volume of water supply storage is as follows:

Milford Reservoir.....	55,000 acre feet
Tuttle Creek Reservoir	41,350 acre feet
Perry Reservoir	25,000 acre feet

Missouri River Water Rights, Hansen Facilities - In 1981, the Water District received approval for 23,000 acre feet of water appropriation rights on the Missouri River subject to perfection on or before December 31, 2001. The KDWR has since extended the period allowed for perfection to December 31, 2014. A second water appropriation right was approved in 1994 for 23,000 additional acre feet subject to perfection on or before December 31, 2014. A third water appropriation right was approved in 1998 for an additional 11,500 acre feet, subject to perfection on or before December 31, 2018.

In addition to the water appropriation rights mentioned above, in 1989 the Water District received 830 acre feet of “warm water” rights subject to perfection on or before December 2009. The KDWR has since extended the period allowed for perfection to December 31, 2014. This warm water results from the cooling system return flow of a nearby electrical power plant and is used by the Water District in extremely cold weather to help raise the temperature of the raw water supply at the Missouri intake. In August 2008 the Water District obtained an additional 830 acre feet permit for groundwater from the electrical power plant to obtain “warm water” from its standby water well when cooling water from the power plant is not available. An extension to the original perfection period has been discussed with KDWR to accommodate the combined use of the two “warm water” permits.

Missouri River Water Rights, Wolcott Treatment Plant - The KDWR has indicated to Water District staff that the Missouri River is open to further appropriation in a sufficient amount to cover the Water District’s long-term needs. In December 2006, the Water District submitted two applications to the KDWR for 840 acre feet of ground water

rights and 15,962 acre feet of surface water rights for the Collector Well included in Phase V-A (each new Collector Well will require both surface and ground water rights). The applications were approved March 1, 2007.

In August, 2010, two additional applications were submitted and approved for 1,791 acre feet of ground water and 34,031 acre feet of surface water for the Collector Well. Although the KDWR awarded the Water District the additional 35,822 acre feet of water rights, the Wolcott Plant currently is limited to an annual not-to-exceed amount of 16,802 acre feet. These surface and ground water rights will provide capacity for 30 mgd of average day diversion rights and 31 mgd of maximum day diversion rights.

Water Transmission and Distribution Facilities

When the Water District began operations in late 1957, the Water System had 423.5 miles of transmission and distribution mains, of which nearly 163 miles (or 38%) represented mains smaller than six inches in diameter. The distribution system has been improved and expanded with larger diameter mains; currently, the smaller mains only make up 13% of the total transmission and distribution mains. The Water District had a total of 2,597 miles of transmission and distribution mains and 22 miles of source-of-supply mains in service as of December 31, 2011.

Total transmission pumping capacity has been increased from 9 mgd in 1957 to 286.8 mgd in 2011. During this same time, total distribution pumping capacity has been increased from 10 mgd at three pumping stations to 342.12 mgd at 11 pumping stations. Treated water storage capacity has been increased from 4 million gallons in 1957 to 83 million gallons as of December 31, 2011. The Wolcott Plant added 30 mgd of transmission pumping capacity and 4 million gallons of treated water storage capacity.

The Water District also has been expanding its emergency interconnect capacity by converting its former wholesale metering point with the City of Olathe to a bidirectional interconnect and construction of two additional interconnects, one with the City of Kansas City, Missouri and one with the Board of Public Utilities. Current capacity from its interconnects are estimated at 6.9 mgd through Kansas City, Missouri, 41 mgd through the City of Olathe and 31.1 mgd through the Board of Public Utilities for a total of 79 mgd. Average day usage for the Water District in 2011 was 61.20 mgd and the budgeted average day usage during the winter months is 38.9 mgd.

Total utility plant investment, including construction work in progress, has increased from \$15.24 million in 1957 to \$839.64 million at December 31, 2011, reflecting significant growth in the area served by the Water District.

Treatment Residuals

The Water District's primary water supplies are the Kansas and Missouri Rivers, which contain naturally turbid, hard water. The raw water, therefore, requires treatment to remove the turbidity and softening to remove the calcium and magnesium hardness. The water treatment and softening process produces a by-product of inert lime residue that is primarily made up of calcium and magnesium hydroxide. Historically, the Water District has deposited the residue from the Hansen Facilities in basins (or monofills) excavated on 409 acres of land owned by the Water District in the flood plain of the Kansas River.

The new Wolcott Treatment Plant also requires treatment to remove turbidity and softening to remove the calcium and magnesium hardness. This treatment creates a by-product of inert lime residue similar to that at the Hansen Facilities. As part of Phase V-A, the Water District purchased approximately 300 acres of land along the Missouri River. This land will be used for the collector wells and the monofills necessary for Phases V and VI. Basins or monofills will be built on a portion of the 300 acres and the lime residue by-product will be deposited into the monofills.

Factors Affecting the Water Utility Industry

Major factors facing the water utility industry include the challenges of declining customer usage and aging infrastructure replacement.

Similar to other water utilities across the country, average water usage per customer is declining at the Water District. The decline in average usage is due to various factors including mandated low flow water fixtures, successful irrigation conservation programs, and operational efficiencies implemented by industrial customers. The Water District has recognized the trend of declining usage in its budgeting and rate setting and has adjusted financial projections for future years.

The Water District has implemented an asset management program for both its distribution and production facilities to deal with its aging infrastructure. Costs for replacement programs and monitoring of assets are incorporated into the Water District's long range financial plan.

Other Key Operational Factors

The Safe Drinking Water Act established standards for water treatment by the nation's water utilities. To monitor these standards, and as part of the Water District's comprehensive water quality program, the Water District continues to update the technology used in its water quality laboratory including the construction of a new 20,000 square foot Water Quality Laboratory Building at the Hansen Facilities. Water quality is maintained through the Water District's operational standards including monitoring during all phases of the production and distribution process.

The Water District monitors existing and pending drinking water rules and regulations and evaluates the Water District's capability to meet them. In February 2009, the Water District's treatment facilities were classified as Bin 1 in accordance with the Stage 2 Disinfectants and Disinfection Byproducts Rule (Stage 2 DBP rule), requiring no additional treatment processes to meet the more stringent regulations. This achievement was due in part to the Water District's proactive approach of implementing new regulations earlier than required.

The Water District's staff has worked to control rising energy and chemical costs related to treating and pumping drinking water to its customers. While safety and reliability of the water supply remain paramount, staff has implemented changes to the treatment and pumping processes that have resulted in over a million dollars per year in energy and chemical cost savings. An energy management software and related control scheme were implemented to take advantage of the time of day rate schedules by the electric utilities. Through the use of online analyzers, control by operators, performance testing of chemicals from suppliers, and competitive bidding, the Water District has minimized chemical costs. These measures have reduced the Water District's carbon footprint and enhanced the sustainability of its processes.

The safety and security of drinking water, the water supply and the Water District's infrastructure have always been considered critical to the Water District's operations. The Water District continues to advance its capabilities in these areas, performing a Cyber Security Control System Self Assessment of its Supervisory Control And Data Acquisition (SCADA) system and using state of the art security tools in the construction of the Wolcott Plant. Emergency response planning is critical to assuring reliable and safe operations and the Water District has been proactive in drilling with other agencies on topics such as pandemic planning and terrorist response. The Water District is a charter member of the Kansas Water, Wastewater, Gas and Electric Mutual Aid Program, a part of the national Water and Wastewater Agency Response Networks, making interagency support available to the Water District in times of emergency.

The Water District has acquired all necessary licenses and permits in connection with the facilities in operation and to the best of their knowledge meets all applicable water quality standards.

Water Usage

The following chart sets forth the Water District's historical water usage through the end of 2011.

Historical Water Usage

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Total system usage (billion gallons) (a) ..	22.20	20.00	18.60	20.36	22.29
Average usage per customer (gallons)	144,201	123,236	114,929	128,653	141,194
Average day usage (mgd)	60.78	54.65	50.83	55.80	61.20
Maximum day usage (mgd)	129.87	120.12	101.50	118.06	139.06
Maximum day produced (mgd)	136.75	123.86	124.24	125.32	154.22
Date of maximum day usage	9/03/07	7/21/08	8/14/09	8/9/10	7/22/11
Maximum hourly rate (mgd).....	253.25	227.67	209.81	235.12	277.79

- (a) A revision in the measure of Total System Usage occurred at the end of 2009 and adjustments were made back to 2006. The change lowered the System Usage by no more than 4% and did not change the number of gallons sold or water sales revenue.

Source: The Water District

Customer Information

The Water District's customers are divided into classes for billing purposes. Throughout its operational history, single-family residential customers have represented the largest percentage of total Water District customers, 91% as of December 2011. As shown in the following chart, the Water District has historically experienced continual increases in the number of total customers served. The Water District does not have any wholesale water customers.

Weighted Average Customers by Class

	Residential Single-Family ⁽¹⁾	Residential Multi-Family	Commercial	Total Customers
2002	112,565	3,684	7,136	123,385
2003	115,524	3,798	7,325	126,647
2004	117,947	3,886	7,432	129,258
2005	120,099	4,010	7,518	131,627
2006	122,203	4,130	7,683	134,016
2007	123,609	4,192	7,830	135,631
2008	124,511	4,252	7,938	136,701
2009	124,911	4,294	7,948	137,153
2010	125,379	4,324	7,917	137,620
2011	125,891	4,342	7,909	138,142

- (1) Includes duplexes and townhouses.

Source: The Water District

Retail Customers. The largest 15 retail customers of the Water District in 2011, their water usage, and revenue for that year, are shown in the following chart:

Major Retail Customers

Customer	Total 2011 Consumption (Millions of Gallons)	% of Total Retail Usage⁽¹⁾	Total 2011 Revenue	% of Total Retail Revenue⁽¹⁾
1 Coca-Cola Bottling	104.7	0.54%	\$349,421	0.38%
2 Shawnee Mission School District	84.2	0.43%	373,105	0.41%
3 Shawnee Mission Medical Center	80.6	0.41%	294,680	0.32%
4 City of Overland Park	74.9	0.38%	323,034	0.35%
5 UCM/SREP – Corporate	70.8	0.36%	298,983	0.32%
6 Blue Valley School District	66.4	0.34%	295,088	0.32%
7 Sprint World Headquarters	57.4	0.29%	228,666	0.25%
8 Johnson County Wastewater	51.2	0.26%	186,275	0.20%
9 Indian Hills Country Club	45.8	0.23%	195,922	0.21%
10 Mission Hills Country Club	44.1	0.23%	189,479	0.21%
11 J.A. Peterson Realty	40.7	0.21%	166,493	0.18%
12 City of Lenexa	38.5	0.20%	182,783	0.20%
13 Bayer Corporation	37.7	0.19%	137,548	0.15%
14 Menorah Health System	35.2	0.18%	145,296	0.16%
15 Leawood Country Club	34.0	0.17%	150,078	0.16%
Total	866.2	4.44%	\$3,516,851	3.82%

(1) Based upon total retail sales in 2011 of 19,504 million gallons and \$92,044,865 total retail water sales revenues

Source: The Water District

Wholesale Customers

The Water District currently has no wholesale customers. However, the Water District operates under reciprocal agreements with neighboring utilities which are in place for the purpose of emergencies or to help supply water during scheduled maintenance.

System Rates and Charges

Retail Water Rates. The Water District has the exclusive statutory authority to set rates and charges for water service and is, by law, free from the jurisdiction of the Kansas Corporation Commission and any other federal, state, or local agency having the authority to regulate rates and charges for water services. The most recent water rate increase was 4.9% on January 1, 2012.

The current Retail rate schedule, effective January 1, 2012 is shown in the following chart:

MONTHLY RETAIL WATER RATES Effective January 1, 2012					
Peak Management Rate Structure					
<u>Monthly Service Charge (a)</u> Base Charge for Meter Size (inches)					
Retail Class:	R-1 Single Family	M-1 Multi Family	C-1 Small Commercial	C-2 Large Commercial	C-3 Commercial Temporary or Occasional Use
5/8"	\$10.55	\$13.50	\$13.50	--	--
3/4"	13.75	16.80	16.80	--	--
1"	19.90	22.90	22.90	--	--
1 1/2"	36.75	39.80	--	39.80	--
2"	55.45	58.30	--	58.30	--
3"	121.85	124.80	--	124.80	--
4"	186.70	189.80	--	189.80	--
6"	--	353.40	--	353.40	--
All Sizes	--	--	--	--	\$83.20

<u>Consumption Charge Per 1,000 Gallons</u>	
Applies to Usage Which is:	
0% to 125% of AWC (b)	\$3.46
Over 125% of AWC (b)	\$4.58

- (a) Service Charges do not include any allowance for water consumption.
 (b) AWC = Average Winter Consumption, stated on a "gallons-per-day" basis. The AWC is updated each year effective with the May Billings, based on the immediate preceding January - April billings. For calculation of water bills, each customer is given the benefit of whichever AWC is higher:
- 1) The individual customer's own actual AWC; or
 - 2) The "Default" AWC as defined below:
 For *single-family* customers the Default AWC is based on the 5-year average of AWCs of all *single-family* customers, regardless of meter size.
 For all *non single-family* customers, the Default AWC is based on the 5-year average of AWCs of customers with the same meter size and customer class.

Source: The Water District

Residential single-family customers are billed on a bi-monthly basis, with approximately one-half of such customers being billed during one month and the remaining half being billed the next month. Residential multi-family, commercial, and wholesale customers are billed on a monthly basis.

System Development Charges - Retail. On July 1, 1978, the Water District began collecting System Development Charges (SDCs) for each new service connection made after that date. The schedule of charges, based upon service connection size, was implemented to collect a proportionate share of the additional investment required for the development of water supply, treatment, and certain transmission facilities. Service connection enlargements also are subject to the charge.

In 2008 a study was completed by Red Oak Consulting to review the Water District's SDC methodology. District staff annually reviews System Development Charges using financial models provided by the consultant.

RETAIL SYSTEM DEVELOPMENT CHARGE SCHEDULE

Meter Size/Type	Effective January 1, 2011
5/8" Displacement	\$4,855
3/4" Displacement	7,295
1" Displacement	12,150
1 1/2" Displacement	24,270
1 1/2" Turbine	38,835
2" Displacement	38,835
2" Turbine	48,540
3" Compound	77,665
3" Turbine	109,220
4" Compound	121,350
4" Turbine	303,380
6" Compound	242,700
6" Turbine	606,750
8" Turbine	1,067,870
10" Turbine	1,698,880

Source: The Water District

Wholesale Water Rates - Currently the Water District has no wholesale water sales agreements in place. However, the District's Rules and Regulations allow the Board to enter into wholesale water sales agreements to provide water outside the district's boundaries. The Rules and Regulations specify wholesale agreements will include a monthly service charge and uniform wholesale water rate.

	Effective January 1, 2012
Monthly Wholesale Service Charge	\$117.10
Wholesale Volume Charge per 1,000 Gallons	\$2.67

Wholesale rates are based on methodology used for the District's retail water rates, but exclude certain costs from which wholesale customers do not benefit, such as distribution system costs. Other rates, fees and charges may be stipulated in the agreement.

System Development Charges – Wholesale The District requires that wholesale customers pay an upfront lump sum SDC for access to a specified quantity of Maximum Day and Maximum Hour capacity. Each individual wholesale customer's SDC is based on the capacity requirements stipulated in the wholesale contract. Access to additional capacity in the future requires an incremental SDC payment.

THE WATER DISTRICT

Organization

The Water District is a quasi-municipal body corporate created pursuant to state law in 1953 by resolution of the Board of County Commissioners of Johnson County. Organization of the Water District was preceded by the filing of a petition for organization by the qualified electors of the proposed Water District and a subsequent hearing thereon. The Water District began operations in 1957.

Description

The Water District encompasses approximately 272 square miles in Johnson County and small adjacent areas in Wyandotte and Miami Counties and is located in the southwestern portion of the Kansas City metropolitan area. Included within its boundaries are all or portions of 17 municipalities, as well as certain unincorporated areas. The December 2011 population of the Water District's service area was estimated to be 405,000.

Water District Powers

The rights, powers, privileges, authorities, functions, and duties of the Water District are established by the laws of the State of Kansas, particularly the Water Supply and Distribution Districts Act (K.S.A. 19-3501 *et seq.*), which provides that the Water District has the power: to enter into contracts; to sue and be sued; to establish, construct, purchase, operate, and maintain a water supply and distribution system; to fix water rates; and to issue revenue bonds to pay for the establishment, construction, purchase, and operation of a water supply and distribution system or systems. The Water District also may exercise the power of eminent domain in accordance with statute. Further, subject to compliance with statutory procedures, the Water District may annex adjoining territory, thereby modifying the boundaries of the Water District.

Governing Board

The Water District is governed by a seven-member Board, which has the responsibility to establish, manage, purchase, construct, operate, maintain, and have the exclusive control of the water supply and distribution facilities of the Water District. The Board establishes and makes publicly available rules and regulations necessary for the safe, economical, efficient establishment, operation, maintenance, and management of such water supply and distribution system. The Board may improve, extend, or enlarge the water supply and distribution system and may sell surplus water outside the Water District. The members of the Board must be qualified electors of the Water District and are elected at large to staggered four-year terms of office at successive biennial elections. Vacancies on the Board are filled for the unexpired term by appointment by the remaining members. The members hold regular monthly meetings and, as needed, special meetings.

The present Board members, their positions on the Board, occupations and affiliations, lengths of service to the Water District, and terms of office are as follows:

Board Chairperson – Robert S. Olson, whose term expires April 2015, has lived in Johnson County 22 years. He has been self-employed for 20 years as a painting contractor. He currently serves in the Kansas Senate and is a member of the Senate Commerce Committee and the Financial Institutions and Insurance Committees. Senator Olson previously served three terms in the Kansas House of Representatives. In the legislature he was the Majority Whip and served as a member on the House Energy & Utilities Committee, Financial Institutions Committee, Federal and State Committee as well as the Insurance Committee. He also served as a member of the House Select Committee for KPERS and was Chair of the Joint Committee. Senator Olson is past President of the Madison Place Home Owner's Association and is a Republican Precinct Committeeman. He is on the Board of the Bank of the Prairie and a member of its Loan Committee. Senator Olson has been a Water District Board Member since 1995.

Board Vice Chairperson – Brenda Cherpitel, whose term expires in April 2013, has been a Johnson County resident for 33 years. She graduated with a Bachelor of Science degree from the University of Missouri-Columbia, and has spent her professional career in marketing and business development working for more than 20 years at Hallmark, Inc. and in senior management for two smaller companies. Ms. Cherpitel has served for five years as Director, Individual Development for the American Academy of Family Physicians Foundation where she leads the fundraising, marketing, strategic planning, and new program development for her organization. She works with over 100,000 family physicians across the U.S to support philanthropic work in the areas of humanitarian aid,

education, and research. Ms. Cherpitel also has served in many leadership roles related to her church and community, including Chair of Administrative Board during a \$3.2 million facility expansion of Old Mission United Methodist Church. Ms. Cherpitel has served on the Member Services Committee of Non-Profit Connect, and is a member of the Association of Fundraising Professionals. She is a member of the AWWA (American Water Works Association) and was among the first individuals to complete her AWWA Public Officials Certification in June 2009. Ms. Cherpitel was appointed in May 2007 to fill a vacancy on the Board and was elected to the Board in April 2009. Ms. Cherpitel serves on the Government and Community Relations Committee and the Operations Committee.

Board Member – Terrence D. Frederick, whose term expires April 2015, has been a Johnson County resident for 39 years. Mr. Frederick graduated with Bachelor of Science degrees in Accounting and Business Administration from the University of Kansas. Mr. Frederick, a Certified Public Accountant, has directed the State and Local Corporate Tax Department at Sprint Nextel Corporation for the past 22 years and was previously employed at Kansas City Southern Industries and Arthur Andersen & Co. Mr. Frederick is currently Board Chairman of the Council on State Taxation (www.COST.org);, a member of the Tax Executives Institute, member of its National State & Local Tax Committee and a Past President of its Kansas City chapter; a member of the American Institute of Certified Public Accountants, a board member and Past President of the Prairie Village Lions Club; a Past President of the Kansas University Alumni Association Kansas City Chapter Board, and is involved in other charitable and civic activities in Johnson County. He served previously as Councilman for the City of Prairie Village, Kansas. Mr. Frederick served a previous term on the Board from May 1991 to April 1995. He was appointed in September 2000 to fill a vacancy on the Board and was reelected to the Board in April 2003. Mr. Frederick previously served as Board Chair, and currently chairs the Finance Committee and serves on the Administrative and Retirement Committees.

Board Member – H. Richard (Dick) Noon, whose term expires in April 2015, has been a resident of Johnson County for 40 years. Mr. Noon graduated with a Bachelor of Arts degree in Economics from LaSalle College (Philadelphia) and is a graduate of Stonier Graduate School of Banking (Rutgers University). He is President of Bankers Mortgage & Investment Group, Inc., a full service commercial mortgage banking company, and a Partner in RealPac Commercial Real Estate Services. He has been a member of the Mortgage Bankers Association of America for 33 years and is past Chairman of the Multi-Family Housing Committee. Mr. Noon has previously served as President of Mortgage Bankers Association of Kansas City, President of the Mission Chamber of Commerce, a member of Multi-Housing Finance Division of the American Banker's Association, Member of the National Association Realtors, Board Member of CASA (Court Appointed Special Advocate For Children) for four years, and a member of the City Task Force for the Overland Park Chamber of Commerce for three years. Mr. Noon is former chairman of the Board of Visiting Nurses Association of Kansas City, former Board Chairman of Clincare Family Services Corporation of Kansas City, former Chairman of the Johnson County Certified Development Corporation and past Director of the Commercial Investment Division of the Board of Realtors of Johnson County, Kansas. Mr. Noon is also a Certified Commercial Investment Member (CCIM), a recognized expert in the disciplines of commercial and investment real estate. Mr. Noon is also a CMB (Certified Mortgage Banker) and an Advisor Director of the Kansas City region of U.S. Bank. He has served on the Water District Board since 1995. He is past Chairperson of the Board (1995-1997), is currently a member of the Administrative and Finance Committees, and serves as Chairperson of the Retirement Committee.

Board Member – Robert P. Reese, whose term expires in April 2013, has been a Johnson County resident for 50 years. Mr. Reese graduated with a Bachelor of Science degree in Business Accounting and Business Administration from the University of Kansas and is a Certified Public Accountant (CPA) and a Certified Information Systems Security Professional (CISSP). Mr. Reese is an Enterprise Security Analyst in the Business & Technology Services group of Burns & McDonnell Engineering, Inc. He was previously principal & owner of 22 Consulting, specializing in information security consulting. He was Director of Global Information Security for GE Insurance Solutions and held management positions in information & network security, information systems planning, and computer and financial auditing at Sprint. He also has several years of public accounting experience as a CPA. Mr. Reese is a member of the American Water Works Association (AWWA), Information Systems Security Association (ISSA), High Technology Crime Investigation Association (HTCIA), and the FBI's InfraGard program. He is currently Board Member of InfraGard – Kansas City, Past President of the Missouri-Kansas HTCIA, Past President of the Kansas City Chapter of the ISSA, and Past President of the University of Kansas Alumni Association – Kansas City Chapter. Mr. Reese, a Board member since 1993, previously served as Board Chairperson. He is on the Finance Committee and chairs the Administrative Committee.

Board Member – James E. Vader, whose term expires in April 2013, has been a Johnson County resident for 43 years. Mr. Vader graduated with a Bachelor of Science degree in Business Administration from Kansas State University. Mr. Vader has been an Independent Insurance Agent for 52 years and served as President of the

Independent Insurance Agents Association. He is owner and President of Vader Insurance, Inc. Mr. Vader is a member of St. Ann's Church and a past president of its Parish Council. He is serving as a member of the American Water Works Association's Public Officials Committee. He was a member of the Water District Board from May 1991 to April 1995, and has been a member again since May 1997. Mr. Vader is a past Chairman of the Water District Board and currently is chairman of the Operations Committee and a member of the Government and Community Relations Committee.

Board Member – Joe Vaughan, whose term expires April 2015, has been a resident of Johnson County for 30 years. Mr. Vaughan is a 1971 graduate of the University of Kansas School of Journalism. Mr. Vaughan is owner/president of Joe Vaughan Associate established in 1990, which produces local and regional history books, membership directories and similar publishing services. He had a 20-year career in broadcast journalism before going into publishing. He was Kansas City Regional Editor and Photographer for Emporis.com (Skyscrapers.com) from 2000 to 2012. Mr. Vaughan is active in business and civic affairs throughout the metro area, serving on the Kansas City, Missouri, Salvation Army Civic Advisory Board. He is a past member of the Northeast Johnson County Chamber board of directors and a member of Colonial Church (UCC) in Prairie Village where he served two terms on the church council. Mr. Vaughan is past-president of the board of directors for the Sigma Alpha Epsilon Chapter at the University of Missouri-Kansas City (UMKC). He is also a member of the UMKC Chancellor's Greek Task Force Committee. Mr. Vaughan has been president or chairperson of the following organizations: Native Sons and Daughters of Greater Kansas City (1998), Cancer Action, Inc. (1997), the Downtown Kansas City, Kansas Kiwanis Club (1998), the Kansas Associated Press Board (1983-85), the chamber's Leadership Northeast Program (1996), and is a past member of the steering committee for the Johnson County Chamber Alumni Leadership Program (1997-2007). Mr. Vaughan has served on the Water District Board since 2003. He chairs the Government and Community Relations Committee and sits on the Operations and Retirement Committees.

Administration

Although the Board is responsible for the overall management and administration of the affairs of the Water District, the Board essentially functions through its respective Administrative, Finance, Government & Community Relations, and Operations Committees.

The Water District's key management personnel consist of its General Manager, Director of Legal/Auditing, Treasurer/Director of Finance, Director of Production, Director of Distribution, Director of Customer Relations, Director of Administration/Human Resources, and Director of Information Technology.

General Manager - Michael J. Armstrong has served as General Manager since 2003. Prior to that Mr. Armstrong served the Water District as General Counsel for 5 years and was previously a partner with Speer, Austin, Holliday & Zimmerman, the Water District's outside legal counsel, where he worked on District legal issues since 1991. He is a graduate of Kansas State University with a Bachelor of Arts degree in Political Science, and also graduated from the University of Kansas with a Law degree. Mr. Armstrong is a member of the Overland Park Chamber of Commerce Board. He is a graduate of Leadership Kansas and the Water and Wastewater Leadership Center at the University of North Carolina at Chapel Hill. He is a member of the American Water Works Association. Mr. Armstrong has been appointed by the Assistant Secretary of the Army and the U.S. Army Corps of Engineers to represent water supply stakeholders on the Missouri River Recovery Implementation Committee, which is a collaborative stakeholder committee developed to advise the Corps on operations and management of Missouri River.

General Counsel · Director of Legal/Auditing – Eric R. Arner is responsible for the legal, auditing and insurance functions for the Water District. Mr. Arner joined the Water District in March of 2003. Prior to joining the Water District, Mr. Arner served for over 13 years in local government law, most recently as Senior Assistant City Attorney for the City of Lenexa, Kansas. He is a 1986 graduate of William Jewell College in Liberty, Missouri with Bachelor of Arts degrees in History and Economics. Mr. Arner obtained his Law degree from the University of Missouri - Kansas City School of Law where he was the Staff Editor for the *Urban Lawyer*. He is a member of the Johnson County Bar Association and a former Director of that organization's Board of Directors. In addition, Mr. Arner is a graduate of the Lenexa Chamber of Commerce Leadership Lenexa Program as well as the Mid-America Regional Council's Local Government Supervision Certification program.

Treasurer · Director of Finance - Ronald E. Appletoft is responsible for the accounting, cash and investments,

financial planning, purchasing and material control functions of the Water District. He is a graduate of the University of South Dakota with a Bachelor of Science Degree in Accounting. He has been with the Water District for over 30 years, served as Director of Finance since 2005, and previously held positions as a Senior Accountant, Governmental Affairs Coordinator and Internal Audit Manager. Prior to the Water District he held positions as an Assistant Controller and Bank Auditor. Mr. Appletoft is a Certified Fraud Examiner and a member of the National Association of Certified Fraud Examiners, Government Finance Officers Association and the American Water Works Association. He is a past president of the EDP Auditors Association. Mr. Appletoft has served as a City Councilmember for over 6 years including terms as Council President and Chairman of the Finance Committee. He also served as Treasurer for a municipality for over 15 years. He is a graduate of Leadership Kansas. Mr. Appletoft has served on the Board of various organizations including the Kansas City Easter Seals Society, Services for Seniors, the Mission Area Chamber of Commerce as well as several professional organizations.

Director of Production – Tom Schrempp is responsible for all aspects of water production from the Water District’s source, treatment, pumping and storage facilities. Mr. Schrempp is a graduate of the University of Oklahoma with a Bachelor of Science degree in Civil Engineering. He has been with the Water District for over 21 years and has previously held the position of Assistant Director of Operations/Production. Mr. Schrempp has over 30 years of engineering experience including one year with a state health department, over six years with a consulting engineering firm, and eight years working for municipal governments. He is a registered Professional Engineer in Kansas, Missouri, and Oklahoma. He is also a Class IV Water Operator in the State of Kansas. Mr. Schrempp is a member of the American Water Works Association, National Society of Professional Engineers, American Society of Civil Engineers, and the Water Environment Federation. He is currently the Kansas representative on the AWWA Board of Directors and has co-authored several papers presented at state and national AWWA conferences. He has served on several Project Advisory Committees for Water Research Foundation projects. He is a member of the Lenexa Chamber of Commerce and alumni of the Leadership Lenexa Program. Mr. Schrempp is the Water District’s representative to MO-ARC, and the Missouri River Public Water Supply Association - organizations representing the water resource interests of the region; and serves on the Board of Directors of the Kansas River Water Assurance District.

Director of Distribution – Daniel J. Smith is responsible for the overall operation of the distribution system, which encompasses engineering planning, design and infrastructure renewal, construction and maintenance, distribution system water quality, mapping and drafting, and the sale of all service connections and meters. He was also the Water District’s project manager for the Administrative Headquarters and Service Center. He has been with the Water District for 16 years and previously held the position of Assistant Director of Operations/Distribution. Mr. Smith has 31 years of engineering experience with more than two years in consulting engineering and over 28 years in the water utility industry. He graduated from the University of Nebraska - Lincoln with a Bachelor of Science degree in Civil Engineering. He has taken master level course work in civil engineering at the Universities of Kansas and Missouri and course work in the MBA program at the University of Kansas. Mr. Smith is a registered Professional Engineer in Kansas and Nebraska. He is a member of the American Water Works Association (AWWA) at the national and state level and has authored and co-authored papers that he presented at the state and National AWWA conferences and the Underground Construction Technology Conference. Mr. Smith is a member of the WRF Research Advisory Council, a member of an AWWA technical committee for the relining and rehabilitation of water mains, and has served on several Project Advisory Committees for the Water Research Foundation (WRF) projects, including a project researching “Managing Distribution System Pressures to Protect Water Quality”.

Director of Customer Relations- Daniel D. Graves is responsible for planning, organizing, and directing the full range of customer related functions including all aspects of customer service, meter reading, billing, collections and public information. As director, he provides direction and support for implementation of programs and activities that enhance the utility’s image and plays a key role as a member of the utility’s Emergency Operations Team. Mr. Graves is a graduate of the University of Nebraska with Bachelor of Science degree in Business Administration, has an MBA from the University of Missouri at Kansas City, and is a graduate of the Leadership Overland Park program. He has been with WaterOne for more than 30 years with the last 23 as the Manager of Customer Service. Before working at WaterOne, Mr. Graves spent 8 years in the U.S. Air Force and finished his military career with the Kansas Army National Guard retiring as a Master Sergeant.

Director of Administration/Human Resources - Colleen Browne is responsible for the full range of human resource services, fleet & building services, and administrative functions for the Water District including payroll, safety and security, and workers compensation. Ms. Browne graduated from the University of Kansas with Bachelor’s degrees in Personnel Administration and Organizational Communications. She holds a Masters of Science degree with an emphasis in Organizational Development from Pittsburg State University. She also graduated from Stanford

University's Strategic Human Resource Executive Program. Ms. Browne has earned and actively holds professional designations of Certified Benefits Professional (CBP), Certified Compensation Professional (CPP), and International Public Management Association – Certified Professional (IPMA-CP). She has been with the Water District since October 2007 and has over 25 years of experience as a Human Resources leader in both private and public organizations. Ms. Browne is a member of the Society of Human Resource Management, World at Work, International Public Management Association, IPMA-KC Chapter, and the American Water Works Association. She has served on the Board of Directors for HRMA of Greater KC, and IPMA-KC Board of Directors as President. Ms. Browne served as a Board Trustee of the Kansas Eastern Region Insurance Trust from 2002-09 and served as the President in 2007-08. She has been on the Board of Directors since 1997 for Community America Credit Union – a \$1.9 B financial organization, currently serving as Secretary & Treasurer and is a member of the Executive Committee. She has also served as Chairman of both the Compensation and Governance Committees. Ms. Browne serves on the Blue Valley Recreation Commission as a Board Director since 2010 and is currently the Chairman of Community Relations.

Director of Information Technology – C.J. George is responsible for ensuring consistent and reliable technological support of the Water District's many business processes, priorities and initiatives involving a wide variety of technologies and applications. Mr. George received a Bachelor of Science degree in Business Information Systems from Bellevue University with a major in Computer Science. Mr. George has been with the Water District since May of 2008 and has worked in technology for over 15 years. Past assignments include six years as the Director of Application Development at Data Transmission Network, LLC, four years at ConAgra Foods, Inc. as the Director of Strategic Technology Development, six months at CapGemini Consulting as a Sr. Consultant and almost ten years in the United States Navy as an Intelligence Specialist. Mr. George is a member of a number of application development, infrastructure technology and industry-specific organizations dating back to 1992 and has been published in multiple technology periodicals and on-line journals on topics covering subjects such as high-volume computing application architectures, project management methodologies and the application of cutting edge technologies to optimize business processes.

Employees and Benefits

The Water District employs approximately 357 full time permanent personnel and 28 part time and seasonal employees. Among the benefits provided to Water District employees are: (1) the choice of a fully paid single health insurance plan or partially paid family health insurance for spouse and/or dependents, (2) life insurance, (3) dental insurance, (4) long-term disability insurance, and (5) an option to participate in a Section 125(d) medical savings account and/or a dependent care savings account. The Water District also offers optional employee-paid accidental death and dismemberment insurance and supplemental life insurance.

Deferred Compensation

The Water District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time and part-time Water District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Defined Contribution

The Water District offers its employees a defined contribution plan created in accordance with Internal Revenue Code Section 401(a). The defined contribution plan has two parts, consisting of the following:

All full-time and part-time employees are offered a plan which provides for a Water District contribution matching 50 percent of an employee's contribution to the 457 plan, up to 4 percent of the employee's eligible annual compensation. The maximum Water District contribution is 2 percent of the employee's eligible compensation. The Water District had deposited assets for the matching portion of the 401(a) plan in the amount of \$306,320 and \$319,761 during 2011 and 2010, respectively.

Full-time employees with at least six months of service are offered a plan which provides for a contribution of 2.5 percent of the employee's eligible compensation. The Water District had deposited assets for the 2.5 percent base contribution in the amount of \$459,183 and \$470,693 for the calendar years of 2011 and 2010 respectively.

Assets of both portions of the 401(a) plan are not available to employees until termination, retirement, death or unforeseen emergency. New employees are subject to a five year vesting schedule consisting of 20 percent vested at the end of each year. After five years of service, all subsequent employer contributions are 100 percent vested. The defined contribution plan assets are held in trust for the exclusive benefit of employees and their beneficiaries.

Defined Benefit Plan

The Water District's Defined Benefit (DB) Plan, originally adopted in 1957, with subsequent revisions, is maintained and financed from Water District contributions. As of January 1, 2012 (date of the last available plan valuation), the plan's actuarial present value of assets was \$27,001,573 and the actuarial accrued liability was \$36,747,193, resulting in an unfunded liability of \$9,745,620. The funded ratio as of January 1, 2012 was 73.48%. The unfunded liability is primarily the result of negative market performance. The experience loss from the negative market performance is amortized over 10 years for purposes of calculating the Annual Required Contribution (ARC). The Water District is fully funding each year's calculated ARC.

See Appendix B, "Audited Financial Statements of the Water District" for the following additional information on the Water District's DB plan:

- a) Note 7 – Plan description and actuarial methods and assumptions.
- b) Schedule 1 of Required Supplemental Information – Five year history of the actuarial value of assets, actuarial accrued liability, the unfunded liability and the funded ratio.

The Water District's governing board has adopted a *Fiscal Policies and Procedures* document that states that pension costs are fully funded as determined by the annual actuarial studies.

Other Post-Employment Benefits (OPEB)

The Water District currently provides postretirement health care benefits to all employees hired before January 1, 2008 who retire under the provisions of the Water District No. 1 of Johnson County, Kansas, Revised Retirement Plan. Currently 67 retirees and 34 spouses meet those eligibility requirements. The Water District pays one-half of the health insurance coverage for retirees and their spouses if the retiree is age fifty-five to sixty-five. After the retiree or spouse reaches age sixty-five, the Water District then pays one-half of the cost of a Medicare supplement plan. These payments are currently funded on a pay-as-you-go basis. The Water District provides retired personnel with life insurance coverage at 25% of final salary.

The Water District annually funds the OPEB cost to the extent of the current year's insurance premium for retirees. As of January 1, 2011 (date of the last available plan valuation) the plan's actuarial present value of assets was \$0 and the actuarial accrued liability was \$14,457,815, resulting in an unfunded liability of \$14,457,815.

Consultants

The Water District retains a variety of professional firms and individuals for the provision of specialized services. Among these are Black & Veatch Corporation, of Kansas City, Missouri, who serve as Consulting Engineers to the Water District; and Piper Jaffray & Co., of Leawood, Kansas who is retained as the Water District's Financial Advisor. The Water District also has retained the legal services of Kutak Rock, Kansas City, Missouri, as Bond Counsel in connection with the issuance of the 2012 Bonds.

Legal Matters Affecting the Water District

The Water District has various lawsuits and claims pending which arose through the normal course of operations. Management believes that the ultimate liabilities, if any, of these lawsuits would not be material to the financial position of the Water District.

Water District Insurance Coverage

The Water District has covenanted in the 2012 Bond Resolution to carry and maintain property insurance coverage on all water system assets on a cost effective basis. The District maintains public liability insurance in amounts comparable to those held by similar municipalities in the State of Kansas and in accordance with Kansas Tort Statutes.

In the event of loss or damage to the water system assets, the proceeds derived from such insurance coverage will be used for reconstruction or replacement purposes, or will be deposited to the water system general fund, all in accordance with the 2012 Bond Resolution. See Appendix A.

Financial Statements

The Water District is required to publish within 90 days after the end of each calendar year a summary of its audited financial statements (K.S.A. 19-3521). The Water District's year-end financial statements are required to be certified by a certified public accountant or a licensed municipal public accountant. A copy of the audit must be filed with the clerks of the counties within the Water District's service area and such audit is open to public inspection. The financial statements as of December 31, 2011 are included in this Official Statement as Appendix B, and have been audited by RubinBrown, LLP. McGladrey & Pullen, LLP audited the financial statements for the period ending December 2010.

LITIGATION

There is no controversy, suit or other proceeding of any kind pending or threatened wherein any question is raised or may be raised, questioning, disputing, or affecting in any way the legal organization of the Water District, the right or title of any of its officers to their respective offices, or any of its official acts shown to have been done in the proceedings authorizing the issuance of the 2012 Bonds, or the constitutionality or validity of the obligations represented by the 2012 Bonds, or the validity of the 2012 Bonds, or any of the proceedings had in relation to the authorization, issuance, or sale of the 2012 Bonds, or the power and authority of the Water District to fix, charge and collect rates for the sale of water as required by the 2012 Bond Resolution. There is no controversy, suit or proceeding of any kind pending or threatened which would affect or otherwise challenge or question the Water District's boundaries or its territorial jurisdiction as to the exclusive provider of treated water for use within its boundaries.

TAX MATTERS

Approval of 2012 Bonds

All matters incident to the authorization and issuance of the 2012 Bonds are subject to the approval of Kutak Rock LLP, Kansas City, Missouri, Bond Counsel. Bond Counsel has not participated in the preparation of this Official Statement, except for the matters appearing in the Section entitled "TAX MATTERS". The factual and financial information in this Official Statement has been supplied or reviewed by certain officials of the Water District and Bond Counsel expresses no opinion as to the accuracy or sufficiency thereof.

Federal Tax Exemption - In General

In the opinion of Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the 2012 Bonds is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. The opinion described in the preceding sentence assumes the accuracy of certain representation and compliance by the Water District with covenants designed to satisfy the requirements of the Code that must be met subsequent to the issuance of the 2012 Bonds. Failure to comply with such requirements could cause interest on the 2012 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2012 Bonds. The Water District has covenanted to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the 2012 Bonds. A form of the approving legal opinion of Bond Counsel is attached hereto as Appendix C.

Notwithstanding Bond Counsel's opinion that interest on the 2012 Bonds is not a specific preference item for purposes of the federal alternative minimum tax, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

The accrual or receipt of interest on the 2012 Bonds (including any original issue discount properly allocable to the owners of certain of the 2012 Bonds) may otherwise affect the federal income tax liability of the owners of the 2012

Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the 2012 Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the 2012 Bonds.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the 2012 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to 2012 Bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the 2012 Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the 2012 Bonds or the market value thereof would be impacted thereby. Purchasers of the 2012 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the 2012 Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

Backup Withholding

Certain purchasers may be subject to backup withholding at the application rate determined by statute with respect to interest paid with respect to the 2012 Bonds, if the purchasers, upon issuance, fail to supply the Paying Agent or their brokers with their taxpayer identification numbers, furnish incorrect taxpayer identification numbers, fail to report interest, dividends or other "reportable payments" (as defined in the Code) properly, or, under certain circumstances, fail to provide the Paying Agent with a certified statement, under penalty of perjury, that they are not subject to backup withholding.

Bank Qualified

The Water District has represented that it does not reasonably anticipate issuing greater than \$10,000,000 of tax-exempt obligations in calendar year 2012 (excluding certain private activity and refunding bonds) and that it has properly designated the 2012 Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code. Accordingly, assuming the accuracy of such representations, Bond Counsel is of the opinion that in the case of certain banks, thrift institutions or other financial institutions owning the 2012 Bonds, a deduction is allowed for 80% of that portion of such institutions' interest expense allocable to interest on the 2012 Bonds. Bond Counsel has expressed no opinion with respect to any deduction for federal tax law purposes of interest on indebtedness incurred or continued by a holder of the 2012 Bonds or a related person to purchase or carry the 2012 Bonds.

Kansas Tax Exemption

In the opinion of Bond Counsel, the interest on the 2012 Bonds is excludable from the computation of Kansas adjusted gross income.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization, issuance and sale by the Water District of the 2012 Bonds are subject to the unqualified approving opinion of Kutak Rock, Kansas City, Missouri, Bond Counsel. Certain legal matters will be passed upon for the Water District by general counsel, Eric R. Arner.

RATINGS

The 2012 Bonds have received ratings of “Aa1” from Moody’s Investors Service, Inc. and “AAA” from Standard & Poor’s Corporation. The ratings reflect only the view of the rating agencies, and neither rating constitutes a recommendation to buy, sell, or hold the 2012 Bonds. There is no assurance that such ratings will continue for any period of time or that they will not be revised or withdrawn. A revision or withdrawal of either rating may have an effect on the market price of the 2012 Bonds.

CONTINUING DISCLOSURE

Pursuant to the requirements of the Securities and Exchange Commission rule 15c2-12 (17 CFR Part 240, Section 240.15c2-12) (the “Rule”), the Water District has covenanted in the 2012 Bond Resolution for the benefit of the Bondholders to provide certain financial information, operating data and notices of material events after the 2012 Bonds are issued. The form of the Continuing Disclosure Letter of Instructions setting forth the undertaking of the Water District for the 2012 Bonds in connection with the Rule is in Appendix D. A failure by the Water District to comply with such undertaking will not constitute a default on the 2012 Bonds (although Bondholders will have any available remedy at law or in equity). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the 2012 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the 2012 Bonds and their market price. To the best of its knowledge the Water District has not, within the last five years, failed to comply in any material respect with its past undertaking under the Rule with respect to the Senior Parity Bonds or the Second Lien Bonds.

FINANCIAL ADVISOR

Piper Jaffray & Co., Leawood, Kansas serves as Financial Advisor to the Water District with respect to this issue, and in such capacity has assisted the Water District in structuring the issue and making the public sale of the 2012 Bonds. Piper Jaffray & Co. did not bid on the 2012 Bonds.

UNDERWRITING

The 2012 Bonds are being purchased from the Water District by _____ (the “Original Purchaser”), pursuant to a public sale by the Water District, at a price of \$_____ plus accrued interest, if any, to the date of delivery. The Water District is paying expenses associated with the issuance of the 2012 Bonds from proceeds of the issue. The Original Purchaser has initially offered the 2012 Bonds to the public at the prices or yields set forth on the cover page of this Official Statement, plus accrued interest, if any, from the date of the Bonds. Such prices or yields, as the case may be, may subsequently change without any requirement of prior notice. The Original Purchaser may join with dealers and other investment banking firms in offering the 2012 Bonds to the public.

ADDITIONAL INFORMATION

All of the summaries of the statutes, resolutions, opinions, contracts, agreements, financial and statistical data, and other related reports and documents described in this Official Statement are subject to the actual provisions of such documents. The summaries do not purport to be complete statements of such provisions and reference is made to such documents, copies of which are either publicly available or available for inspection during normal business hours at:

Water District No. 1 of Johnson County
10747 Renner Blvd
Lenexa, Kansas 66219
Telephone: (913) 895-5500
Rappleoft@waterone.org
Attn: Ronald E. Appletoft, Finance Director

Further information may be obtained from the Financial Advisor:

Piper Jaffray & Co.
One Hallbrook Place
Suite 310
11150 Overbrook Road
Leawood, KS 66211-2298
Telephone: (913) 345-3370
william.p.henderson@pjc.com
Attn: Bill Henderson

OFFICIAL STATEMENT CERTIFICATION

At the closing the Water District will deliver to the original purchaser of the 2012 Bonds a certificate to the effect that as of the date hereof to the best of their knowledge, this Official Statement is true, complete, and correct in all material respects, and does not include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they are made, not misleading.

The Board has authorized the preparation of this Official Statement and its distribution. The Board as of the date on the cover page hereby duly approves this Official Statement hereof.

This Official Statement has been “deemed final” by the Board as provided in the Securities and Exchange Commission Rule 15c2-12.

Water District No. 1
of Johnson County, Kansas

By _____
General Manager

By _____
Finance Director

Appendix A

SUMMARY OF CERTAIN PROVISIONS OF THE 2012 BOND RESOLUTION

The following is a summary of certain terms defined in the 2012 Bond Resolution and used in this Official Statement and certain provisions and covenants contained in the 2012 Bond Resolution. Such summary does not purport to be a complete statement of the terms of the 2012 Bond Resolution and accordingly is qualified in its entirety by reference thereto and is subject to the full text thereof. A copy of the 2012 Bond Resolution may be obtained from the Water District upon written request made prior to delivery of the 2012 Bonds.

Definitions

“Accrued Value” means, with respect to each Capital Appreciation Bond, (i) the initial principal amount of such Capital Appreciation Bond plus, on the date of calculation, the interest accrued thereon to such date compounded at the interest rate thereof on each compounding date contained in such Capital Appreciation Bond, and (ii) with respect to any calculation on a date other than a compounding date, the amount determined pursuant to clause (i) above as of the immediately preceding compounding date plus interest on such amount from such compounding date to the date of calculation at a rate equal to the interest rate on such Capital Appreciation Bond.

“Act” means K.S.A. 19-3501 to 19-3521a and K.S.A. 10-116a, all, as amended or supplemented from time to time.

“Additional Interest” means, for any period during which any Pledged Bonds are owned by a Credit Facility Provider pursuant to a Credit Facility or Credit Facility Agreement, the amount of interest accrued on such Pledged Bonds at the Pledged Bond Rate less the amount of interest which would have accrued during such period on an equal Principal amount of Bonds at the Bond Rate.

“Annual Debt Service” means:

(a) with respect to the Senior Parity Bonds, the amounts required to be deposited in the Principal and Interest Fund for the Senior Parity Bonds for the current Fiscal Year; and,

(b) with respect to the Second Lien Parity Bonds, the amounts required to be deposited in the Principal and Interest Fund for the Second Lien Parity Bonds for the current Fiscal Year.

(i) For the purpose of calculating Annual Debt Service on any Option Bonds Outstanding or proposed to be issued, the Bonds shall be assumed to mature on their stated date of maturity.

(ii) For the purpose of calculating Annual Debt Service on any Bonds Outstanding or proposed to be issued that bear interest at a Variable Rate, the interest coming due in any specified future period shall be determined as if the Variable Rate in effect at all times during such future period equaled the average of the SIFMA Municipal Bond Index for the prior 5 calendar years, or any comparable index as certified to the Water District by a Financial Advisor. If making a historical calculation with respect to Variable Rate Bonds, actual interest rates may be used.

(iii) For the purpose of calculating the Annual Debt Service on any Auction Rate Bonds that are Outstanding or proposed to be issued, the interest coming due in any specified future period shall be determined by the resolution of the Water District authorizing such Auction Rate Bonds.

(iv) For the purpose of calculating the Annual Debt Service on any Capital Appreciation Bonds that are Outstanding or proposed to be issued, the total Principal and interest coming due shall be determined, with respect to such Capital Appreciation Bonds, by the resolution of the Water District authorizing such Capital Appreciation Bonds.

(v) With respect to any Bonds secured by a Credit Facility, Annual Debt Service shall also include (A) any upfront or periodic commission or commitment fee obligations with respect to such Credit Facility, (B) the outstanding amount of any Reimbursement Obligation owed to the applicable Credit

Facility Provider and interest thereon, (C) any Additional Interest owed on Pledged Bonds to a Credit Facility Provider, and (D) any remarketing agent or surveillance fees.

(vi) With respect to any Hedged Bonds, the interest on such Hedged Bonds during any Hedge Period and for so long as the provider of the related Hedge Agreement has not defaulted on its payment obligations thereunder shall be calculated by adding (A) the amount of interest payable by the Water District on such Hedged Bonds pursuant to their terms and (B) the amount of Hedge Payments payable by the Water District under the related Hedge Agreement and subtracting (V) the amount of Hedge Receipts payable by the provider of the related Hedge Agreement at the rate specified in the related Hedge Agreement; provided, however, that to the extent that the provider of any Hedge Agreement is in default thereunder, the amount of interest payable by the Water District on the related Hedged Bonds shall be the interest calculated as if such Hedge Agreement had not been executed. In determining the amount of Hedge Payments or Hedge Receipts payable or receivable for any future period which are not fixed throughout the Hedge Period (*i.e.*, which are variable), such Hedge Payments or Hedge Receipts for any period of calculation (the “Determination Period”) shall be computed by assuming that the variables comprising the calculation (*e.g.*, indices) applicable to the Determination Period are equal to the average of the actual variables which were in effect (weighted according to the length of the period during which each such variable was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period).

(viii) For the purpose of calculating the Annual Debt Service on Balloon Bonds (A) which are subject to a Commitment or (B) which do not have a Balloon Date within 12 months from the date of calculation, such Bonds shall be assumed to be amortized in substantially equal annual amounts to be paid for Principal and interest over an assumed amortization period of 20 years at an assumed interest rate (which shall be the interest rate certified by a Financial Advisor to be the interest rate at which the Water District could reasonably expect to borrow the same amount by issuing Bonds with the same priority of lien as such Balloon Bonds and with a 20-year term); provided, however, that if the maturity of such Bonds (taking into account the term of any Commitment) is in excess of 20 years from the date of issuance, then such Bonds shall be assumed to be amortized in substantially equal annual amounts to be paid for Principal and interest over an assumed amortization period of years equal to the number of years from the date of issuance of such Bonds to maturity (including the Commitment) and at the interest rate applicable to such Bonds. For the purpose of calculating the Annual Debt Service on Balloon Bonds (A) which are not subject to a Commitment and (B) which have a Balloon Date within 12 months from the date of calculation, the Principal payable on such Bonds on the Balloon Date shall be calculated as if paid on the Balloon Date.

(ix) The Principal of and interest on Bonds and Hedge Payments shall be excluded from the determination of Annual Debt Service to the extent that (A) the same were or are expected to be paid with amounts on deposit on the date of calculation (or Bond proceeds to be deposited on the date of issuance of proposed Bonds) in the construction fund for such Bonds, the Principal and Interest Fund or a similar fund for Second Lien Parity Bonds or (B) cash or non-callable Government Securities are on deposit in an irrevocable escrow or trust account in accordance with the defeasance provisions of the 2012 Bond Resolution hereof (or a similar escrow or trust account for Subordinate Bonds) and such amounts (including, where appropriate, the earnings or other increment to accrue thereon) are required to be applied to pay Principal or interest and are sufficient to pay such Principal or interest.

(x) Notwithstanding anything to the contrary stated above, other than with respect to Capital Appreciation Bonds, if making an historical calculation, actual debt service may be used.

“Auction Rate Bonds” mean any Bonds which bear interest at the auction rate determined pursuant to the auction bond provisions set forth in the resolution of the Water District authorizing such Auction Rate Bonds.

“Average Annual Debt Service” means the aggregate total Annual Debt Service for the remaining term of the Second Lien Bonds divided by the number of years of debt service taking into account fractional years if any year is less than 12 months.

“Balloon Bonds” means any series of Second Lien Parity Bonds 25% or more of the Principal of which (i) is due in any 12-month period or (ii) may, at the option of the Registered Owners, be required to be redeemed, prepaid, purchased directly or indirectly by the Water District, or otherwise paid in any 12-month period; provided that, in calculating the Principal of such Bonds due or required to be redeemed, prepaid, purchased, or otherwise paid in any 12-month period, such Principal shall be reduced to the extent that all or any portion of such amount is required to be redeemed or amortized prior to such 12-month period.

“Balloon Date” means any Principal Maturity Date or Put Date on which more than 25% of the Principal of related Balloon Bonds mature or are subject to mandatory redemption or could, at the option of the Registered Owners, be required to be redeemed, prepaid, purchased directly or indirectly by the Water District, or otherwise paid.

“Beneficial Owner” means any person who (a) has the power directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Book-Entry Bond (including persons holding Book-Entry Bonds through nominees, depositories or other intermediaries), or (b) is treated as owner of any Book-Entry Bond for federal income tax purposes.

“Board” means the duly elected or appointed Board of the Water District as provided in the Act.

“Bond Counsel” means a firm of attorneys of recognized standing in matters relating to the issuance of obligations by states and their political subdivisions, and acceptable to the Water District.

“Bond Obligation” means as of any date of calculation the aggregate principal amount of Outstanding 2012 Bonds.

“Bond Rate” means the rate of interest per annum payable on specified Bonds other than Pledged Bonds.

“Bond Register” means the Bond Register of the Water District maintained by the Bond Registrar.

“Bond Registrar” means, with respect to the Series 2012 Bonds, the Treasurer of the State of Kansas, and any successors or assigns; and, with respect to any other series of Bonds, the Bond Registrar designated by the Water District in the resolution authorizing the issuance of such Bonds.

“Bond Reserve Fund” means, with respect to the Senior Parity Bonds, the Bond Reserve Fund for the Senior Parity Bonds ratified and confirmed by the Senior Parity Bond Resolutions; and, with respect to the Second Lien Parity Bonds, the Bond Reserve Fund for the Second Lien Parity Bonds ratified by the 2012 Bond Resolution which fund may include subaccounts.

“Bonds” means the Senior Parity Bonds and the Second Lien Parity Bonds.

“Book-Entry Bonds” means, collectively, the Senior Parity Bonds, the 2009 Bonds, the 2010 Bonds, the 2012 Bonds and any Bonds designated by the Water District as “Book-Entry Bonds” under the resolution authorizing the issuance of such Bonds.

“Capital Appreciation Bonds” means Bonds which bear interest which is calculated based on periodic compounding, payable only at maturity or earlier redemption.

“Cede & Co.” means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to the Book-Entry Bonds.

“Code” means the Internal Revenue Code of 1986, as amended, and the applicable regulations proposed or promulgated thereunder of the United States Department of the Treasury.

“Commitment” when used with respect to Balloon Bonds, means a binding written commitment from a financial institution, surety or insurance company to refinance such Bonds on or prior to any Balloon Date thereof, including without limitation any Credit Facility for such Bonds.

“Credit Facility” means any letter of credit, insurance policy, guaranty, surety bond, standby bond purchase agreement, line of credit, revolving credit agreement, or similar obligation, arrangement, or instrument issued by a bank, insurance company, or other financial institution or governmental or quasi-governmental entity or agency which is used by the Water District to perform one or more of the following tasks: (i) enhancing the Water Districts credit by assuring Registered Owners of any of the Bonds that Principal of and interest on such Bonds will be paid promptly when due; (ii) providing liquidity for the Registered Owners of Bonds through undertaking to cause Bonds to be bought from the Registered Owners thereof when submitted pursuant to an arrangement prescribed by a resolution authorizing the issuance of such series of Bonds; or (iii) remarketing any Bonds so submitted to the Credit Facility Provider (whether or not the same Credit Facility Provider is remarketing the Bonds). The term Credit Facility shall not include Equivalent Security.

“Credit Facility Agreement” means an agreement between the Water District and a Credit Facility Provider pursuant to which the Credit Facility Provider issues a Credit Facility. The term Credit Facility Agreement shall not include an agreement related to Equivalent Security.

“Credit Facility Provider” means any issuer of a Credit Facility then in effect for all or part of the Bonds. The term Credit Facility Provider shall not include any Equivalent Security Provider. Whenever in the resolution authorizing the issuance of Bonds the consent of the Credit Facility Provider is required, such consent shall only be required from the Credit Facility Provider whose Credit Facility is issued with respect to the series of Bonds for which the consent is required.

“Current Interest Bonds” mean those Bonds which are not Capital Appreciation Bonds.

“Director of Finance” means the duly appointed or acting Director of Finance of the Water District.

“DTC” means The Depository Trust Company of New York, New York.

“DTC Participant” means any broker-dealer, bank or other financial institution for which DTC holds the Book-Entry Bonds.

“Equivalent Security” means:

(a) with respect to the Senior Parity Bonds, direct obligations of or obligations which the principal of and interest on are unconditionally guaranteed by the United States of America or an irrevocable letter of credit, a committed line of credit, a demand note, a surety bond or a policy of insurance authorized by the laws of the State and issued by a bank, trust company, insurance association or financial institution which: (a) is duly organized under the laws of the United States of America or any state thereof, (b) is authorized to do business in the State and to enter into such an agreement; (c) has combined capital, surplus and retained earnings of at least \$50,000,000; (d) has been assigned and retains a credit rating of Aaa by Moody’s Investor’s Service, and AAA by Standard & Poor’s Ratings Services; and (e) has been selected by the Water District and approved by nationally recognized bond counsel acceptable to the Water District and familiar with the transactions contemplated under the Senior Parity Bond Resolutions; provided, however, that if the Equivalent Security is an irrevocable letter of credit, a committed line of credit or a demand note, such Equivalent Security must also be approved by the Equivalent Security Provider, which consent may not be unreasonably withheld; and provided further, that the Equivalent Security must be unconditionally and irrevocably available for payment of the principal of and interest on any Senior Parity Bonds and the Equivalent Security or a substantially equivalent substitute therefor must be issued for a term as long as the Senior Parity Bonds for which such Equivalent Security were issued are Outstanding; and

(b) with respect to the Second Lien Parity Bonds, direct obligations of or obligations which the principal of and interest on are unconditionally guaranteed by the United States of America or an irrevocable letter of credit, a committed line of credit, a demand note, a surety bond or a policy of insurance authorized by the laws of the State and issued by a bank, trust company, insurance association or financial

institution (each a “Credit Provider”) which: (a) is authorized to do business in the State and to enter into such an agreement; and (b) has been assigned a credit rating in the highest one-third of all rating categories, without regard to any refinement or gradation of rating categories, by any Rating Agency at the time of issuance of the Equivalent Security; provided, however, if subsequent to the issuance of any letter of credit, committed line of credit, demand note, surety bond or policy of insurance, the property or affairs of the Credit Provider shall be taken under the control of any state or federal authority because of bankruptcy or insolvency, or for any other reason and the rating of the Second Lien Parity Bonds by all Rating Agencies is lower than the highest two rating categories, without regard to any refinement or gradation of rating categories, or if the Credit Provider is assigned a rating of less than the highest one-half of all rating categories, without regard to any refinement or gradation of rating categories, by a Rating Agency and the rating of the Second Lien Parity Bonds by any Rating Agency is lower than the three highest rating categories, without regard to any refinement or gradation of rating categories, such letter of credit, committed line of credit, demand note, surety bond or policy of insurance shall not qualify as “Equivalent Security” as long as such conditions exist.

“Equivalent Security Provider” means, with respect to the Senior Parity Bonds, MBIA Corporation as long as the 2003 Financial Guaranty Agreement has not been terminated in accordance with its terms and FSA as long as the 2007 Bond Reserve Policy has not been terminated in accordance with its terms; and, with respect to the Second Lien Parity Bonds, any provider of Equivalent Security to fund all or any portion of a bond reserve account for the Second Lien Parity Bonds.

“Final Official Statement” means the final official statement prepared by the Water District in connection with the sale of the 2012 Bonds and includes the information in the Preliminary Official Statement as supplemented or amended.

“Financial Advisor” means an investment banking, consulting or financial advisory firm or commercial bank who or which is appointed by the Water District for the purpose of advising the Water District on questions relating to the availability and terms of specified types of Bonds and is actively engaged in and, in the good faith opinion of the Water District, has a favorable reputation for skill and experience in underwriting or providing financial advisory services in respect of similar types of securities.

“Financial Guaranty Agreement” means, collectively, the 2003 Financial Guaranty Agreement and the 2007 Bond Reserve Policy.

“Fiscal Year” means the 12-month period selected by the Board of the Water District as its accounting period for annual reports, provided that either (a) immediately following the change in Fiscal Year, the Water District shall deem the term “Fiscal Year” for purposes of the 2012 Bond Resolution to mean both the 12-month period of the Fiscal Year in place before the change of Fiscal Year and a 12-month period beginning with the first day of the Fiscal Year after the change in Fiscal Year or (b) prior to a change in Fiscal Year, the Water District shall obtain the written acknowledgement by any Rating Agency which has assigned a rating to the Second Lien Parity Bonds that the change in Fiscal Year will not, in and of itself, result in a downgrade of the current rating on the Second Lien Parity Bonds. The current Fiscal Year period begins January 1st and ends on the following December 31st of each year and, notwithstanding the preceding sentence, the current Fiscal Year shall remain in effect as long as the Senior Parity Bonds, the 2009 Bonds or the 2010 Bonds remain Outstanding unless the resolutions authorizing such bonds are amended in accordance with their terms to permit a change in the Fiscal Year.

“FSA” means Financial Security Assurance Inc., a New York stock insurance company or any successor thereto or assignee thereof.

“General Manager” means the duly appointed or acting General Manager of the Water District.

“Government Obligations” means:

(a) with respect to the Senior Parity Bonds, direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America; and

(b) with respect to the Second Lien Parity Bonds, direct obligations of, or obligations the payment

of the principal of and interest on which are unconditionally guaranteed by, the United States of America, including U.S. Treasury Trust Receipts.

“Hedge Agreement” means, without limitation, (i) any contract provided by a Qualified Hedge Provider known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement, or futures contract; (ii) any contract provided by a Qualified Hedge Provider providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract provided by a Qualified Hedge Provider to exchange cash flows or payments or series of payments; (iv) any type of contract provided by a Qualified Hedge Provider called, or designed to perform the function of, interest rate floors, collars, or caps, options, puts, or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate, or other financial risk; and (v) any other type of contract or arrangement provided by a Qualified Hedge Provider that the Water District determines is to be used, or is intended to be used, to manage or reduce the cost of any Bonds, to convert any element of any Bonds from one form to another, to maximize or increase investment return, to minimize investment return risk, or to protect against any type of financial risk or uncertainty. Notwithstanding the foregoing, any Hedge Agreement must comply with the debt policy of the Water District.

“Hedge Contingency Payments” means amounts payable by the Water District out of the Water System General Fund pursuant to any Hedge Agreement as termination payments, fees, expenses and indemnity payments.

“Hedge Payments” means amounts payable by the Water District pursuant to any Hedge Agreement, other than Hedge Contingency Payments.

“Hedge Period” means the period during which a Hedge Agreement is in effect.

“Hedge Receipts” means amounts payable by any provider of a Hedge Agreement pursuant to such Hedge Agreement, other than termination payments, fees, expenses and indemnity payments.

“Hedged Bonds” means any Bonds for which the Water District shall have entered into a Hedge Agreement.

“Insufficient Reserve Determination Date” means the date in which the Water District determines that the Bond Reserve Fund for the Second Lien Parity Bonds or any account therein does not contain the Required Reserve Amount.

“Letter of Instructions” means the Arbitrage Letter of Instructions (dated as of the date of issuance of the 2012 Bonds) attached to the Water District’s Closing Certificate to be delivered at the time of issuance and delivery of the 2012 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.

“Maximum Annual Debt Service” means the maximum amount of Annual Debt Service Requirements for the Senior Parity Bonds or the Second Lien Parity Bonds, as applicable, as computed for the then current or any future Fiscal Year.

“MBIA Corporation” means the Municipal Bond Investors Assurance Corporation and any successor or assign.

“Net Revenues” mean the Revenues less the Operation and Maintenance Expenses of the Water System.

“Operation and Maintenance Expenses” means the reasonable expenses necessary to keep the Water System in good repair and working order, including, without limiting the generality of the foregoing, salaries, wages, costs of materials, water and supplies, insurance, cost of power; any payments authorized by the Board under any retirement or other plan authorized by law and adopted by the Board for the benefit of its employees; any required deposits or payments of rebate to the United States in accordance with the resolutions of the Water District authorizing the issuance of the Bonds; and excluding expenses for extending or enlarging the Water System or for other purposes generally defined as capital additions.

“Outstanding” means, when used with reference to the Senior Parity Bonds or the Second Lien Parity Bonds, as applicable, as of any particular date of determination, all Senior Parity Bonds or the Second Lien Bonds, as applicable, theretofore executed and delivered under the Senior Parity Bond Resolutions or any Second Lien Parity Bond Resolutions, as applicable, except:

- (a) Senior Parity Bonds or Second Lien Parity Bonds theretofore cancelled by the Bond Registrar or delivered to the Bond Registrar for cancellation;
- (b) Senior Parity Bonds or Second Lien Parity Bonds paid or deemed to be paid in accordance with the provisions of the Senior Parity Bond Resolutions, the Second Lien Parity Bond Resolution or the defeasance provisions of the 2012 Bond Resolution; and
- (c) Bonds in exchange for or in lieu of which other Senior Parity Bonds or Second Lien Parity Bonds that have been executed and delivered pursuant to the Senior Parity Bond Resolutions or the Second Lien Parity Bond Resolution, as applicable.

“Paying Agent” means, with respect to the 2012 Bonds, the Treasurer of the State, Topeka, Kansas, and any successors and assigns, and with respect to any other Bonds, the Paying Agent designated by the Water District in the resolution authorizing the issuance of such Bonds.

“Payment Date” means (a) with respect to the 2012 Bonds, each January 1 and July 1 as long as the 2012 Bonds are Outstanding, commencing July 1, 2013, and, (b) with respect to all other Senior Parity Bonds and the Second Lien Parity Bonds, the payment dates designated by the Water District in the resolution authorizing the issuance of such Bonds and, provided further, that after the Senior Parity Bonds are no longer Outstanding, the Payment Dates may be in a month and on a day that differs from the Outstanding Second Lien Parity Bonds.

“Permitted Investments” means any of the following investments to the extent the same are at the time permitted for investment of funds held by the Water District under the laws of the State:

- (a) direct obligations of the United States government or any agency thereof;
- (b) interest bearing time deposits in commercial banks located in the counties in which the Water District is located;
- (c) obligations of the Federal National Mortgage Association, Federal Home Loan Banks or the Federal Home Loan Mortgage Corporation; provided, however, no moneys authorized pursuant to this subsection may be invested in a “derivative” as that term is defined in K.S.A. 10-131(b);
- (d) repurchase agreements for securities described in subsections (a) or (c);
- (e) investment agreements with or other obligations of a financial institution the obligations of which at the time of investment are rated in either of the three highest rating categories by Standard & Poor’s Ratings Services or Moody’s Investors Service;
- (f) the municipal investment pool established pursuant to K.S.A. 12-1677a, as amended;

provided, however, that after the Senior Parity Bonds are no longer Outstanding, “Permitted Investment” means any investment to the extent the same are at the time permitted for investment of funds held by the Water District under the laws of the State.

“Pledged Bond” means any Bond purchased and held by a Credit Facility Provider pursuant to a Credit Facility Agreement. A Bond shall be deemed a Pledged Bond only for the actual period during which such Bond is owned by a Credit Facility Provider pursuant to a Credit Facility Agreement.

“Pledged Bond Rate” means the rate of interest payable on Pledged Bonds, as may be provided in a Credit Facility or Credit Facility Agreement.

“Pledged Revenues” means Net Revenues, Hedge Receipts, all moneys received by the Water District from the federal government pursuant to Section 54AA of the Code or other direct payments made to the Water District by the federal government in connection with the issuance of Bonds and all moneys paid or required to be paid into, and all moneys and securities on deposit, from time to time in, the funds and accounts specified in Article V, but only to the extent the resolutions of the Water District authorizing the issuance of Bonds permit moneys in such funds and account to be used to pay the principal of, premium, if any, and interest on such series of Bonds.

“Preliminary Official Statement” means the preliminary official statement which was prepared by the Water District in connection with the sale of the 2012 Bonds and distributed to potential purchasers of the 2012 Bonds before the Final Official Statement, as described in the SEC Rule, was made available.

“Pre-2007 Bonds” mean the 2003 Bonds.

“Principal” means (i) with respect to a Current Interest Bond, the principal amount of such Bond, and (ii) with respect to a Capital Appreciation Bond, the Accreted Value of such Capital Appreciation Bond.

“Principal and Interest Fund” means, with respect to the Senior Parity Bonds, the Principal and Interest Fund for the Senior Parity Bonds ratified and confirmed by the Senior Parity Bond Resolutions; and, with respect to the Second Lien Parity Bonds, the Principal and Interest Fund for the Second Lien Parity Bonds ratified by the 2012 Bond Resolution which fund may include subaccounts.

“Put Date” means any date on which a Registered Owner may elect to have Balloon Bonds redeemed, prepaid, purchased directly or indirectly by the Water District, or otherwise paid.

“Qualified Hedge Provider” means an entity whose senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, or whose payment obligations under the related Hedge Agreement are absolutely and unconditionally guaranteed by an entity whose senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, meet the requirements of the Water Districts debt policy and State law. An entity’s status as a Qualified Hedge Provider is determined only at the time the Water District enters into a Hedge Agreement with such entity and shall not be redetermined with respect to that Hedge Agreement.

“Rating Agency” means, when referring to the rating on Bonds, each nationally recognized statistical rating organization that is maintaining a current rating on any of the Bonds at the request of the Water District, and, when referring to the rating on a bank, trust company, insurance association or financial institution, a nationally recognized statistical rating organization that is maintaining a current rating on entity or such entity’s debt obligations.

“Registered Owner(s)” means Cede & Co. or that person or persons to be initially designated by DTC to be the nominal owner and holder of the 2012 Bonds as recorded upon the Bond Register for the purpose of performing duties and functions relating to book entry registration for the use and benefit of the Beneficial Owner as set out in the Letter of Representations, unless the Registered Owner and the Beneficial Owner are the same person.

“Reimbursement Obligation” means the obligation of the Water District to directly reimburse any Credit Facility Provider for amounts paid by such Credit Facility Provider under a Credit Facility, whether or not such obligation to so reimburse is evidenced by a promissory note or other similar instrument.

“Required Reserve Amount” means:

(a) with respect to the Senior Parity Bonds, cash or Equivalent Security in an amount equal to the lesser of 125% of the average annual debt service for the Senior Parity Bonds or the maximum amount of principal and interest becoming due in accordance with the stated maturity date or mandatory sinking fund redemption for the current year or any succeeding Fiscal Year with respect to the Senior Parity Bonds, excluding bond anticipation bonds and other short term financing authorized by law; provided, however, that in calculating the maximum amount of interest becoming due with respect to any Variable Rate Bonds, the interest rate shall be the fixed interest rate estimated by the Treasurer necessary to sell such proposed Variable Rate Bonds at 100% of the principal amount thereof in an open market transition, provided that

the estimated interest rate shall be not more than 100% and not less than 90% of the 30 Year Revenue Index of 25 Revenue Bonds published in the most recent issue of *The Bond Buyer* (or any successor thereto) preceding the date of the sale of such Variable Rate Bonds or, if such Index is no longer published, of a comparable index selected by the Water District, and provided further that in calculating the maximum amount of principal becoming due with respect to the Senior Parity Bonds, the principal shall become due on the stated maturity dates for the Senior Parity Bonds and on any mandatory sinking fund redemption dates.

(b) with respect to the Second Lien Parity Bonds, an amount for any series of Bonds, which may be in cash or Equivalent Security, equal to the lesser of:

(i) 5% of the stated Principal amount of such Bonds (determined as of the issue date of such series of Bonds); provided, however, if the aggregate initial offering price of a series of Bonds to the public is less than 98% or more than 102% of par, such offering price shall be used in lieu of the stated Principal amount,

(ii) if the reserve only secures a series of Bonds, 125% of the Average Annual Debt Service for such Bonds or, if the reserve is available to pay debt service on more than one series of Bonds, 125% of the Average Annual Debt Service for all Bonds secured by such reserve (determined as of the issue date of each such series of Bonds), or

(iii) if the reserve only secures a series of Bonds, the maximum amount of principal and interest becoming due in accordance with the stated maturity date or mandatory sinking fund redemption for the current year or any succeeding Fiscal Year with respect to such Bonds, or, if the reserve is available to pay debt service on more than one series of Bonds, the maximum amount of principal and interest becoming due in accordance with the stated maturity date or mandatory sinking fund redemption for the current year or any succeeding Fiscal Year with respect to all Bonds secured by such reserve (determined as of the issue date of each such series of Bonds);

provided, however, that in calculating the maximum amount of interest becoming due with respect to any Variable Rate Bonds, the interest rate shall be the fixed interest rate estimated by the Director of Finance necessary to sell such proposed Variable Rate Bonds at 100% of the principal amount thereof in an open market transition, provided that the estimated interest rate shall be not more than 100% and not less than 90% of the 30 Year Revenue Index of 25 Revenue Bonds published in the most recent issue of *The Bond Buyer* (or any successor thereto) preceding the date of the sale of such Variable Rate Bonds or, if such Index is no longer published, of a comparable index selected by the Water District, and provided further that in calculating the maximum amount of principal becoming due with respect to the Second Lien Parity Bonds, the principal shall become due on the stated maturity dates for the Second Lien Parity Bonds and on any mandatory sinking fund redemption dates.

“Revenues” means all revenues derived by the Water District from the operation of the Water System, including, but not limited to, the income in the form of Water System development charges, the investment of any of the funds created by the Senior Parity Bond Resolutions, the Second Lien Bond Resolutions and the resolutions authorizing any other revenue bonds or other obligations of the Water District and unrestricted income from any other source.

“SEC Rule” means Rule 15c-2-12 under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, § 240.15c2-12).

“Second Lien Net Revenues” means the Net Revenues less the Revenues necessary to pay the principal of, premium, if any, and interest on the Senior Parity Bonds less the Revenues necessary to maintain the Required Reserve Amount for the Senior Parity Bonds in the Bond Reserve Fund for the Senior Parity Bonds and to provide funding for the balance required to be maintained in the Water System General Fund pursuant to the 2012 Bond Resolution described in subsection (d) under “Applications of Revenues” in this appendix.

“Second Lien Parity Bond Resolutions” mean, collectively, the 2009 Bond Resolution, the 2010 Bond

Resolution, the 2012 Bond Resolution and any other bond resolution of the Water District adopted authorizing the issuance of Second Lien Parity Bonds.

“Second Lien Parity Bonds” means the 2009 Bonds, the 2010 Bonds, the 2012 Bonds and any bonds or other obligations of the Water District hereafter issued in accordance with the Second Lien Parity Bond requirements of the 2012 Bond Resolution and junior and subordinate to the Senior Parity Bonds.

“Senior Parity Bond Resolutions” mean, collectively, the 2001 Bond Resolution, the 2002 Bond Resolution, the 2003 Bond Resolution and the 2007 Bond Resolution.

“Senior Parity Bonds” means the 2003 Bonds and the 2007 Bonds.

“SIFMA Municipal Bond Index” means the Securities Industry and Financial Markets Association (“SIFMA”) Swap Index™ announced by SIFMA and based upon the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by SIFMA which meet specified criteria established by SIFMA and is based on current yields of high quality weekly adjustable variable rate demand bonds which are subject to tender upon seven days notice, the interest on which under the Code, is excludable from gross income for federal income tax purposes.

“State” means the State of Kansas.

“Treasurer” means the Treasurer of the Water District and any successors.

“U.S. Treasury Trust Receipts” means receipts or certificates which evidence an undivided ownership interest in the right to the payment of portions of the principal of or interest on obligations described in clauses (a) or (b) of the term Government Obligations, provided that such obligations are held by a bank or trust company organized under the laws of the United States acting as custodian of such obligations, in a special account separate from the general assets of such custodian.

“Variable Rate” means a rate of interest applicable to Bonds, other than a fixed rate of interest which applies to a particular maturity of Bonds, so long as that maturity of Bonds remains Outstanding.

“Water District” means Water District No. 1 of Johnson County, Kansas, and any successors or assigns.

“Water System” means the entire water supply plant and system owned and operated by the Water District for the production, storage, treatment and distribution of water, to serve the needs of the Water District and its inhabitants and others, including all appurtenances and facilities connected therewith or relating thereto, together with all extensions, improvements, additions and enlargements thereto hereafter made or acquired by the Water District.

“Water System General Fund” means the Water System General Fund ratified and confirmed by the 2012 Bond Resolution.

“2003 Bond Resolution” means the Resolution of the Water District adopted October 7, 2003, as from time to time amended in accordance with the terms hereof, authorizing the issuance of the 2003 Bonds.

“2003 Bonds” means the Water Revenue Refunding Bonds, Series 2003, of the Water District, dated October 1, 2003, authorized and issued pursuant to the 2003 Bond Resolution.

“2003 Financial Guaranty Agreement” means the Financial Guaranty Agreement between the Water District and MBIA Corporation entered into in connection with the Debt Service Reserve Surety Bond, Surety Bond No. 42582, dated October 28, 2003, issued by MBIA Corporation.

“2007 Bond Reserve Policy” means the Municipal Bond Debt Service Reserve Insurance Policy issued by FSA pursuant to a Municipal Bond Debt Service Reserve Insurance Commitment.

“2007 Bond Resolution” means the Resolution of the Water District adopted March 20, 2007, as from time

to time amended in accordance with the terms hereof, authorizing the issuance of the 2007 Bonds.

“2007 Bonds” means the Water Revenue Bonds, Series 2007, of the Water District, dated April 1, 2007, authorized and issued pursuant to the 2007 Bond Resolution.

“2009 Bond Resolution” means the Resolution of the Water District adopted September 8, 2009, as from time to time amended in accordance with the terms hereof, authorizing the issuance of the 2009 Bonds.

“2009 Bonds” means the Water Revenue Refunding Bonds, Series 2009, of the Water District, dated September 1, 2009, authorized and issued pursuant to the 2009 Bond Resolution.

“2010 Bond Resolution” means the Resolution of the Water District adopted June 8, 2010, as from time to time amended in accordance with the terms hereof, authorizing the issuance of the 2010 Bonds.

“2010 Bonds” means the Water Revenue Bonds, Series 2010, of the Water District, dated July 1, 2010, authorized and issued pursuant to the 2010 Bond Resolution.

“2012 Bond Reserve Account” means the 2012 Bond Reserve Account established within the Bond Reserve Fund for the Second Lien Parity Bonds.

“2012 Bond Resolution” means the Resolution of the Water District adopted October 2, 2012, as from time to time amended in accordance with the terms hereof, authorizing the issuance of the 2012 Bonds.

“2012 Bonds” means the Water Revenue Refunding Bonds, Series 2012, of the Water District, dated November 8, 2012, authorized and issued pursuant to the 2012 Bond Resolution.

“2012 Costs of Issuance Funds” means the 2012 Costs of Issuance Fund established by the 2012 Bond Resolution for the 2012 Bonds.

“2012 Principal and Interest Account” means the 2012 Principal and Interest Account established within the Principal and Interest Fund for the Second Lien Parity Bonds.

“2012 Rebate Fund” means the Rebate Fund for the 2012 Bonds created by the 2012 Bond Resolution.

General Covenants

The Water District covenants and agrees with each of the purchasers and Registered Owners of any of the 2012 Bonds, that so long as any of the 2012 Bonds remain Outstanding:

The Water District will maintain in good repair and working order its Water System and will operate the same in an efficient manner and at reasonable cost. In such operation, as long as the Senior Parity Bonds are Outstanding, the Water District will require the prompt payment of accounts for service rendered by or through the Water System and will promptly take whatever action is legally permissible to enforce and collect delinquent charges. The Water District shall take all reasonable measures permitted by law to enforce prompt payment to it of all fees, taxes and charges and other revenues.

The Water District will fix, establish, maintain and collect such rates, fees and charges for water or water service furnished by or through the Water System, and revise the same from time to time whenever necessary, which rates, fees and charges shall be sufficient to pay the wages and salaries of all officers and employees, any amount owed the Equivalent Security Provider, costs of operation, improvement and maintenance of the Water System, provide adequate depreciation, improvement and extension reserves, provide for the payment at maturity or applicable mandatory redemption, of the principal of the Senior Parity Bonds and the Second Lien Parity Bonds and pay the interest thereon when due, and create reasonable reserves for such purposes, and sufficient to allow for miscellaneous and emergency or unforeseen expenses. Such rates, fees and charges shall at all times be sufficient so that the Net Revenues of the Water System, adjusted to exclude any revenues or expenses resulting from a gain or loss, or mark-to-market change into any Hedge Agreement, shall be not less than 125% of the Annual Debt Service.

None of the facilities or services afforded by the Water System will be furnished to any user without a reasonable charge being made therefore; provided, however, the Board may determine that it is reasonable to provide without charge facilities or services in the case of emergency services, mutual aid to other governmental entities or the de minimus use of facilities or services for public purposes.

The Water District will not mortgage, pledge or otherwise encumber the Water System or any part thereof, or any extension or improvement thereof nor will it sell, lease or otherwise dispose of the Water System or any material part thereof; provided, however, the Water District may: (a) sell any portion of such property which shall have been replaced by other similar property of at least equal value or which shall cease to be necessary for the efficient operation of the Water System or (b) lease, as lessor or lessee, any portion of the Water System as long as said lease does not materially adversely affect the security of the Registered Owners of any of the Senior Parity Bonds or Second Lien Parity Bonds. The proceeds of any such sale or lease shall be paid and deposited into the Water System General Fund. The Water District may cease to operate, abandon or otherwise dispose of any property which has become obsolete, nonproductive or otherwise unusable to the advantage of the Water District.

The Water District will carry and maintain a reasonable amount of fire and extended coverage insurance upon all of the properties forming a part of the Water System insofar as the same are of an insurable nature, such insurance to be of the character and coverage and in an amount that is comparable to insurance held by similar municipalities in the State and in accordance with K.S.A. 75-6101 *et seq.*, the Kansas Tort Claims Act. In the event of loss or damage, the Water District, with reasonable dispatch, will use the proceeds of such insurance in reconstructing and replacing the property damaged or destroyed, or, if such reconstruction or replacement be unnecessary, then the Water District will pay and deposit the proceeds of such insurance into the Water System General Fund. The Water District in operating the Water System will carry and maintain public liability, worker's compensation and fidelity insurance in such amounts as would normally be maintained by a private corporation engaged in a similar type of business, and the proceeds derived from such insurance shall be used in paying the claims on account of which such proceeds were received. The cost of all insurance obtained pursuant to the requirements of this paragraph shall be paid as an operating cost out of the revenues of the Water System.

The Water District will install and maintain proper books, records and accounts (entirely separate from all other records and accounts of the Water District) in which complete and correct entries will be made of all dealings and transactions of or in relation to the Water System of the Water District. Such accounts shall show the amount of revenues received from the Water System, the application of such revenues, and all financial transactions in connection therewith. Said books shall be kept by the Water District according to standard accounting practices as applicable to the operation of water utilities.

As long as the Second Lien Parity Bonds are Outstanding, after the end of each Fiscal Year, the Water District will annually cause an audit of the Water District's financial statements in accordance with auditing standards generally accepted in the United States of America to be made for the preceding Fiscal Year by a certified public accountant to be employed for that purpose and paid from the revenues of the Water System.

The Registered Owner or Owners (including any Beneficial Owners) of the 2012 Bonds shall have the right at all reasonable times to inspect all records, accounts and data relating thereto in accordance with K.S.A. 45-215 *et seq.*, as amended (the "Kansas Open Records Act"), and any such Registered Owner shall be furnished all such information concerning the Water System and the operation thereof which such Registered Owner may reasonably request in accordance with the Kansas Open Records Act.

The Water District will faithfully and punctually perform all duties and obligations with respect to the operation of the Water System, including all extensions and improvements thereto, now or hereafter imposed upon the Water District by the Constitution and laws of the State and by the provisions of the 2012 Bond Resolution.

The Water District covenants and agrees that it will not 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 2012 Bonds under Section 103 of the Code. The Water District covenants and agrees that it will use the proceeds of the 2012 Bonds as soon as practicable and with all reasonable dispatch for the purpose for which the 2012 Bonds are issued as set forth in the 2012 Bond Resolution, and that it will not directly or indirectly use or permit the use of any proceeds of the 2012 Bonds or any other funds of the Water District, or take or omit to take any action that would cause the 2012 Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code. To that end, the Water District will comply with all requirements of Section 148 of the Code to the extent applicable to the 2012

Bonds.

The Water District agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the 2012 Bonds from time to time. This covenant shall survive payment in full or defeasance of the 2012 Bonds.

Application of Revenues

Cash moneys in each of the funds and accounts created by and referred to in the Senior Parity Bond Resolutions and the Second Lien Bond Resolutions shall be deposited and shall be continuously and adequately secured in accordance with the laws of the State.

The Water District covenants and agrees that, from and after the delivery of the 2012 Bonds, and continuing as long as any of the 2012 Bonds remain Outstanding, all of the Revenues derived and collected by the Water District from the operation of the Water System will be paid and deposited into the Water System General Fund, and that the Revenues shall be segregated and kept apart from all other moneys, revenues, funds and accounts of the Water District and shall not be mingled with any other moneys, revenues, funds and accounts of the Water District. The Water System General Fund shall be used only for the purposes authorized by law, including paying the cost of issuance of the 2012 Bonds, the cost of operation, maintenance, extension and improvement of the Water System, paying the principal of and interest on the water revenue bonds of the Water District issued against the Water System, and creating and maintaining reserves therefor. The Water District covenants and agrees that the moneys in said Water System General Fund will be administered and used solely for the purposes provided in the Senior Parity Bond Resolutions and the Second Lien Parity Bond Resolutions.

The Water District covenants and agrees that, from and after the delivery of the 2012 Bonds and continuing so long as any of the Senior Parity Bonds and the Second Lien Parity Bonds remain Outstanding, the Water District will administer and deposit all of the moneys held in the Water System General Fund as follows:

- (a) There shall first be paid all amounts due for Operation and Maintenance Expenses.
- (b) There shall next be deposited on the first day of each month into the Principal and Interest Fund for the Senior Parity Bonds to the extent necessary to meet at the maturity thereof all interest on and the principal of the Senior Parity Bonds, the following sums:
 - (i) an amount equal to not less than the pro rata amount of interest (excluding Additional Interest) that will become due on the Senior Parity Bonds on the next succeeding interest Payment Date;
 - (ii) an amount equal to not less than the pro rata amount of principal that will become due on the Senior Parity Bonds on the next succeeding principal Payment Date; plus
 - (iii) the amount required to pay the fees, if any, of the Paying Agent to become due in the next month;

provided that in the event the Water District has issued Variable Rate Bonds pursuant to the provisions of the Senior Parity Bond Resolutions, moneys held in the Water System General Fund shall be deposited at such other or additional times and amounts as necessary to pay the principal and interest becoming due on the Senior Parity Bonds on the next principal or interest Payment Date, all in the manner provided in the supplemental resolution authorizing the Variable Rate Bonds.

All amounts deposited to the Principal and Interest Fund for the Senior Parity Bonds shall be expended and used by the Water District for the sole purpose of paying the principal of and interest on the Senior Parity Bonds as and when the same become due and the fees of the Paying Agent.

(c) If the Water District shall ever be required to expend a part of the cash or Equivalent Security in the Bond Reserve Fund for the Senior Parity Bonds and such expenditure shall reduce the amount of said Fund below the Required Reserve Amount for the Senior Parity Bonds or such expenditure is required to be reimbursed under the terms of the Equivalent Security, the Water District shall, after all amounts required at the time to be paid

under the provisions of paragraphs (a) and (b) of this section shall have been paid, next deposit into the Bond Reserve Fund for the Senior Parity Bonds cash or Equivalent Security in not more than 12 months in approximately equal monthly installments until the Bond Reserve Fund for the Senior Parity Bonds shall aggregate the Required Reserve Amount for the Senior Parity Bonds and all required reimbursements of Equivalent Security have been made; provided, however, that any required reimbursements of Equivalent Security shall be made on a pro rata basis to the respective issuers of the Equivalent Security prior to reimbursement of cash in the Bond Reserve Fund for the Senior Parity Bonds. Except as hereinafter described, all amounts deposited into the Bond Reserve Fund for the Senior Parity Bonds shall be expended and used by the Water District solely to prevent any default in the payment of interest on or principal of the Senior Parity Bonds if the moneys in the Principal and Interest Fund for the Senior Parity Bonds and Water System General Fund are insufficient to pay the interest on or principal of the Senior Parity Bonds as they become due. If the Water District shall ever be required to expend any amounts held in the Bond Reserve Fund for the Senior Parity Bonds, any cash or investments in the Bond Reserve Fund for the Senior Parity Bonds shall be drawn down completely before draws are made on Equivalent Security on deposit in the Bond Reserve Fund for the Senior Parity Bonds.

(d) As long as the Senior Parity Bonds are Outstanding, after all amounts at the time required to be paid and deposited under the foregoing provisions of paragraphs (a), (b) and (c) of this section shall have been so paid and deposited, then the remaining moneys in the Water System General Fund must be expended by the Board pursuant to the terms of the Senior Parity Bond Resolutions; first for the payment of any interest or premium due for Equivalent Security in the Bond Reserve Fund for the Senior Parity Bonds and, then, the Water District shall maintain a balance in the Water System General Fund sufficient to provide for: (i) an adequate reserve for operating and extraordinary renewal and replacement cost contingencies of not less than \$2,000,000, (ii) the payment of Operation and Maintenance Expenses for the ensuing 60 days, (iii) the necessary material purchase requirements for the ensuing 60 days and (iv) reasonable reserves for unfunded contracts and commitments; provided, however, if the renewal and replacement reserve described in this clause (i) of this subsection (d) shall be reduced below \$2,000,000, the Water District shall restore such balance within 12 months by reserving approximately equal monthly amounts until such \$2,000,000 balance is restored.

(e) There shall next be deposited on a pro rata basis on the first day of each month into each principal and interest account within the Principal and Interest Fund for the Second Lien Parity Bonds to the extent necessary to meet at the maturity thereof, all interest on and the principal of the Second Lien Parity Bonds (provided, however, when no Senior Parity Bonds are Outstanding, such deposit shall occur on or before the first day of each month), the following sums:

- (i) an amount equal to not less than the pro rata amount of interest that will become due on each series of Second Lien Parity Bonds on the next succeeding interest Payment Date;
- (ii) an amount equal to not less than the pro rata amount of principal that will become due on each series of Second Lien Parity Bonds on the next succeeding principal Payment Date;
- (iii) the amount required to pay the fees, if any, of the Paying Agent to become due in the next month; plus
- (iv) any amount required to pay Hedge Payments due within 30 days;

provided that in the event the Water District issues other Second Lien Parity Bonds, moneys held in the Water System General Fund shall be deposited at such other or additional times and amounts as necessary to pay the principal and interest becoming due on such Second Lien Parity Bonds, all in the manner provided in the supplemental resolution authorizing the Second Lien Parity Bonds.

All amounts deposited to each principal and interest account within the Principal and Interest Fund for the Second Lien Parity Bonds shall be expended and used by the Water District for the sole purpose of paying the principal of and interest on the applicable series of Second Lien Parity Bonds as and when the same become due and the fees of the Paying Agent.

(f) the Water District shall, after all amounts required at the time to be paid under the provisions of paragraphs (a), (b), (c), (d) and (e) of this section shall have been paid, next pay any amount due under a Credit Facility Agreement, including Additional Interest.

(g) If, at any time, the cash or Equivalent Security in any bond reserve account within the Bond Reserve Fund for the Second Lien Parity Bonds is insufficient to satisfy the Required Reserve Amount for the applicable series of Second Lien Parity Bonds, the Water District shall, after all amounts required at the time to be paid under the provisions of paragraphs (a), (b), (c), (d), (e) and (f) of this section shall have been paid, next deposit on a pro rata basis with amounts to be deposited into each bond reserve account, cash or Equivalent Security as follows:

(i) if, and to the extent, the cash on deposit in a bond reserve account within the Bond Reserve Fund for the Second Lien Parity Bond is insufficient to meet the Required Reserve Amount for the applicable series of Second Lien Parity Bonds and the Water District has determined to satisfy the Required Reserve Amount with additional cash, the Water District shall, within 60 days from the Insufficient Reserve Determination Date, make appropriately equal monthly installments of cash in an amount sufficient to restore each such bond reserve account to the Required Reserve Amount within 14 months from the Insufficient Reserve Determination Date; and

(ii) if, and to the extent, the Equivalent Security on deposit in a bond reserve account within the Bond Reserve Fund for the Second Lien Parity Bonds is insufficient to meet the Required Reserve Amount for the applicable series of Second Lien Parity Bonds and the Water District has determined to satisfy the Required Reserve Amount with cash or other Equivalent Security, the Water District shall, within 120 days from the Insufficient Reserve Determination Date, make appropriately equal monthly installments of cash or Equivalent Security in an amount sufficient to restore each such bond reserve account to the Required Reserve Amount and to pay all required reimbursements of Equivalent Security within 36 months from the Insufficient Reserve Determination Date; provided, however, that any required reimbursements of Equivalent Security shall be made on a pro rata basis to the respective issuers of the Equivalent Security prior to reimbursement of cash in a bond reserve account.

Except as hereinafter described, all amounts deposited into each bond reserve account within the Bond Reserve Fund for the Second Lien Parity Bonds shall be expended and used by the Water District solely to prevent any default in the payment of interest on or principal of the applicable series of Second Lien Parity Bonds if the moneys in the applicable principal and interest bearing account for such Second Lien Parity Bonds and Water System General Fund are insufficient to pay the interest on or principal of such Second Lien Parity Bonds as they become due; provided, however, when the Principal amount of any series of Second Lien Parity Bonds is equal to or less than the amount on deposit in the applicable bond reserve account, funds in such bond reserve account may be used to pay the remaining Principal and interest on such Second Lien Parity Bonds. If the Water District shall ever be required to expend any amounts held in a bond reserve account, any cash in such bond reserve account shall be drawn down completely before draws are made on Equivalent Security on deposit in such bond reserve account.

(h) After the Senior Parity Bonds are no longer Outstanding, after all amounts at the time required to be paid and deposited under the foregoing provisions of paragraphs (a), (e), (f) and (g) of this section shall have been so paid and deposited, then there shall next be deposited in accordance with the terms of the resolution of the Water District authorizing their issuance, an amount necessary to pay at the maturity thereof (or upon mandatory redemption), all interest on and the principal of any Bonds with a lien on the Pledged Revenues that is subordinate to the lien of the Second Lien Parity Bonds and an amount necessary to make any Hedge Payments and Hedge Contingency Payments for subordinate Hedge Agreements.

(i) After the Senior Parity Bonds are no longer Outstanding, after all amounts at the time required to be paid and deposited under the foregoing provisions of paragraphs (a), (e), (f), (g) and (h) of this section shall have been so paid and deposited, then there shall next be deposited in accordance with the terms of the resolution of the Water District authorizing their issuance, an amount necessary to pay the principal of and interest on and to meet any Required Reserve Amounts for any Bonds with a lien on the Pledged Revenues that is subordinate to the lien of the Second Lien Parity Bonds.

(j) After the Senior Parity Bonds are no longer Outstanding, after all amounts at the time required to be paid and deposited under the foregoing provisions of paragraphs (a), (e), (f), (g), (h) and (i) of this section shall have been so paid and deposited, then the remaining moneys in the Water System General Fund must be expended by the Board: first, for the payment of any interest or premium due for Equivalent Security in the Bond Reserve Fund for the Second Lien Parity Bonds and, then, for the establishment of a reserve maintained in the Water System

General Fund for extraordinary renewal and replacement cost contingencies, Operation and Maintenance Expenses, necessary material purchase requirements and unfunded contracts and commitments in an amount equal to 1/6th of the Revenues exclusive of Water system development charges for the current Fiscal Year as shown in the adopted budget of the Board; provided, however, if such reserve is ever less than the amount described herein, the Water District shall set aside an amount estimated to be sufficient to aggregate such reserve amount in approximately 12 equal monthly amounts until the reserve amount set forth in this subsection is attained.

(k) After all amounts at the time required to be paid and deposited under the foregoing provisions of paragraphs (a) through (j) of this section shall have been so paid and deposited, then the remaining moneys in the Water System General Fund may be expended for any lawful purpose.

Deficiency of Payments into Funds or Accounts.

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

Investment of Funds

As long as the Pre-2007 Bonds are Outstanding, moneys held in the Water System General Fund and any fund created for the Senior Lien Parity Bonds (except the 2007 Rebate Fund) may be invested by the Water District in Government Securities or as otherwise provided in the 2012 Bond Resolution; provided, however, that no such investment shall be made for a period extending longer than to the date when the moneys invested may be needed for the purpose for which such fund was created. Moneys held in the 2007 Rebate Fund or any fund or account created by the Second Lien Parity Bond Resolutions and, after the Pre-2007 Bonds are no longer Outstanding, moneys held in all funds ratified in the Second Lien Parity Bond Resolution may be invested by the Water District in Permitted Investments; provided, however, that no such investment shall be made for a period extending longer than to the date when the moneys invested may be needed for the purpose for which such fund was created.

All interest on any investments held in the 2012 Principal and Interest Account, the 2012 Cost of Issuance Fund, the 2012 Bond Reserve Account, and the 2012 Rebate Fund shall accrue to and become part of such fund; provided, however, all moneys in the 2012 Bond Reserve Account in excess of the Required Reserve Amount for the 2012 Bonds when said Fund contains the Required Reserve Amount for the 2012 Bonds shall accrue to and become a part of the 2012 Principal and Interest Account. Notwithstanding any provision in the 2012 Bond Resolution to the contrary, all Hedge Receipts under a Hedge Agreement shall accrue to and be deposited in the 2012 Principal and Interest Account. Nothing in the 2012 Bond Resolution is intended to prevent the required deposits into the 2012 Rebate Fund in accordance with the Letter of Instructions. In determining the amount held in any fund under any of the provisions of the 2012 Bond Resolution, obligations shall be valued at the fair market value.

Pursuant to the Letter of Instructions, an amount shall be deposited to the 2012 Rebate Fund from moneys contributed by the Water District or from available investment earnings on amounts held in the Principal and Interest Fund for the Senior Parity Bonds or the Bond Reserve Fund for the Senior Parity Bonds, if and to the extent required to be sufficient to pay any rebatable arbitrage when due. All money at any time deposited in the 2012 Rebate Fund shall be held in trust, to the extent required to pay rebatable arbitrage to the federal government of the United States of America, and neither the Water District nor the Registered Owner of any 2012 Bonds shall have any rights in or claim to such money. Computations of the rebatable arbitrage shall be performed by or on behalf of the Water District in accordance with the Letter of Instructions. The Water District shall remit rebate installments and the final rebate payments to the United States. Notwithstanding any other provision of the 2012 Bond Resolution, the obligation to remit rebatable arbitrage to the United States and to comply with all other requirements of this section and the Letter of Instructions shall survive the defeasance or payment in full of the 2012 Bonds.

Defaults and Remedies

The provisions of the 2012 Bond Resolution shall constitute a contract between the Water District and the Registered Owners of the 2012 Bonds, and the Registered Owner or Registered Owners of not less than 10% in

principal amount of the 2012 Bonds at the time Outstanding and any Qualified Hedge Provider shall have the right for the equal benefit and protection of all Registered Owners of 2012 Bonds similarly situated and the Qualified Hedge Provider:

- (a) by mandamus or other suit, action or proceedings at law or in equity to enforce the Registered Owner's or Registered Owners' rights and the Qualified Hedge Provider's rights against the Water District and its officers, agents and employees, and to require and compel duties and obligations required by the provisions of the 2012 Bond Resolution or by the constitution and laws of the State;
- (b) by suit, action or other proceedings in equity or at law to require the Water District, its officers, agents and employees to account as if they were the trustees of an express trust; and
- (c) by suit, action or other proceedings in equity or at law to enjoin any acts or things which may be unlawful or in violation of the rights of the Registered Owner of the 2012 Bonds and any Qualified Hedge Provider.

To the extent permitted by law, amounts due and owing the Equivalent Security Provider under the 2007 Bond Reserve Policy shall also be payable from proceeds received from actions taken pursuant to this section.

No one or more Registered Owners or any Hedge Provider secured hereby shall have any right in any manner whatever by such Registered Owner's, Registered Owners' or Qualified Hedge Provider's action to affect, disturb or prejudice the security granted and provided for in the 2012 Bond Resolution, or to enforce any right hereunder, except in the manner provided in the 2012 Bond Resolution, and all proceedings at law or in equity shall be instituted, had and maintained for the equal benefit of all Registered Owners of such Outstanding 2012 Bonds and any Qualified Hedge Provider.

No remedy conferred in the 2012 Bond Resolution upon the Registered Owners or any Qualified Hedge Provider is intended to be exclusive of any other remedy, but each such remedy shall be cumulative and in addition to every other remedy and may be exercised without exhausting and without regard to any other remedy conferred in the 2012 Bond Resolution. No waiver of any default or breach of duty or contract by the Registered Owner of any 2012 Bond or any Qualified Hedge Provider shall extend to or affect any subsequent default or breach of duty or contract or shall impair any rights or remedies thereon. No delay or omission of any Registered Owner or any Qualified Hedge Provider to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein. Every substantive right and every remedy conferred upon the Registered Owners of the 2012 Bonds or any Qualified Hedge Provider by the 2012 Bond Resolution may be enforced and exercised from time to time and as often as may be deemed expedient. In case any suit, action or proceedings taken by any Registered Owner or any Qualified Hedge Provider on account of any default or to enforce any right or exercise any remedy shall have been discontinued or abandoned for any reason, or shall have been determined adversely to such Registered Owner or any Qualified Hedge Provider, then, and in every such case, the Water District and the Registered Owners of the 2012 Bonds and any Qualified Hedge Provider shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Registered Owners and any Qualified Hedge Provider shall continue as if no such suit, action or other proceedings had been brought or taken.

Each Beneficial Owner shall be a third party beneficiary to the 2012 Bond Resolution and shall have ownership rights reserved to them under the applicable provisions of Section 17A of the Securities Exchange Act of 1934, and the same control, protections, remedies and privileges as given to the Registered Owners by the terms of the 2012 Bond Resolution, except for those functions as may be assigned to the Registered Owners to be exercised for the use and benefit of the Beneficial Owners by the rules relating to Beneficial Owners of securities that are applicable to DTC, and its Participants as that term is defined in said rules and which are on file with the Securities and Exchange Commission, by the terms of the 2012 Bond Resolution, or as otherwise limited by applicable law or regulation.

Nothing contained in the 2012 Bond Resolution shall be construed as imposing on the Water District any duty or obligation to levy any taxes either to meet any obligation incurred in the 2012 Bond Resolution or to pay the principal of or interest on the 2012 Bonds.

Defeasance

When all of the 2012 Bonds shall have been paid and discharged, then the requirements contained in the 2012 Bond Resolution and the pledge of revenues made hereunder and all other rights granted hereby shall terminate. 2012 Bonds shall be deemed to have been paid and discharged within the meaning of the 2012 Bond Resolution if there shall have been deposited with the Paying Agent or a bank having trust powers, at or prior to the maturity or redemption date of said 2012 Bonds, in trust for and irrevocably appropriated thereto, moneys and/or direct obligations of, or obligations the principal of and interest on which are guaranteed by, the United States of America or as otherwise permitted under State law which, together with the interest to be earned on any such obligations, will be sufficient for the payment of the principal of said 2012 Bonds, the redemption premium thereon, if any, and interest accrued to the date of maturity or redemption, as the case may be, or if default in such payment shall have occurred on such date, then to the date of the tender of such payments; provided, however, that the amount to be deposited for any Variable Rate Bonds issued by the Water District shall be an amount which in the opinion of Bond Counsel is sufficient to defease such Variable Rate Bonds in accordance with the supplemental resolution authorizing such Variable Rate Bonds; and provided, further that if any such 2012 Bonds shall be redeemed prior to the maturity thereof, the Water District shall have elected to redeem such 2012 Bonds and notice of such redemption shall have been given. Any moneys and obligations which at any time shall be deposited with said Paying Agent or bank by or on behalf of the Water District, for the purpose of paying and discharging any of the 2012 Bonds, shall be and are hereby assigned, transferred and set over to the Paying Agent or bank in trust for the respective Registered Owners of the 2012 Bonds, and such moneys shall be and are hereby irrevocably appropriated to the payment and discharge hereof. All moneys deposited with the Paying Agent or bank shall be deemed to be deposited in accordance with and subject to all of the provisions contained in the 2012 Bond Resolution.

Amendments

The rights and duties of the Water District and the Registered Owners, and the terms and provisions of the Second Lien Parity Bonds or of the Second Lien Bond Resolutions, may be amended or modified at any time in any respect by resolution of the Water District with the written consent of any applicable Equivalent Security Provider for the Second Lien Parity Bonds and with written acknowledgement by any Rating Agency which has assigned a rating to the Second Lien Parity Bonds at the request of the Water District that such amendment or modification will not, in and of itself, result in a downgrade of the current rating on the Second Lien Parity Bonds, but no such modification or alteration shall:

- (a) extend the maturity of any payment of principal or interest due upon any Second Lien Parity Bond;
- (b) effect a reduction in the amount which the Water District is required to pay by way of principal of or interest on any Second Lien Parity Bond;
- (c) permit the creation of a lien on the revenues of the Water System prior or equal to the lien of the Second Lien Parity Bonds;
- (d) permit preference or priority of any Second Lien Parity Bonds over any other Second Lien Parity Bonds; or
- (e) reduce the percentage in principal amount of Second Lien Parity Bonds required for the written consent to any modification or alteration of the provisions of the Second Lien Bond Resolutions.

Any provision of the 2012 Bonds or of the 2012 Bond Resolution may, however, be amended or modified by resolution duly adopted by the Board at any time in any respect with the written consent of any applicable Equivalent Security Provider and the Registered Owners of all of the 2012 Bonds at the time Outstanding.

Any and all modifications shall not become effective until there has been filed with the Secretary to the Board a copy of the resolution of the Water District as provided in the 2012 Bond Resolution, duly certified, as well as proof of consent to such modification by any Equivalent Security Provider and, if required, the Registered Owners of the Second Lien Parity Bonds then Outstanding. It shall not be necessary to note on any of the Outstanding Senior Parity Bonds any reference to such amendment or modification.

Additional Bonds Test Certification
\$6,860,000* Water Revenue Refunding Bonds, Series 2012

Water District No. 1 of Johnson County, Kansas is issuing \$6,860,000* Water Revenue Refunding Bonds, Series 2012 for the purpose of providing funds, together with other funds of the Water District, to current refund \$6,785,000 of the Water District's Water Refunding Revenue Bonds, Series 2002 maturing June 1, 2013 through December 1, 2019, to pay the cost of issuance of the 2012 Bonds, and to fund a reserve for the 2012 Bonds.

Existing Second Lien Bond covenants require that the average annual Net Revenues of the Water District for the two fiscal years preceding the issuance of additional Second Lien Bonds shall have been equal to at least 125% of the Maximum Annual Debt Service, including the additional bonds to be issued. In accordance with this covenant, Figure 1 (attached) shows the Maximum Annual Debt Service on the Outstanding Bonds (2003 Bonds, 2007 Bonds, 2009 Bonds and the 2010 Bonds) along with projected debt service on the 2012 Bonds exceeds the requirement.

I, Ronald E. Appletoft, Director of Finance, certify that that the average annual Net Revenues of the Water District for Fiscal Years 2010 and 2011, adjusted to exclude: a) any revenues or expenses resulting from a gain or loss, or mark-to-market change into any Hedge Agreement, and, b) duly adopted increases to rates or charges not in effect during all of Fiscal Years 2010 and 2011, were equal to at least 125% of the Maximum Annual Debt Service, including the 2012 Bonds proposed to be issued.



Ronald E. Appletoft
Director of Finance

9/11/12

Date

State of Kansas)
County of Johnson)

This instrument was acknowledged before me on this 11th day of September, 2012 by Ronald E. Appletoft as Director of Finance of Water District No. 1 of Johnson County, Kansas.



Signature of notary public

(Seal)

My appointment expires: March 25, 2014

*preliminary, subject to change

FIGURE 1
Water District No. 1 of Johnson County
Debt Service Coverage Test For \$6,860,000* of
Water Revenue Refunding Bonds, Series 2012

Line No.	<u>Bond Coverage Test:</u>	<u>2010</u>	<u>2011</u>	<u>Average</u>
1	Water Sales Revenue - Actual	\$ 80,897,855	\$ 92,044,865	\$ 86,471,360
2				
3	System Development Charge - Actual	5,050,313	4,100,786	4,575,550
4				
5				
6	Other Operating Revenues and Investment Income	1,677,583	1,548,215	1,612,899
7				
8	Total Revenue Available for Bond Coverage	87,625,751	97,693,866	92,659,809
9				
10	Less: Operation and Maintenance Expense	41,410,646	43,612,652	42,511,649
11	Net Revenue	<u>46,215,105</u>	<u>54,081,214</u>	<u>50,148,160</u> (a)
12				
13	Maximum Debt Services			
14	Outstanding Senior Parity Bonds			18,478,540
15	Outstanding Second Lien Bonds			6,392,213
16	Add: Series 2012 Bonds			1,084,050
17	Total Maximum Debt Service (2014)			<u>25,954,803</u>
18				
19	Coverage on Maximum Year Debt Service (Line 11/Line 17)			1.93 (a)

(a) Average Net Revenues for 2010 and 2011, adjusted for the effects of the water rate increases and the increases in system development charges, would amount to \$56,307,072. Coverage on Maximum Year Debt Service for Bonds using enhanced Average Net Revenues equals 2.17.

**preliminary, subject to change*

**WATER DISTRICT NO. 1 OF
JOHNSON COUNTY, KANSAS
FINANCIAL STATEMENTS**

DECEMBER 31, 2011

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Independent Auditor's Report

To the Water District Board
Water District No. 1 of Johnson County, Kansas
Lenexa, Kansas

We have audited the accompanying basic financial statements of Water District No. 1 of Johnson County, Kansas (WaterOne) as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of WaterOne's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of WaterOne as of December 31, 2010 were audited by other auditors, whose report dated February 24, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of WaterOne's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of WaterOne as of December 31, 2011 and the changes in its financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Water District Board
Water District No. 1 of Johnson County, Kansas

Management's discussion and analysis on pages 3 through 12 and the schedules of funding progress of the employee retirement system and other postemployment benefit plan on pages 41 through 42 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiring of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages 43 through 49, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

RulinBrown LLP

March 2, 2012

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

This section of Water District No. 1 of Johnson County, Kansas' (WaterOne's) comprehensive annual financial report presents an analysis of WaterOne's financial performance during the fiscal years ended December 31, 2011 and 2010. This information is presented in conjunction with the audited financial statements, which follow this section.

Financial Highlights

WaterOne's capital assets increased \$17.61 million in 2011 (2.14 percent) and \$8.22 million in 2010 (1.01 percent).

During 2011 and 2010, WaterOne received \$6.53 million and \$6.84 million, respectively, in capital contributions.

Operating revenues in 2011 were \$93.28 million. Operating revenues in 2010 were \$82.23 million.

Investment income before unrealized gains and losses for 2011 was approximately \$312,000, compared to \$347,000 in 2010. The 2011 average funds invested of \$80.47 million was more than the 2010 balance of \$73.80 million. In addition, the 2011 rate of return of 0.39 percent was lower than the 2010 rate of .0.47 percent.

The debt service coverage ratio for Senior Parity and Second Lien Debt (excluding System Development Charges) was 2.26 for 2011, compared to 1.94 for 2010.

Overview Of The Financial Statements

The annual Financial Report is presented in the following sections: The Independent Auditor's Report, Management's Discussion and Analysis, Financial Statements with Notes, Required Supplementary Information and Supplementary Information.

Required Financial Statements

The financial statements of WaterOne utilize the full accrual basis of accounting. The financial statements conform to accounting principles that are generally accepted in the United States of America. The Balance Sheet includes information on WaterOne's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to WaterOne's creditors (liabilities). The Statement of Revenues, Expenses and Changes in Net Assets identifies WaterOne's revenues, expenses and capital contributions for the years ended 2011 and 2010.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (Continued)

The other required financial statement is the Statement of Cash Flows. From the Statement of Cash Flows, the reader can obtain comparative information on the sources and uses of cash and the change in the cash balance for each of the last two fiscal years. This statement provides information on WaterOne's cash receipts, cash payments and changes in cash resulting from operations, investments, and financing activities.

Financial Analysis Of WaterOne

The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets provide an indication of WaterOne's financial condition and also indicate if the financial condition has improved over the previous year. WaterOne's total net assets increased \$25.96 million (3.92 percent) in 2011 and \$16.96 million (2.63 percent) in 2010.

Table 1
Balance Sheet
(Dollars in thousands)

	December 31,		Variance		December 31,		Variance	
	2011	2010	Dollars	Percentage	2009	Dollars	Percentage	
	Increase (decrease)							
Capital assets	\$ 839,638	\$ 822,031	\$ 17,607	2.14%	\$ 813,808	\$ 8,223	1.01%	
Total specific funds	37,124	47,686	(10,562)	(22.15)%	36,477	11,209	30.73%	
Total current assets	70,869	70,143	726	1.04%	57,950	12,193	21.04%	
Deferred and noncurrent assets	1,677	1,565	112	7.16%	1,516	49	3.23%	
Total Assets	\$ 949,308	\$ 941,425	\$ 7,883	0.84%	\$ 909,751	\$ 31,674	3.48%	
Long-term liabilities	\$ 240,305	\$ 256,470	\$ (16,165)	(6.30)%	\$ 238,818	\$ 17,652	7.39%	
Current and other liabilities	20,222	22,129	(1,907)	(8.62)%	25,065	(2,936)	(11.71)%	
Total Liabilities	260,527	278,599	(18,072)	(6.49)%	263,883	14,716	5.58%	
Invested in capital assets, net of debt	596,549	567,711	28,838	5.08%	569,488	(1,777)	(0.31)%	
Restricted	28,371	29,237	(866)	(2.96)%	28,042	1,195	4.26%	
Unrestricted	63,861	65,878	(2,017)	(3.06)%	48,338	17,540	36.29%	
Total Net Assets	688,781	662,826	25,955	3.92%	645,868	16,958	2.63%	
Total Liabilities And Net Assets	\$ 949,308	\$ 941,425	\$ 7,883	0.84%	\$ 909,751	\$ 31,674	3.48%	

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

Table 2
Statement of Revenues, Expenses, and Changes in Net Assets
(Dollars in thousands)

	December 31,		Variance		December 31,		Variance	
	2011	2010	Dollars	Percentage	2009	Dollars	Percentage	
			Increase (decrease)			Increase (decrease)		
Operating revenues	\$ 93,281	\$ 82,229	\$ 11,052	13.44%	\$ 70,462	\$ 11,767	16.70%	
Operating expenses	<u>43,613</u>	<u>41,411</u>	<u>2,202</u>	5.32%	<u>41,602</u>	<u>(191)</u>	(0.46)%	
Net Operating Income (Before Depreciation)	49,668	40,818	8,850	21.68%	28,860	11,958	41.43%	
Depreciation	<u>20,378</u>	<u>18,225</u>	<u>2,153</u>	11.81%	<u>15,794</u>	<u>2,431</u>	15.39%	
Net Operating Income	29,290	22,593	6,697	29.64%	13,066	9,527	72.91%	
Total other income	<u>647</u>	<u>521</u>	<u>126</u>	24.18%	<u>441</u>	<u>80</u>	18.14%	
Total other expenses	<u>10,508</u>	<u>12,999</u>	<u>(2,491)</u>	(19.16)%	<u>8,501</u>	<u>4,498</u>	52.91%	
Net Income Before Capital Contributions	19,429	10,115	9,314	92.08%	5,006	5,109	102.06%	
Capital contributions	<u>6,525</u>	<u>6,843</u>	<u>(318)</u>	(4.65)%	<u>9,159</u>	<u>(2,316)</u>	(25.29)%	
Change In Net Assets	25,954	16,958	8,996	53.05%	14,165	2,793	19.72%	
Beginning Net Assets	662,826	645,868	16,958	2.63%	631,703	14,165	2.24%	
Ending Net Assets	\$ 688,780	\$ 662,826	\$ 25,954	3.92%	\$ 645,868	\$ 16,958	2.63%	
Total Revenues	\$ 100,453	\$ 89,593			\$ 80,062			
Total Expenses	\$ 74,499	\$ 72,635			\$ 65,897			

The largest source of WaterOne's operating revenue has historically been water sales. Additional sources of operating revenue include income received from delinquent service charges, administrative service charges, and miscellaneous income. WaterOne's other income is derived from interest income earned on WaterOne investments and gains and losses from investments.

Operating expenses are the expenses necessary to keep the water system in good repair and working order and include (but are not limited to) salaries, benefits, costs of materials, supplies, insurance, power and chemicals, and depreciation. Other expenses primarily include the payment of interest on WaterOne's outstanding Senior Parity Bonds and Second Lien Bonds.

Variances in water sales from year to year are generally the product of three major factors: water rate changes, changes in customer consumption patterns due to weather influences, and changes in the number of customers.

1. **Water Rate Changes** – Effective January 1, 2011, WaterOne's retail water rates increased 4.9 percent. Effective January 1, 2010, WaterOne's retail water rates also increased 4.9 percent.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

2. **Changes in customer consumption due to weather influences** – A wet spring and early summer coupled with a dry late summer and fall resulted in 2011 water sales of \$92.04 million. Sales for 2011 were \$2.37 million more than projected and 11.15 million more than those in 2010. Wet weather in 2010 resulted in sales of \$80.90 million, which were \$5.82 million less than projected and \$11.64 more than those in 2009. Approximately 65 percent of the water sales revenue is from sales to single-family residences. The remaining 35 percent represent sales to multifamily and commercial customers.
3. **Changes in the number of customers** – Excluding temporary fire hydrant meters, 648 new retail customers were added in 2011, which were 50 (8.36 percent) more than the 598 new customers added in 2010. The new 2010 customers were 23 (3.70 percent) less than the 621 new customers added in 2009.

Interest income (before gain/loss on investments) decreased from \$347,000 in 2010 to \$312,000 in 2011. Interest income (before gain/loss on investments) decreased from \$973,000 in 2009 to \$347,000 in 2010.

	2011	2010	2009
Average funds invested	\$ 80.47 Million	\$ 73.80 Million	\$ 83.46 Million
Average rate of return	0.39%	0.47%	0.87%

As reflected on the Statements of Revenue, Expense and Changes in Net Assets, the operating expenses for WaterOne are divided into the following five functional categories: Water Source, Treatment, and Pumping; Transmission and Distribution; Customer Service; Administrative and General; and Depreciation.

1. Total operating expenses (before depreciation) were \$2.20 million (5.32 percent) more in 2011 than in 2010. The increase in operating costs during 2011 is primarily due to increased chemical, power and other production costs.
 - Water Source, Treatment, and Pumping expenses were nearly \$2.35 million (11.99 percent) more in 2011 than 2010, primarily due to:
 - A \$1.28 million (25.73 percent) increase in power cost.
 - A 506,000 (11.79 percent) increase in chemical cost.
 - Net Labor costs were 147,000 higher in 2011 than 2010.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

- Transmission and Distribution expenses were \$176,000 (1.74 percent) less in 2011 when compared to 2010, primarily due to:
 - A decrease in net labor costs of \$216,000.
 - A decrease of allocated indirect fleet costs of nearly \$73,000.
 - An offsetting increase in maintenance of mains cost, primarily materials, pavement repair and contractor costs.
 - Customer Service expenses were \$116,000 (3.40 percent) lower in 2011 than in 2010, primarily due to:
 - A decrease in net labor of \$49,000.
 - A \$77,000 decrease in the cost of bad debts.
 - Administrative and General expenses were \$146,000 (1.77 percent) higher in 2011 than in 2010, primarily due to:
 - An increase in the net Clean Drinking Water fee expense of \$56,000.
 - An increase in training expense of \$64,000.
2. Total operating expenses (before depreciation) were \$192,000 (0.46 percent) less in 2010 than in 2009. The slight decrease in operating costs during 2010 is primarily due to decreased chemical and net labor cost, offset by an increase in power, net benefits, materials and supplies and maintenance of main costs.
- Water Source, Treatment, and Pumping expenses were nearly \$29,000 (0.15 percent) less in 2010 than 2009, primarily due to:
 - A \$374,000 (8.02 percent) decrease in chemical cost.
 - An offsetting \$228,000 (4.79 percent) increase in power cost.
 - Transmission and Distribution expenses were \$255,443 (2.58 percent) more in 2010 when compared to 2009, primarily due to:
 - An increase in maintenance of mains cost of \$82,000 including inventory and materials cost and pavement repairs.
 - Other expense increases include \$46,000 of allocated benefits cost.
 - An increase in net labor costs of nearly \$30,000.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

- Customer Service expenses were \$192,000 (5.32 percent) lower in 2010 than in 2009, primarily due to:
 - A decrease in net labor of \$173,000.
 - An \$18,000 decrease in allocated net employee benefits.
- Administrative and General expenses were \$227,000 (2.67 percent) lower in 2010 than in 2009, primarily due to:
 - A decrease of net labor cost by \$168,000
 - A decrease in allocated net employee benefits by \$102,000.
 - An offsetting \$37,000 increase in inventory withdrawals and materials and supplies.

Capital Contributions

Capital contributions are recognized as "Contributions" on the Statements of Revenues, Expenses and Changes in Net Assets. Capital contributions for the years 2011, 2010 and 2009 consisted of the following:

	Capital Contributions						Variance					
	December 31,		Variance		December 31,							
	2011	2010	Dollars	Percentage	2009	Dollars	Variance		Variance			
							Increase (decrease)					
Main extensions	\$ 1,954	\$ 1,211	\$ 743	61.35%	\$ 4,396	\$ (3,185)					(72.45)%	
System development charges	4,130	5,050	(920)	(18.22)%	4,263	787					18.46%	
Kansas Water Co.	(29)	—	—	—	—	—					—	
Benefit areas	—	4	(4)	n/a	45	(41)					(91.11)%	
New services	470	578	(108)	(18.69)%	455	123					27.03%	
Total Capital Contributions	\$ 6,525	\$ 6,843	\$ (289)	(4.22)%	\$ 9,159	\$ (2,316)					(25.29)%	

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

Capital Assets

As of December 31, 2011, WaterOne's investment in capital assets totaled \$839.63 million, which is an increase of \$17.61 million (2.14 percent) over the 2010 balance of \$822.03 million. Capital assets in 2010 were \$8.22 million (1.01 percent) more than the \$813.81 million balance at the end of 2009. Capital assets include all of WaterOne's major capital assets, including land, infrastructure assets, water treatment facilities, water mains, services, hydrants, pump stations, reservoirs, administrative/service center facilities, fleet, and other general assets. A comparison of WaterOne's capital assets over the past three years is presented in Table 4 below.

Capital Assets (Dollars in thousands)									
	December 31,		Variance		December 31,		Variance		
	2011	2010	Dollars	Percentage	2009	Dollars	Percentage		
Land	\$ 23,190	\$ 22,891	\$ 299	1.31%	\$ 22,651	\$ 240	1.06%		
Intake, purification, and pumping system	340,567	332,987	7,580	2.28%	234,959	98,028	41.72%		
Transmission and distribution distribution system	638,089	624,353	13,736	2.20%	534,900	89,453	16.72%		
Buildings, improvements, furniture and equipment	47,146	45,556	1,590	3.49%	46,034	(478)	(1.04)%		
Construction work in progress	43,692	31,567	12,125	38.41%	197,135	(165,568)	(83.99)%		
Capital Assets									
Before Depreciation	\$ 1,092,684	\$ 1,057,354	\$ 35,330	3.34%	\$ 1,035,679	\$ 21,675	2.09%		
Less accumulated depreciation	(253,046)	(235,323)	(17,723)	7.53%	(221,871)	(13,452)	6.06%		
Net capital Assets	\$ 839,638	\$ 822,031	\$ 17,607	2.14%	\$ 813,808	\$ 8,223	1.01%		

Additions to WaterOne's capital assets reflect a capital plan to replace and maintain existing facilities and equipment, adopt more efficient technologies, ensure compliance with applicable water quality rules and regulations and provide for the expansion of supply, treatment and distribution facilities per WaterOne's long-term capital expansion program. Since the mid-1980s, WaterOne has been consistently adding facilities in response to a history increasing customer base.

During 2011, WaterOne began construction on a new pump station, reservoir and related transmission mains in the southeast portion of our service area. These Phase V projects will expand pumping and storage capacity in that portion of WaterOne's service territory. WaterOne also began addressing the aging distribution facilities by beginning work on rehabilitation and upgrade of two pump stations in the oldest part of the service territory.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

During 2010, WaterOne continued with the construction of WaterOne's Phase V facilities, which include a new source and treatment site on the Missouri River, a new 17-mile 60" transmission main, additional pumping and storage facilities, and improvements on existing facilities. Phase V-A facilities related to the new source and treatment facilities on the Missouri River and the 60" transmission main were put into service in March 2010.

Long-Term Debt

WaterOne finances its capital assets through a combination of water rates, investment income, System Development Charges and revenue bonds. As indicated in the Notes to Financial Statements, WaterOne makes a monthly prorated deposit to the Principal and Interest Fund that is then used to fund the semi-annual principal and interest payments on the outstanding debt.

All Senior Parity bonds are rated Aaa by Moody's and AAA by Standard and Poor's. Second Lien bonds are rated Aa1 by Moody's and AAA by Standard and Poor's.

At the end of 2011, WaterOne had \$239.40 million of outstanding bonds, compared to \$259.70 million at the end of 2010. The decrease is the result of principal payments of \$12.65 million and the call of the remaining \$7.65 million of Series 2001 Senior Parity bonds.

At the end of 2010, WaterOne had \$259.70 million of outstanding bonds, compared to \$241.74 million at the end of 2009. The increase is the result of principal payments of \$10.94 million and the issuance of \$28.89 Second Lien water revenue bonds.

As discussed in Note 4 of the Notes to Financial Statements, the current debt service schedule extends to 2032 and includes bonds with interest rates ranging from 2.00 percent to 5.00 percent. Bond covenants require that WaterOne maintain a debt service coverage ratio on its Senior Parity Debt of 1.25; however, current Board policy stipulates that the budgeted debt service coverage ratio be maintained at a minimum of 2.00 (before inclusion of System Development Charges). For 2011, the actual debt service coverage ratio for WaterOne's Senior Parity Bonds and Second Lien Bonds (excluding System Development Charges) was 2.26, which was higher than the comparable ratio of 1.94 for 2010 and higher than the 2009 ratio of 1.58.

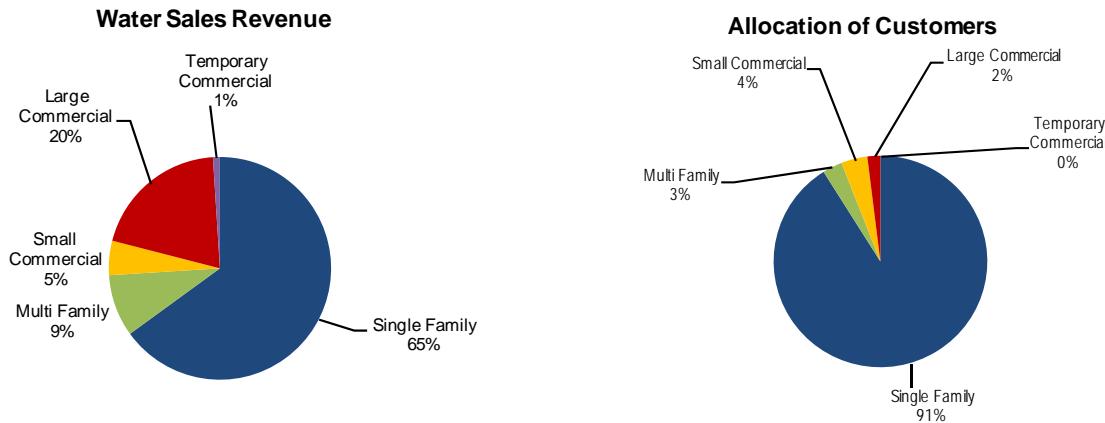
The actual Debt Service Coverage Ratio (excluding System Development Charges) for 2011 of 2.26 was higher than the budget amount of 2.07 due to drier and warmer conditions during the late summer and fall of 2011.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

Economic Factors and Next Year's Projections and Rates

WaterOne's service territory includes approximately 272 square miles, located primarily in Johnson County, Kansas. In addition, WaterOne has the exclusive right to provide potable water to all or a portion of 17 municipalities as well as unincorporated areas. As of December 31, 2011, WaterOne served 138,456 customers, of which 91 percent were single-family residential homes.



Customer growth in the Johnson County area has slowed during the last three years. Economic factors contributing to the customer slow down are similar to those economic factors affecting growth across the nation. WaterOne, however, is somewhat insulated from economic downturns because 65 percent of our annual water sales are to single family residential homes and the remaining 35 percent is scattered among many relatively small commercial users. As of the end of 2011, WaterOne's top 15 commercial customers contributed to only 3.82 percent of total 2011 annual water sales revenue.

WaterOne budgets revenues and expenses based on anticipated water consumption for a "normal" weather year. Revenues for a given budget year need to be sufficient to provide funds for operation and maintenance expenses, debt service funding and annual capital expenditures. In addition, Net Revenues for a given year may be budgeted to provide funds for contributions to the Master Plan capital program, the Transmission & Distribution capital program and/or the Negative Cash Flow Reserve. Finally, Board policy #16 stipulates that rates must be at such a level that budgeted net operating income (before depreciation) combined with budgeted investment income (i.e. balance of revenues available for debt service) must be at least two times annual debt service for Senior Parity and Second Lien bonds in a normal year.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

WaterOne Contact Information

This financial report is designed to provide our customers and creditors with a general overview of WaterOne's finances and to demonstrate accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact:

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Water District No. 1 of Johnson County, Kansas
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Lenexa, Kansas 66219
Telephone: 913-895-5595
E-mail: rappletoft@waterone.org

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

STATEMENT OF NET ASSETS

Page 1 Of 2

	Assets	
	December 31,	
	2011	2010
Current Assets		
Cash and short-term investments:		
Water system general fund	\$ 45,696,106	\$ 41,594,800
System development account	12,295,778	16,664,995
Accounts receivable and accrued water sales	8,796,147	8,161,462
Interest receivable	104,924	127,527
Materials and supplies	2,899,929	2,624,747
Contractor extension receivables	266,348	176,516
Prepayments and deposits	809,335	793,250
Total Current Assets	70,868,567	70,143,297
Noncurrent Assets		
Capital assets, net of accumulated depreciation:		
Nondepreciable capital assets:		
Land	23,189,761	22,891,474
Construction in progress	43,692,199	31,566,666
Total nondepreciable capital assets	66,881,960	54,458,140
Depreciable capital assets:		
Intake, purification, and pumping system	227,415,293	228,459,286
Transmission and distribution system	520,592,658	514,981,668
Building, improvements, furniture, and equipment	24,748,230	24,131,777
Total depreciable capital assets, net of accumulated depreciation	772,756,181	767,572,731
Net Capital Assets	839,638,141	822,030,871
Restricted Cash And Investments		
Special funds created by bond resolutions:		
Principal and interest	1,884,818	1,572,491
Construction fund	—	9,194,970
Senior bond reserve fund	15,892,036	17,161,883
Second Lien bond reserve fund	2,809,572	2,809,493
Water system general fund	16,537,693	16,946,875
Total Special Funds Created By Bond Resolutions	37,124,119	47,685,712
Deferred Charges		
Debt issuance costs	648,533	726,051
Other	1,028,472	838,632
Total Deferred Charges	1,677,005	1,564,683
Total Noncurrent Assets	878,439,265	871,281,266
Total Assets	\$ 949,307,832	\$ 941,424,563

See the accompanying notes to the basic financial statements

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WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

STATEMENT OF NET ASSETS

Page 2 Of 2

Liabilities And Net Assets		
	December 31,	
	2011	2010
Current Liabilities		
Accounts payable	\$ 5,478,053	\$ 5,135,174
Customer advances for system development charges	640,875	686,060
Retainages on construction contracts	1,570,512	380,560
Current maturities of revenue bonds payable	9,380,000	12,650,000
Accrued interest on revenue bonds payable	700,870	767,835
Compensated employee absences	1,257,900	1,269,642
Other current liabilities	1,193,782	1,239,354
Total Current Liabilities	20,221,992	22,128,625
 Noncurrent And Other Liabilities		
Revenue bonds payable	230,015,000	247,045,000
Unamortized charge - refunded bonds	(225,107)	(393,821)
Premium on revenue bonds payable	3,888,717	4,214,078
Customer advances for construction	1,512,561	1,503,466
Other post-employment	4,670,356	3,397,040
Other	443,610	704,759
Total Noncurrent Liabilities	240,305,137	256,470,522
Total Liabilities	260,527,129	278,599,147
 Net Assets		
Invested in capital assets, net of related debt	596,548,308	567,710,585
Restricted by bond resolution	28,370,953	29,237,152
Unrestricted	63,861,442	65,877,679
Total Net Assets	688,780,703	662,825,416
Total Liabilities And Net Assets	\$ 949,307,832	\$ 941,424,563

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	For The Years Ended December 31,	
	2011	2010
Operating Revenues		
Water sales	\$ 92,044,865	\$ 80,897,855
Other operating revenues	1,235,783	1,330,771
Total Operating Revenues	93,280,648	82,228,626
Operating Expenses		
Water source, treatment, and pumping	21,940,400	19,591,583
Transmission and distribution	9,964,532	10,141,354
Customer service	3,295,362	3,411,357
Administrative and general	8,412,358	8,266,352
Depreciation of utility plant	20,377,735	18,225,440
Total Operating Expenses	63,990,387	59,636,086
Operating Income	29,290,261	22,592,540
Nonoperating Revenues (Expenses)		
Investment income	392,734	296,794
Miscellaneous, net	45,910	32,250
Bond interest expense	(10,286,421)	(10,429,189)
Amortization expense - refunded bonds	(130,893)	(644,878)
Amortization of debt issuance costs, premiums and other interest charges	209,146	192,112
Loss on disposal of capital assets	(90,888)	(1,925,142)
Net Nonoperating Revenues (Expenses)	(9,860,412)	(12,478,053)
Income Before Capital Contributions	19,429,849	10,114,487
Capital Contributions	6,525,438	6,842,791
Change In Net Assets	25,955,287	16,957,278
Net Assets - Beginning Of Year	662,825,416	645,868,138
Net Assets - End Of Year	\$ 688,780,703	\$ 662,825,416

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

STATEMENT OF CASH FLOWS

Page 1 Of 2

	For The Years Ended December 31,	
	2011	2010
Cash Flows From Operating Activities		
Receipts from customers	\$ 92,645,963	\$ 81,899,566
Payments to suppliers	(24,421,404)	(18,998,508)
Payments to employees	(21,821,074)	(20,376,716)
Net Cash Provided By Operating Activities	46,403,485	42,524,342
Cash Flows From Noncapital Financing Activities, Miscellaneous	9,095	32,250
Cash Flows From Capital And Related Financing Activities		
Proceeds from sale of capital assets	327,954	146,703
System development charges	4,085,025	3,530,229
Acquisition and construction of capital assets	(30,956,275)	(31,204,992)
Principal payments on revenue bonds	(20,300,000)	(10,935,000)
Interest payments on revenue bonds	(10,860,035)	(10,728,649)
Issuance of long-term debt, net of premium and issuance costs	—	29,646,958
Net Cash Used In Capital And Related Financing Activities	(57,703,331)	(19,544,751)
Cash Flows From Investing Activities		
Purchase of short-term investments	(59,860,745)	(79,350,722)
Interest received on investments	461,247	417,138
Maturities of short-term investments	70,804,072	53,034,989
Net Cash Provided By (Used In) Investing Activities	11,404,574	(25,898,595)
Net Increase (Decrease) In Cash	113,823	(2,886,754)
Cash - Beginning Of Year	13,948,078	16,834,832
Cash - End Of Year	\$ 14,061,901	\$ 13,948,078
Investments	\$ 81,054,102	\$ 91,997,429
Cash	14,061,901	13,948,078
Total Cash And Investments	\$ 95,116,003	\$ 105,945,507
Principal and interest fund - restricted	\$ 1,884,818	\$ 1,572,491
Water system general fund	45,696,106	41,594,800
Water system general fund - restricted	16,537,693	16,946,875
Construction fund - restricted	—	9,194,970
Cash bond reserve fund - restricted	18,701,608	19,971,376
System development account	12,295,778	16,664,995
	\$ 95,116,003	\$ 105,945,507

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

STATEMENT OF CASH FLOWS

Page 2 Of 2

	For The Years Ended December 31,	
	2011	2010
Reconciliation of operating income to net cash provided by operating activities:		
Operating income		
Operating income	\$ 29,290,261	\$ 22,592,540
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	20,377,735	18,225,440
Changes in assets and liabilities:		
Increase in receivables and accrued water sales	(634,685)	(633,198)
(Increase) decrease in materials and supplies	(275,182)	218,683
(Increase) decrease in contractor extension receivables	(89,832)	406,641
Increase in prepayments and deposits	(16,085)	(85,020)
Increase in deferred charges	(189,840)	(17,483)
Increase (decrease) in accounts payable	(3,013,740)	1,224,003
Increase in other liabilities and compensation	954,853	592,736
Net Cash Provided By Operating Activities	46,403,485	42,524,342
 Noncash capital and related financing activities:		
Property contributed to WaterOne	\$ 2,395,230	\$ 1,224,358
Acquisition of capital assets through retainage payable	1,189,952	(4,288,037)
Acquisition of capital assets through accounts payable	3,467,132	110,513
Noncash investing activities,		
Appreciation (depreciation) of fair value	80,302	(50,018)
Capitalized interest payments	506,648	268,828

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

NOTES TO FINANCIAL STATEMENTS For The Year Ended December 31, 2011

Note 1. Summary Of Significant Accounting Policies

Water District No. 1 of Johnson County, Kansas (WaterOne) is a water utility that provides service to 138,456 and 137,800 customers as of December 31, 2011 and 2010, respectively. WaterOne was organized on November 2, 1953 as a quasi-municipal body corporate with the power of eminent domain. WaterOne is governed by a seven-member Water District Board. Election is for overlapping terms voted on by the qualified electors residing in the WaterOne service area.

Basis Of Accounting

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. WaterOne has authority to issue bonded debt without the approval of another government. It has the right to sue and be sued and has the right to buy, sell, lease or mortgage property in its own name. Based on these criteria, WaterOne is considered a primary government and there are no other organizations or agencies whose financial statements should be combined and presented with these financial statements.

WaterOne accounts for the water utility as a governmental enterprise fund. The accrual basis and economic measurement focus of accounting is utilized, under which revenues are recognized when earned, and expenses are recorded when liabilities are incurred or deferred charges are amortized. Under this basis of accounting, all assets and all liabilities associated with the operation of WaterOne are included in the balance sheet.

WaterOne follows accounting principles and financial reporting requirements as established by the Governmental Accounting Standards Board (GASB), as well as pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, to the extent they do not conflict with or contradict GASB pronouncements. WaterOne has not elected to follow FASB guidance issued subsequent to November 30, 1989.

WaterOne prepares its financial statements in conformity with accounting principles generally accepted in the United States of America as applied to regulated utilities. The accounting and rates of WaterOne are established by the Water District Board.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. Non-operating revenues and expenses include those derived from capital and related financing activities, non-capital financing activities, and investing activities.

When both restricted and unrestricted resources are available for use, it is WaterOne's policy to use restricted resources first and then unrestricted resources, as they are needed.

Capital Assets

Utility plant is stated at cost, or cost of construction, including overhead costs. Included in capital assets is the interest capitalized during construction in accordance with accounting principles generally accepted in the United States of America. Interest of \$506,000 and \$269,000 was capitalized in fiscal year 2011 and 2010, respectively. Fully depreciated plant and equipment are included in the accounts until their disposal. WaterOne's capitalization threshold is \$5,000.

Depreciation is provided on the straight-line method using the following useful lives:

Intake, purification, and pumping system	20 - 100 years
Transmission and distribution systems	10 - 100 years
Buildings, improvements, furniture, and equipment	3 - 50 years

Accounts receivable and unbilled revenue: WaterOne utilizes cycle billing and accrues an estimated amount of revenues for sales unbilled at the end of each reporting period. The unbilled amount plus any amounts billed to customers but not yet received by WaterOne is recorded as accounts receivable and accrued water sales, net of an allowance for uncollectable accounts of \$55,000 and \$66,000 as of December 31, 2011 and 2010, respectively.

Investments: Investments consist of U.S. Treasury obligations. Treasury obligations are reported at fair value, based on quoted market prices.

Special funds created by bond resolutions: Special funds created by bond resolutions consist of cash and investments restricted for debt service on WaterOne's outstanding bonds (P & I Fund), bond reserve funds, construction funds, funding of contingencies, and reserves in the general fund.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Materials and supplies: Materials and supplies inventories are reported at average cost.

Debt issuance costs, premium and unamortized refunded charges: Costs of bond issuances, premium and unamortized refunded charges are deferred and amortized over the life of the related issue using a method which approximates the interest method.

Deferred charges: Costs incurred which benefit future periods are deferred and amortized to expense, based upon recovery of these costs in customer rates. Deferred charges include deferrable maintenance costs, and various other amounts. Amortization periods range from one to five years.

Vacation and sick leave: Under the terms of WaterOne's personnel policy, employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation if proper notice is given by the employee. WaterOne accrues the costs related to earned employee vacation, which includes the employer portion of payroll-related taxes.

Upon retirement or termination, employees are not paid for unused sick leave. The costs of sick leave are recorded when paid and are not accrued.

Cash and cash equivalents: For purposes of the Statements of Cash Flows, WaterOne considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Use of estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Net assets: Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction, or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent bond proceeds. As of December 31, 2010, WaterOne has \$9.19 million of unspent bond proceeds. WaterOne has no unspent bond proceeds as of December 31, 2011. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Note 2. Capital Assets

Capital asset activity for the year ended December 31, 2011 is as follows:

	Balance - December 31, 2010	Increases	Decreases	Balance - December 31, 2011
Capital assets not being depreciated:				
Land	\$ 22,891,474	\$ 308,407	\$ 10,120	\$ 23,189,761
Construction work in progress	31,566,666	38,166,931	26,041,398	43,692,199
Total capital assets not being depreciated	54,458,140	38,475,338	26,051,518	66,881,960
Capital assets being depreciated:				
Intake, purification, and pumping system	332,987,417	7,850,085	270,069	340,567,433
Transmission and distribution systems	624,352,682	14,990,106	1,254,133	638,088,655
Building, improvements, furniture, and equipment	45,555,972	3,201,207	1,611,474	47,145,705
Total capital assets being depreciated	1,002,896,071	26,041,398	3,135,676	1,025,801,793
Less accumulated depreciation for:				
Intake, purification, and pumping system	104,528,131	8,810,758	186,749	113,152,140
Transmission and distribution systems	109,371,014	8,531,896	406,913	117,495,997
Building, improvements, furniture, and equipment	21,424,195	3,035,081	2,061,801	22,397,475
Total accumulated depreciation	235,323,340	20,377,735	2,655,463	253,045,612
Total capital assets being depreciated, net	767,572,731	5,663,663	480,213	772,756,181
Net Capital Assets	\$ 822,030,871	\$ 44,139,001	\$ 26,531,731	\$ 839,638,141

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

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

	Balance - December 31, 2009	Increases	Decreases	Balance - December 31, 2010
Capital assets not being depreciated:				
Land	\$ 22,650,897	\$ 240,577	\$ —	\$ 22,891,474
Construction work in progress	197,135,454	28,280,077	193,848,865	31,566,666
Total capital assets not being depreciated	219,786,351	28,520,654	193,848,865	54,458,140
Capital assets being depreciated:				
Intake, purification, and pumping system	234,958,446	101,768,591	3,739,620	332,987,417
Transmission and distribution systems	534,900,214	90,141,089	688,621	624,352,682
Building, improvements, furniture, and equipment	46,033,565	1,939,185	2,416,778	45,555,972
Total capital assets being depreciated	815,892,225	193,848,865	6,845,019	1,002,896,071
Less accumulated depreciation for:				
Intake, purification, and pumping system	99,327,431	7,281,211	2,080,511	104,528,131
Transmission and distribution systems	101,879,170	7,809,846	318,002	109,371,014
Building, improvements, furniture, and equipment	20,664,473	3,134,383	2,374,661	21,424,195
Total accumulated depreciation	221,871,074	18,225,440	4,773,174	235,323,340
Total capital assets being depreciated, net	594,021,151	175,623,425	2,071,845	767,572,731
Net Capital Assets	\$ 813,807,502	\$ 204,144,079	\$ 195,920,710	\$ 822,030,871

Note 3. Deposits And Investments

Kansas statutes authorize WaterOne, with certain restrictions, to deposit or invest in various accounts and instruments. Pursuant to WaterOne's bond resolutions, operating funds and bond funds are to be invested in direct obligations of the United States of America or any agency thereof, or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, including debt obligations of the Government National Mortgage Association.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Bond funds may also be invested in debt obligations of the Federal Home Loan Mortgage Company, the Federal National Mortgage Association and/or the Federal Home Loan Bank. Bond funds may also be invested in collateralized repurchase agreements which are collateralized at 100 percent of fair market value by direct obligations of the United States of America or any agency thereof or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, or by debt obligations of the Federal Home Loan Mortgage Company, the Federal National Mortgage Association, the Federal Home Loan Bank and/or the Government National Mortgage Association.

Bond funds may also be invested in guaranteed investment contracts (GICs) with any bank, non-bank financial institution, or insurance company that has long-term debt (or claims paying ability for insurance companies) rated at least "A" or "A2" by Standard & Poor's or Moody's, respectively. In the case of a guaranteed corporation, the long-term debt (or claims-paying ability for insurance companies) of the guarantor must be rated at least "A" or "A2" by Standard & Poor's or Moody's, respectively. Upon downgrade below these ratings, the GIC provider must either post collateral or assign the agreement to a provider meeting the rating qualifications above. Acceptable collateral and margin requirements, if any, are to be specified in the GIC agreement.

Investment of operating funds or bond funds in Mortgage Backed Securities (MBS) is prohibited.

Statutes also require that collateral pledged for deposits must have a fair market value equal to 100 percent, less insured amounts, and must be assigned for the benefit of WaterOne. Acceptable collateral is limited to securities that are direct obligations of the United States of America or any agency thereof, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America including U.S. Treasuries and debt obligations of the Government National Mortgage Association, the Federal Home Loan Mortgage Company, the Federal National Mortgage Association or the Federal Home Loan Bank. Use of Mortgage Backed Securities (MBS) as collateral is prohibited.

Deposits

As of December 31, 2011 and 2010, the bank balance of WaterOne's deposits were \$14,165,865 and \$14,140,178, respectively, which were covered by federal depository insurance or by collateral held by the Federal Reserve Bank in WaterOne's name under a joint custody arrangement with WaterOne's bank.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Investments

WaterOne's U.S. Treasury investments are held in safekeeping with the Federal Reserve Bank in WaterOne's treasury direct account in which proper receipts are maintained. All of WaterOne's investments are registered and held by WaterOne or its agent in WaterOne's name. A summary of investments and deposits as of December 31, 2011 and 2010 is as follows:

	Fair Value	
	2011	2010
U.S. Treasury securities	\$ 81,054,102	\$ 91,997,429
Deposits	14,060,051	13,946,228
Petty cash	1,850	1,850
	<hr/>	<hr/>
	\$ 95,116,003	\$ 105,945,507
	<hr/>	<hr/>

The investments and deposits at December 31, 2011 and 2010 are shown on the balance sheet as follows:

	2011	2010
Cash and temporary investments:		
General account	\$ 45,696,106	\$ 41,594,800
System development account	12,295,778	16,664,995
Special funds created by bond resolutions	37,124,119	47,685,712
	<hr/>	<hr/>
	\$ 95,116,003	\$ 105,945,507
	<hr/>	<hr/>

Credit risk and concentration of credit risk: Credit risk is the risk that the counterparty will not fulfill its obligations. WaterOne limits credit risk and concentration of credit risk by investing only in obligations explicitly guaranteed by the U.S. government, which are not considered to have credit risk.

Interest rate risk: Interest rate risk is the risk that the fair value of WaterOne's investments will decrease as a result of an increase in interest rates. In accordance with Kansas Statute 12-1675(4), WaterOne manages its exposure to declines in fair values by limiting the total remaining maturity of any single investment to less than two years and by structuring the portfolio so that securities mature to meet cash requirements, thereby avoiding the need to sell securities on the open market prior to maturity.

The weighted average maturity in years of U.S. Treasury securities is 0.70 and 0.69 as of December 31, 2011 and 2010, respectively.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Custodial credit risk: Custodial credit risk is the risk that WaterOne will not recover its investments due to the inability of the counterparty to fulfill its obligation. WaterOne's deposits up to \$250,000 are guaranteed by depository insurance and balances above this threshold are collateralized with U.S. government securities held by the Federal Reserve in WaterOne's name.

Note 4. Bonded Indebtedness

Details of revenue bonds outstanding at December 31, 2011 and 2010 are as follows:

Outstanding Bonds	Original Principal	Principal 2011	Principal 2010
Water revenue refunding bonds:			
Series 2001 (4.0% to 5.0%), due 2001 - 2013	\$ 24,280,000	\$ —	\$ 11,230,000
Series 2002 (4.0% to 5.0%), due 2002 - 2019	13,960,000	7,600,000	8,385,000
Series 2003 (2.0% to 4.0%), due 2004 - 2015	29,295,000	8,830,000	10,805,000
Series 2009 (2.0% to 5.0%), due 2010 - 2020	26,190,000	19,870,000	22,690,000
Water revenue improvement bonds:			
Series 2007 (3.57% to 4.36%), due 2010 - 2032	180,245,000	174,205,000	177,695,000
Series 2010 (2.0% to 4.0%), due 2013 - 2030	28,890,000	28,890,000	28,890,000
	<hr/> <u>\$ 302,860,000</u>	<hr/> <u>239,395,000</u>	<hr/> <u>259,695,000</u>
Less principal amount of bonds payable within one year			
		<hr/> <u>9,380,000</u>	<hr/> <u>12,650,000</u>
		<hr/> <u>\$ 230,015,000</u>	<hr/> <u>\$ 247,045,000</u>

The annual requirement to retire the revenue bonds outstanding as of December 31, 2011 is as follows:

Year Ending December 31:	Principal	Interest	Total
2012	\$ 9,380,000	\$ 10,027,741	\$ 19,407,741
2013	11,790,000	9,611,994	21,401,994
2014	17,005,000	9,053,429	26,058,429
2015	16,040,000	8,394,344	24,434,344
2016	14,225,000	7,782,407	22,007,407
2017 - 2021	75,785,000	28,881,081	104,666,081
2022 - 2026	51,265,000	13,003,261	64,268,261
2027 - 2031	43,905,000	4,922,675	48,827,675
	<hr/> <u>\$ 239,395,000</u>	<hr/> <u>\$ 91,676,933</u>	<hr/> <u>\$ 331,071,933</u>

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Following is a schedule of bond activity in 2011:

	Balance - January 1, 2011	Bonds Issued	Principal Payments	Bonds Retired	Balance - December 31, 2011	Due Within One Year	Debt Interest Paid
Water revenue							
refunding bonds:							
Series 2001	\$ 11,230,000	\$ —	\$ 3,580,000	\$ 7,650,000	\$ —	\$ —	\$ 517,250
Series 2002	8,385,000	—	785,000	—	7,600,000	815,000	383,331
Series 2003	10,805,000	—	1,975,000	—	8,830,000	2,060,000	397,419
Series 2009	22,690,000	—	2,820,000	—	19,870,000	2,040,000	632,575
Water revenue							
improvement bonds:							
Series 2007	177,695,000	—	3,490,000	—	174,205,000	4,180,000	7,814,023
Series 2010	28,890,000	—	—	—	28,890,000	285,000	1,115,438
	\$ 259,695,000	\$ —	\$ 12,650,000	\$ 7,650,000	\$ 239,395,000	\$ 9,380,000	\$ 10,860,035

Following is a schedule of bond activity in 2010:

	Balance - January 1, 2010	Bonds Issued	Principal Payments	Bonds Retired	Balance - December 31, 2010	Due Within One Year	Debt Interest Paid
Water revenue							
refunding bonds:							
Series 2001	\$ 14,665,000	\$ —	\$ 3,435,000	\$ 11,230,000	\$ 3,580,000	\$ 690,750	
Series 2002	9,135,000	—	750,000	8,385,000	785,000	415,631	
Series 2003	12,705,000	—	1,900,000	10,805,000	1,975,000	460,875	
Series 2009	24,990,000	—	2,300,000	22,690,000	2,820,000	699,325	
Water revenue							
improvement bonds:							
Series 2007	180,245,000	—	2,550,000	177,695,000	3,490,000	7,922,923	
Series 2010	—	28,890,000	—	28,890,000	—	557,718	
	\$ 241,740,000	\$ 28,890,000	\$ 10,935,000	\$ 259,695,000	\$ 12,650,000	\$ 10,747,222	

Included in revenue bonds payable on the balance sheet is an unamortized charge for refunded bonds of \$225,107 and \$393,821 as of December 31, 2011 and 2010, respectively.

The 2002, 2003, 2007, 2009 and 2010 Series Bonds have early redemption provisions at the option of WaterOne. The 2002, 2007, 2009 and 2010 Series Bonds have certain mandatory sinking fund provisions beginning in 2017, 2028, 2020 and 2022, respectively. The 2003 Series Bonds do not have a mandatory sinking provision as they do not include term bonds. All outstanding Water Revenue Refunding and Water Revenue Improvement Bond Series constitute a lien on the water supply and distribution system and on the revenue produced by the system.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Under terms of the Senior Parity Bond resolutions and the Second Lien Bond resolution, WaterOne must maintain debt service coverage of at least 1.25 times the annual debt service requirement. Under the formula for computing debt service coverage in the Bond resolutions, 2011 net revenues designated as available to meet debt service requirements (operating income before depreciation, plus system development charges and interest income) equalled 2.44 times the annual Senior Parity and Second Lien debt service requirement.

The revenue bond resolutions also require that, after all amounts due for operation and maintenance expenses are paid, certain monies be segregated or restricted in special reserves and accounts, as follows:

WaterOne shall deposit on the first day of each month, into the principal and interest account, such amount equal to not less than the pro rata amount of interest and principal that will become due on the bonds on the next succeeding payment date plus amounts that may be required for fiscal agent fees and expenses.

WaterOne shall maintain bond reserve funds for the Senior Parity and Second Lien Bonds, respectively. The funds shall consist of either cash or equivalent security irrevocably available as long as the bonds remain outstanding. The reserve requirement for each fund is equal to the lesser of the maximum annual debt service or 125 percent of the average annual debt service for the respective group of Senior Parity and Second Lien bonds. As of December 31, 2011, there was a balance of \$15,892,036 in the Senior Bond Reserve, \$1,309,580 in the 2009 Second Lien Bond Reserve and \$1,499,992 in the 2010 Second Lien Bond Reserve.

After all requirements in the preceding provisions have been met, the remaining monies may be expended for any lawful purpose, provided WaterOne maintains a balance sufficient to provide for (1) operating and extraordinary renewal and replacement cost contingencies of not less than \$2,000,000, (2) the payment of operation and maintenance expenses for the ensuing 60 days, (3) the necessary material purchase requirements for the ensuing 60 days, and (4) reasonable amounts for unfunded contracts and commitments.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

As of December 31, 2011, WaterOne had committed cash and short-term investments as provided by bond resolutions or Board actions as follows:

General Fund cash and short-term investments	\$ 62,233,799
Less funds reserved by bond resolution (Section 703):	
Contingencies	(2,000,000)
Operation and maintenance	(6,468,199)
Material purchases	(17,197)
Unfunded contracts and commitments	(8,052,297)
 General Fund after bond resolutions reserves (Section 703)	 \$ 45,696,106

WaterOne, by Board action, reserves remaining general funds to cover negative cash flows, to fund a Rate Stabilization Reserve, and to provide a reserve for current and future Master Plan construction projects as well as Transmission and Distribution projects. The reserving of these Master Plan and Transmission and Distribution funds reduces the necessity or size of future bond issues, thus reducing future debt service expense, and provides funding for the obligations of construction and other related contracts that have been awarded.

Additionally, WaterOne, by Board resolution, has established an account consisting of revenues collected from system development charges for the purpose of funding major improvements to the supply and distribution system. As of December 31, 2011 and 2010, the account totaled \$12,295,778 and \$16,664,995, respectively.

On December 1, 2011 WaterOne cash defeased the remaining \$7,650,000 principle portion of the Series 2001 bonds. The interest savings on the defeased 2012 and 2013 principle amounts will be over \$480,000.

In June 2010, WaterOne issued \$28,890,000 of Water Revenue Bonds, Series 2010, with an average interest rate of 3.99% plus a net premium of \$849,168. Net proceeds of \$29,646,958 (after payments of debt issuance costs) were used for the purpose of funding the 2010 Bond Reserve Account, funding Capitalized Interest and providing funds to build a portion of WaterOne's Phase V Master Plan facilities.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Note 5. Customer Advances For Construction

Customer advances for construction are primarily for construction of water main extensions. These are valued at fair value at the time of contribution. Some advances are contingently refundable in accordance with WaterOne's rules and regulations. However, substantially all main extension contracts executed provide for no refunds. The nonrefundable advances are recognized as contributed capital after construction is completed.

Note 6. Customer Advances For New Services, System Development Charges, And Capital Contributions

Customer advances for new services and system development charges are collected at the time the applicant requests a tapping permit. If the tap related to the permit is completed, the new service and system development charges are recognized as contributed capital. If the permit lapses, the new service amounts and the system development amount are refunded to the applicant.

New services contributions consist of a nonrefundable charge assessed on completed new service connections. The new service charge is designed to compensate for the applicable cost of service materials and WaterOne labor and overhead costs related to the permitting, tapping and inspection process.

Intergovernmental contributed capital resulted from historical acquisitions of former rural water districts and municipal service areas.

Contributed capital from WaterOne-owned Benefit Areas (BA) consists of nonrefundable charges to those entities that request a hook-up to specifically designated water mains. These pre-designated mains are usually installed in "leap frog" development areas and the BA charges are designed to recuperate only the actual cost of the specific main that is being hooked on to.

Note 7. Retirement Plan

Plan Description

WaterOne contributed to the Water District No. 1 of Johnson County, Kansas Fifth Revised Retirement Plan as a single-employer defined benefit public employee retirement system (the System) established by WaterOne to provide pension benefits for its employees.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

All full-time employees of WaterOne are eligible for participation on January 1 or July 1 following the attainment of age 21 and completion of one year of service. All benefits vest after five years of service. Employees who retire at or after age 65 are entitled to an annual retirement benefit payable monthly for life in an amount equal to the greater of (a) the sum of 1.91 percent of final average monthly pay plus 0.48 percent of the excess of final average monthly pay over covered compensation times years of credited service, up to 25 years, plus 0.5 percent of final average monthly pay times years of credited service in excess of 25 years, or (b) 1.5 percent times monthly earnings for each year of credited service. Ad hoc cost-of-living increases were granted for retirees and beneficiaries as of January 1, 1991; January 1, 1994; January 1, 1997; January 1, 2000; January 1, 2001; January 1, 2002; January 1, 2003; and January 1, 2004. The Plan was amended to allow for a partial lump sum option at retirement for participants in the pension plan hired prior to January 1, 2005. Participants hired on or after January 1, 2005 are not eligible for a lump sum option at retirement. As of January 1, 2011, the System had 422 participants. This was made up of 310 active participants, 77 participants eligible for a deferred benefit, and 35 retirees and beneficiaries.

Final average monthly pay is the employee's average basic monthly rate of pay as of each January 1 over the highest five consecutive years. Covered Compensation is defined as the average of the Social Security taxable wages in effect under Section 230 of the Social Security Act for the 35 calendar years ending with the earlier of the calendar year in which the member terminates employment, or the calendar year in which the member attains Normal Retirement Age. Employees with 10 years of service may retire at or after age 55 with a reduced benefit. Benefit and contribution provisions are established by WaterOne.

Funding policy: WaterOne's System funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. WaterOne makes all contributions to fund the System on an actuarial basis; employees do not contribute to the pension plan.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Annual pension cost and net pension obligation: WaterOne's annual pension cost (APC) and net pension obligation (NPO) as of December 31, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Annual Required Contribution (ARC)	\$ 3,348,000	\$ 3,133,000	\$ 3,102,000
Interest on NPO	—	2,000	—
Adjustments to ARC	—	—	—
APC	3,348,000	3,135,000	3,102,000
Contributions	(3,356,000)	(3,181,000)	(3,056,000)
Increase (Decrease) in NPO	(8,000)	(46,000)	46,000
 NPO, January 1	 —	 46,000	 —
 NPO (Asset), December 31	 \$ (8,000)	 \$ —	 \$ 46,000
Percentage of APC contributed	100.2%	101.5%	98.5%

Actuarial methods and assumptions: The annual required contribution for the current year was determined as part of the January 1, 2011 actuarial valuation using the Projected Unit Credit method. Under this method, the benefits expected to be paid to each participant are projected based on the applicable actuarial assumptions. The projected benefits are then divided on a pro-rata basis over the applicable years of service. For purposes of this cost method, the applicable years of service commence at the age at which benefit service is first credited. The applicable years of service extend to the date each particular projected benefit is expected to be incurred, or, if earlier, the date at which the credited service requirements for each participant benefit are satisfied. The normal cost for the year is equal to the actuarial present value of the benefits allocated to the current year in accordance with the cost method. The actuarial accrued liability is set equal to the actuarial present value of all benefits allocated to years prior to the valuation date. The unfunded actuarial accrued liability is equal to the excess, if any, of the actuarial accrued liability over the actuarial value of assets.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments. Each year the unfunded actuarial accrued liability is expected to be equal to the sum of the unfunded actuarial accrued liability and normal cost from the prior year, plus interest, less the accumulated value of employer contributions made to the fund. The extent to which this expected value differs from the actual value of the unfunded actuarial accrued liability reflects the actuarial experience for the plan year. If the expected value exceeds the actual value, a gain has occurred. Conversely, if the actual value exceeds the expected value, a loss has occurred. The unfunded actuarial accrued liability is further modified for changes in plan provisions, actuarial assumptions or methods. Actuarial gains or losses are amortized over 10 years. Changes in the unfunded actuarial liability due to changes in plan provisions, actuarial assumptions or methods are amortized over 25 years.

The actuarial value of assets is a calculated value determined by starting with the market value of assets as of January 1, 2001. For subsequent years, the calculated value is determined by adjusting the market value of assets to reflect the unrecognized investment actuarial gains and losses (the difference between the actual investment return and the expected investment rate) during each of the last five years or, if fewer, the completed years since January 1, 2001, at the rate of 20 percent per year.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

The following summarizes the actuarial assumptions and cost method employed for the January 1, 2011 annual actuarial valuation:

Interest	8.5% per annum, pre-lump sum, participants in pay status and annuity payments
Mortality	1994 Group Annuity Tables for males and females pre-lump sum, participants in pay status and annuity payments
Lump Sum Basis	40% of 1984 Unisex Pension Mortality Table set forward one year at 5% and 60% of PPA Small Plan Combined Unisex Mortality Table at 6%, with 20% phase-in each year
Retirement	Of those ineligible for enhanced early retirement - 10% will retire at age 55 10% at age 58, 15% at age 60, 25% at age 62, 10% at age 63, 10% at age 64, and the remainder at age 65
	Of those eligible for enhanced early retirement - 12.5% will retire at age 55 12.5% at age 58, 18.75% at age 60, 31.25% at age 62, 12.5% at age 63, 12.5% at age 64, and the remainder at age 65
Expenses	None assumed
Disability	None assumed
Withdrawal	Crocker Sarason T-3 Table
Salary Increases	5.0% annually
Actuarial Cost Method	Projected Unit Credit Method
Amortization Method And Period	Level Dollar Closed, 25 years for changes in unfunded liability due to changes in the plan, assumptions or methods, and 10 years for actuarial gains and losses

Funding status and funding progress as of December 31, 2011: As of January 1, 2011, the most recent valuation date, the plan was 74.09 percent funded. The actuarial accrued liability for benefits was \$35,335,274, and the actuarial value of assets was \$26,179,096, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,156,178, and the ratio of the UAAL to the covered payroll was 49.54 percent. WaterOne's covered payroll for employees covered by the System as of January 1, 2011 was \$18,483,587. Covered payroll is defined as the pay, limited by Internal Revenue Code 401(a)(17), for all participants under Normal Retirement Age.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Funding status and funding progress as of December 31, 2010: As of January 1, 2010, the most recent valuation date, the plan was 75.52 percent funded. The actuarial accrued liability for benefits was \$33,070,927, and the actuarial value of assets was \$24,975,402, resulting in an unfunded actuarial accrued liability (UAAL) of \$8,095,525, and the ratio of the UAAL to the covered payroll was 43.21 percent. WaterOne's covered payroll for employees covered by the System as of January 1, 2010 was \$18,736,224. Covered payroll is defined as the pay, limited by Internal Revenue Code 401(a)(17), for all participants under Normal Retirement Age.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 8. Other Postemployment Benefits (OPEB)

Plan Description

WaterOne provides a single-employer health care plan that provides medical, prescription drugs and life insurance benefits to all employees, hired before January 1, 2008, who retire under the provisions of the Water District No. 1 of Johnson County, Kansas, Revised Retirement Plan. Employees who have attained age 55 and retire from active employment with 10 consecutive years of service are eligible for retiree benefits. Eligible retirees and their dependents receive medical, drug, and life insurance coverage through a fully-insured plan. These are the same plans that are available for active employees.

Funding Policy

WaterOne establishes and amends contribution requirements. WaterOne pays a portion of the health insurance premiums for the District's group medical insurance plan and/or an AARP (medicare supplement plan) plan and/or a COBRA plan. The portion of the premiums paid by WaterOne is determined based on the age of the retiree and of the spouse at retirement. The current funding policy of WaterOne is to pay premiums as they occur on a pay-as-you-go basis. This arrangement does not qualify as other post employment benefits (OPEB) plan assets under Governmental Accounting Standards Board (GASB) Statement No. 45 for current GASB reporting.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Annual OPEB Cost And Net OPEB Obligation

WaterOne's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance to the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of WaterOne's annual OPEB cost for the year ended December 31, 2011 and 2010, the amount actuarially contributed to the plan, and changes in the WaterOne's annual OPEB obligation:

	2011	2010
Annual required contribution	\$ 1,675,706	\$ 1,407,511
Interest on net OPEB obligation	152,867	49,293
Adjustment to annual required contribution	(219,855)	(68,369)
Annual OPEB cost (expense)	1,608,718	1,388,435
Contributions and payments made	(335,402)	(238,335)
Increase in net OPEB obligation	1,273,316	1,150,100
Net OPEB Obligation - Beginning Of Year	3,397,040	2,246,940
Net OPEB Obligation - End Of Year	\$ 4,670,356	\$ 3,397,040

WaterOne's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	\$ 1,388,435	17.06%	\$ 2,246,940
December 31, 2010	1,388,435	17.17%	3,397,040
December 31, 2011	1,608,718	20.85%	4,670,356

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Funded status and funding progress as of December 31, 2011: As of January 1, 2011, the most recent actuarial valuation date, the plan was 0 percent funded. WaterOne's actuarial accrued liability for benefits was \$14,457,815 and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (UAAL) of \$14,457,815. The covered payroll as of December 31, 2011 (annual payroll of active employees covered by the plan) was \$18,838,987 and the ratio of the UAAL to the covered payroll was 76.7 percent.

Funded status and funding progress as of December 31, 2010: As of the January 1, 2009 actuarial valuation, the plan was 0 percent funded. WaterOne's actuarial accrued liability for benefits was \$12,822,678 and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (UAAL) of \$12,822,678. WaterOne did not have a valuation done as of January 1, 2010. The covered payroll as of December 31, 2010 (annual payroll of active employees covered by the plan) was \$19,504,306 and the ratio of the UAAL to the covered payroll was 65.7 percent.

Actuarial estimates of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

In the January 1, 2011 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.5 percent discount rate, a 5.0 percent salary rate increase and 5.0-9.0 percent healthcare cost trend rates. The UAAL is being amortized as a closed level dollar. The amortization of UAAL is done over a period of no more than 30 years.

Note 9. Employee Benefits

Deferred Compensation

WaterOne offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time and part-time WaterOne employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Defined Contribution

WaterOne offers its employees a defined contribution plan created in accordance with Internal Revenue Code Section 401(a). The defined contribution plan has two parts, consisting of the following:

WaterOne offers its employees a defined contribution plan, available to all full-time and part-time WaterOne employees, which provides for a WaterOne contribution matching 50 percent of an employee's contribution to the 457 plan, up to 4 percent of the employee's eligible annual compensation. The maximum WaterOne contribution is 2 percent of the employee's eligible compensation.

WaterOne offers its employees a defined contribution plan, available to all full-time WaterOne employees with at least six months of service, which provides for a contribution of 2.5 percent of the employee's eligible annual compensation.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Assets of both portions of the 401(a) plan are not available to employees until termination, retirement, death or unforeseen emergency. New employees are subject to a five-year vesting schedule consisting of 20 percent vested at the end of each year until the employee has five years of service. After five years of service is obtained, all subsequent employer contributions are 100 percent vested. WaterOne had deposited assets for the matching portion of the 401(a) plan in the amount of \$306,320 and \$319,761 during 2011 and 2010, respectively. As of December 31, 2011 and 2010, a liability had been recorded by WaterOne for the annual 2.5 percent base contribution in the amount of \$459,183 and \$470,693, respectively. These amounts were subsequently deposited to the defined contribution plan in January 2012 and 2011. The defined contribution plan assets are held in trust for the exclusive benefit of employees and their beneficiaries.

Compensated Absences

Under the terms of WaterOne's personnel policy, employees are granted vacation leave in varying amounts based on length of service and full-time or part-time status. In the event of termination, an employee is paid for accumulated vacation.

Vacation Liability At 12/31/2010	2011 Earned Vacation	2011 Taken Vacation	Vacation Liability At 12/31/2011	Due Within One Year
\$ 1,269,642	\$ 1,322,580	\$ 1,334,322	\$ 1,257,900	\$ 1,257,900

Vacation Liability At 12/31/2009	2010 Earned Vacation	2010 Taken Vacation	Vacation Liability At 12/31/2010	Due Within One Year
\$ 1,259,504	\$ 1,322,405	\$ 1,312,267	\$ 1,269,642	\$ 1,269,642

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Note 10. Commitments And Contingencies

Master Plan projects are part of a comprehensive plan developed by WaterOne's consulting engineers to meet WaterOne's long-term water system needs. As of December 31, 2011, WaterOne had total contractor commitments of \$16.65 million related to various Master Plan projects, including those under Phase V. Approximately \$13.58 million of the Master Plan commitments have been charged to the projects as of December 31, 2011. WaterOne has sufficient monies designated in the system development account and the general account to fund any unpaid Phase V outstanding costs and retainages. Also included in the December 31, 2011 balance of the system development account and the general account are monies for anticipated engineering, legal services and contingencies that may be required to bring these projects to completion.

WaterOne has various lawsuits and claims pending which arise through the normal course of operations. Management believes the ultimate liabilities, if any, of these lawsuits would not be material to the financial position or results of operations of WaterOne.

Note 11. Risk Management

WaterOne is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; and malpractice. WaterOne purchases commercial insurance for property and casualty, workers' compensation, employee health, life, and dental insurance. During the last three years, settled claims have not exceeded insurance coverage.

Note 12. Governmental Accounting Standards Board (GASB) Statements

As of December 31, 2011, GASB has issued several statements that are not yet effective for WaterOne and have not yet been implemented. These statements are as follows:

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

GASB Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans” was issued December 2009. This statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other post-employment benefits (OPEB) plans. This statement is effective for periods beginning after June 15, 2011. This statement will have no effect on WaterOne.

GASB Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements” (SCAs), a type of public-private or public-public partnership. SCA is arrangement between transferor (government) and an operator (governmental or nongovernmental entity). This statement is effective for periods beginning after December 15, 2011. This statement will have no effect on WaterOne.

GASB Statement No. 61, “The Financial Reporting Entity – Omnibus – An Amendment of GASB Statement No. 14 and No. 34”, strengthens the criteria for blending component units. The amendments stipulate that if a primary government pays entirely or almost entirely for a component unit’s debts, no matter what type of debt, then a financial burden is created and the component unit should be blended. This statement is effective for periods beginning after June 15, 2012. This statement will have no effect on WaterOne.

GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position” was issued in June 2011. This statement defines deferred outflows of resources and deferred inflows of resources as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Net position is the residual of all the other elements presented in a statement of financial position. This statement is effective for periods beginning after December 15, 2011 and will be implemented by WaterOne with their December 31, 2012 financial statements.

GASB Statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions” stipulates that instead of recognizing investment revenue immediately because of the release of the accumulated deferred charges when a derivative terminates, the derivative may not terminate when certain circumstances occur. This statement is effective for periods beginning after December 15, 2011. This statement will have no effect on WaterOne.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

REQUIRED SUPPLEMENTARY INFORMATION

Schedule Of Funding Progress Of Employee Retirement System

December 31, 2011

Schedule 1

Fiscal Year Ended	Actuarial Valuation Date	(a) Actuarial Value Of Assets	(b) Actuarial Accrued Liability	(a)-(b) Unfunded Assets In Excess Of Actuarial		(a)/(b) Funded Ratio (1)	(c) Covered Payroll	{(a)-(b)}/(c)} UAAL As A Percentage Of Covered Payroll
				Accrued Liability (UAAL)	(UAAL)			
2007	January 1, 2007	\$ 19,928,385	\$ 26,739,176	\$ (6,810,791)		74.53%	\$ 17,593,638	(38.71)
2008	January 1, 2008	20,851,642	28,029,982	(7,178,340)		74.39	18,591,019	(38.61)
2009	January 1, 2009	22,470,820	31,096,787	(8,625,967)		72.26	19,312,634	(44.66)
2010	January 1, 2010	24,975,402	33,070,927	(8,095,525)		75.52	18,736,224	(43.21)
2011	January 1, 2011	26,179,096	35,335,274	(9,156,178)		74.09	18,483,587	(49.54)

Note:

WaterOne contributed 92% of the annual required contribution in 2007. The remaining contribution was made up from a portion of the NPO.

WaterOne contributed 100% of the annual required contribution in 2008.

WaterOne contributed 99% of the annual required contribution in 2009.

WaterOne contributed 101% of the annual required contribution in 2010.

WaterOne contributed 100% of the annual required contribution in 2011.

The information presented in the required supplementary schedule was determined as part of the actuaries valuation as of January 1, 2011.

Additional information is as follows:

1. The cost method used to determine the ARC is the Projected Unit Credit Method
2. Economic assumptions are as follows: discount rate of 8.5%, salary increases of 5.0%.
3. The amortization method is closed, level dollar.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

REQUIRED SUPPLEMENTARY INFORMATION Schedule of Funding Progress Of Other Postemployment Benefit Plan December 31, 2011

Schedule 2

Fiscal Year Ended	Actuarial Valuation Date	Actuarial		Actuarial		Unfunded		UAAL As A Percentage Of Covered Payroll	
		Value Of Net Assets (a)	Accrued Liability (AAL) (b)	AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage Of Covered Payroll ((a-b)/c)		
2008	January 1, 2006	\$ —	\$ 11,157,561	\$ (11,157,561)	—	\$ 18,554,479	(60.13)%		
2009	January 1, 2009	—	11,881,075	(11,881,075)	—	20,416,701	(58.19)%		
2010	January 1, 2009	—	11,881,075	(11,881,075)	—	20,416,701	(58.19)%		
2011	January 1, 2011	—	14,457,815	(14,457,815)	—	18,838,987	(76.74)%		

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of January 1, 2011. Additional information follows:

1. The cost method used to determine the ARC is the Projected Unit Credit Actuarial Cost method.
2. There are no plan assets.
3. Economic assumptions are as follows: discount rate of 4.5 percent.
4. The amortization method is closed, level dollar.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION Insurance Coverage (Unaudited) Page 1 Of 4 Year Ended December 31, 2011

Schedule 3

Property Or Liability Insured	Character Of Insurance	Premium	Amount Of Insurance	Name Of Insurer	Expiration Date
Blanket building and contents per schedule of values	COVERAGE I - Property, Inland Marine, Boiler & Machinery All risk of direct physical loss of or damage to the insured property.	\$200,924	\$200,000,000 Loss Limit	Continental Casualty Insurance Company 333 S Wabash Ave, Chicago, IL 60604 Policy # - RMP2010729912	07/01/12
	Note: Policy includes COVERAGE II, Boiler and COVERAGE III, Inland Marine				
	Deductible	Coverage			
	\$10,000	Flood/earthquake			
	\$25,000	All other losses			
	\$25,000	Business Income			
	\$5,000	Fine arts coverage			
	\$25,000	Acts of Terrorism			
Boilers, fired storage water heaters, fired coil water heaters, and electric steam generators per schedule	COVERAGE II - Boiler Losses on property of insured, temporary repairs to property of water heaters, and electric steam generators		See COVERAGE I above	\$100,000,000 Continental Casualty Insurance Company 333 S Wabash Ave, Chicago, IL 60604	07/01/12
	Deductible	Coverage			
	\$25,000	All other losses			
	Time Element	Electronic Data Processing			
	1MDV	Mobile Equipment			
Per schedule of equipment	COVERAGE III - Inland Marine		See COVERAGE I above	Continental Casualty Insurance Company 333 S Wabash Ave, Chicago, IL 60604	07/01/12
		Coverage			
	\$25,000	All other losses			
	\$25,000	Electronic Data Processing			
	\$1,000	Mobile Equipment			
	\$5,000	Scheduled Contractors Equipment			
	\$10,000	Leased equipment			
Bodily injury and property damage	COVERAGE IV - General Liability		\$174,353 \$1,000,000 per occurrence	OneBeacon America Insurance Company 150 Royal Street Canton, MA 02021 Policy # 791-00-04-34-0000	07/01/12
Premium is based on exposure of payroll at \$19,367,941	General Liability Deductible		\$3,000,000 aggregate \$3,000,000 products/completed operations aggregate		
Based on revenue	Management Liability		Included \$1,000,000 per occurrence \$3,000,000 aggregate		
Includes Wrongful Acts, Employment Practices Liability and Offenses in the Admin. Of Employee Benefit Plans	Reactive Date - None				

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION Insurance Coverage (Unaudited) Page 2 Of 4 Year Ended December 31, 2011

Schedule 3 (*Continued*)

Property Or Liability Insured	Character Of Insurance	Premium	Amount Of Insurance	Name Of Insurer	Expiration Date
Coverage extends to all District owned, rented, or leased vehicles	COVERAGE V- Comprehensive Auto Liability: Liability coverage is combined single limit for bodily injury and property: <i>Deductible</i>	\$98,563	\$1,000,000 \$100,000 Statutory	OneBeason America Insurance Company 150 Royall Street Canton, MA 02021 Policy # 791-00-04-34-0000	07/01/12
	<i>Coverage</i>		Bodily injury and property damage Annual policy		
	Comprehensive automobile physical damage to fleet including fire, explosion, theft, windstorm, hail, earthquake, and flood				
	Deductibles apply to each covered vehicle; there is no deductible on fire or lightning loss		Actual cash value		
	<i>Deductible</i>				
	<i>Coverage</i>		Comprehensive Collision 50,000 limit on hired car Single Accident all auto PD aggregate		
	\$1,000 each ded. \$1,000 each ded. \$1000 ded comp/\$1,000 coll \$25,000				
	Additional named insured on leased vehicles, or used by others under contract				
	COVERAGE VI- Excess Liability - Occurrence Excess over general liability, automobile, employment practices, public officials employers liability	\$50,780	\$5,000,000 Each Occurrence	OneBeason America Insurance Company 150 Royall Street Canton, MA 02021 Policy # 791-00-04-34-0000	7/1/2012
	<i>Deductible</i>				
	Each loss \$25,000				
Pollution liability	COVERAGE VII – Environmental Impairment Liability (claims made) *Premium includes Addition of the water treatment plant and monfill Retro date 01/01/03 Per occurrence/aggregate	\$80,093 includes tax 3 yr policy	\$2,000,000 Per Occur/Aggr	Chartis Specialty Insurance Company 101 Hudson Street, 31st Floor Jersey City, NJ 07302 Policy # PLC2039548	07/01/13

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION Insurance Coverage (Unaudited) Page 3 Of 4 Year Ended December 31, 2011

Schedule 3 (*Continued*)

Property Or Liability Insured	Character Of Insurance	Premium	Amount Of Insurance	Name Of Insurer	Expiration Date
Money and securities	COVERAGE VIII - Crime	\$5,947	\$2,000,000 Per Loss Employee Theft	Hartford Fire Insurance Company Hartford, CT 06115 Policy # 00 FA 0244006	07/01/12
Covered perils: Public employee theft, forgery, or alteration, theft, disappearance, destruction, credit card forgery, and computer fraud each with separate policy limit as shown					
<i>Deductible</i>					
\$10,000 per occurrence/per peril					

Bodily injury by accident and disease; rating basis total annual remunerations:	COVERAGE IX - Workers' Compensation <u>COVERAGE A</u> Workers' compensation applies to the workers' compensation laws for the State of Kansas. Coverage also included is for employers' liability, which applies to work in each state listed on the declaration page of the policy	\$571,751	Statutory	Liberty Mutual Insurance Corporation WC5-Z91-424965-021	07/01/12
COVERAGE B					
Employers liability limits:					
Bodily injury by accident (each accident) Bodily injury by disease (policy limit) Bodily injury by diseases (each employee) No deductible					
\$500,000 \$500,000 \$500,000					
Violation of any of the duties and responsibilities Coverage X-Tiducary laws including negligent acts, errors & omissions in administration	<i>Deductible</i>	\$5,016	\$2,000,000	Federal Insurance Company	7/1/2012
\$10,000 per incident					

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION
Insurance Coverage (Unaudited) Page 4 Of 4
Year Ended December 31, 2011

Schedule 3 (Continued)

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION

Fidelity Bonds In Force (Unaudited)

Year Ended December 31, 2011

Schedule 4

Fidelity Bonds in Force (Unaudited)

Water District Board Members:

Robert S. Olson - Chairman	\$ 10,000
Brenda Cherpitel - Vice Chairman	10,000
Terrance D. Frederick - Member	10,000
H. Richard Noon - Member	10,000
Robert P. Reese - Member	10,000
James E. Vader - Member	10,000
Joe Vaughn - Member	10,000
Mike Armstrong - General Manager	500,000
Ron Appletoft - Director of Finance	500,000
Public Employees' Blanket Bond	1,000,000

All employees are included under the blanket crime section of the comprehensive business policy listed herein.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION Operating Data (Unaudited) Years Ended 2011 And 2010

Schedule 5

Customers Served by WaterOne: During 2011, WaterOne served a weighted average of 138,142 customers, as compares to 137,620 customers, during 2010; this is an increase of 522 customers in 2011, as compared to an increase of 467 customers in 2010.

Water Sales and Water Delivered Summary: Water sales by class of customer for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Residential:		
Single family	\$ 59,387,677	\$ 52,011,769
Multifamily	8,348,435	7,736,983
Commercial:		
Small	5,051,929	4,395,465
Large	18,938,255	16,418,815
Temporary	318,569	329,303
Wholesale	5,520	
	\$ 92,044,865	\$ 80,897,855

During the year ended December 31, 2011, water sales and water delivered to the distribution lines, in terms of thousands of gallons, as compared to 2010, were as follows:

	2011	2010
Delivered to distribution system		
Water produced	\$ 22,338,030	\$ 20,368,240
	22,338,030	20,368,240
Water sales		
Metered water	19,504,784	17,705,166
Unmetered water	\$ 2,833,246	\$ 2,663,074
Unmetered water as percentage of total water delivered	12.68%	13.07%

(continued)

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION Operating Data (Unaudited) Years Ended 2011 And 2010

Schedule 5 (*Continued*)

The weighted average number of customers served, the average annual revenue, and usage per customer were as follows:

	2011	2010
Residential - single family:		
Average number of customers	125,891	125,379
Average gallons per customer	94,828	85,486
Average revenue per customer	\$ 471.74	\$ 414.84
Residential - multifamily:		
Average number of customers	4,342	4,324
Average gallons per customer	451,330	436,530
Average revenue per customer	\$ 1,922.72	\$ 1,789.31
Commercial - small:		
Average number of customers	4,799	4,790
Average gallons per customer	217,116	195,487
Average revenue per customer	\$ 1,052.70	\$ 917.63
Commercial - large:		
Average number of customers	2,958	2,947
Average gallons per customer	1,528,881	1,396,630
Average revenue per customer	\$ 6,402.18	\$ 5,571.37
Commercial - temporary:		
Average number of customers	152	180
Average gallons per customer	281,545	241,741
Average revenue per customer	\$ 2,095.85	\$ 1,829.46
Wholesale (1):		
Number of customers	—	—
Thousand gallons per class	—	—
Revenue per class	\$ —	\$ —

(1) WaterOne sold a small amount of surplus water to the City of Olathe during 2010 on an emergency basis.

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FORM OF OPINION OF BOND COUNSEL

[November 8, 2012]

Water District No. 1
of Johnson County, Kansas
10747 Renner Boulevard
Lenexa, Kansas 66219

Re: \$6,860,000* Water Revenue Refunding Bonds, Series 2012, of Water District No. 1 of Johnson County, Kansas, Dated November 8, 2012 (the "2012 Bonds")

We have acted as Bond Counsel in connection with the issuance by Water District No. 1 of Johnson County, Kansas (the "Water District"), of the 2012 Bonds. The 2012 Bonds are payable, are issuable in such form, in such denominations, will mature, bear interest and are subject to redemption and payment prior to maturity upon the terms and conditions set forth in the resolution adopted by the Governing Body of the Water District authorizing the issuance of the 2012 Bonds (the "2012 Bond Resolution"). All capitalized terms used and not otherwise defined herein shall have the meaning given to such terms in the 2012 Bond Resolution.

The 2012 Bonds have been authorized and issued pursuant to K.S.A. 19-3501 to K.S.A. 19-3521a, and K.S.A. 10-116a, all as amended (the "Act"), and the 2012 Bond Resolution for the purpose of providing funds to refund the Water District's 2002 Bonds and to pay the costs of issuance of the 2012 Bonds.

We have examined a certified transcript of proceedings relating to the authorization and issuance of the 2012 Bonds. As to questions of fact material to the opinions set forth herein we have relied upon the representations of the Water District contained in such certified transcript without undertaking to verify the same by independent investigation. We have also examined the Constitution and statutes of the state of Kansas, insofar as the same relate to the authorization and issuance of the 2012 Bonds.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The 2012 Bonds are in proper form and have been duly authorized and issued in accordance with the Constitution and statutes of the state of Kansas.
2. The 2012 Bonds are valid and legally binding special obligations of the Water District, payable as to principal and interest solely from, and secured by a pledge of the Pledged Revenues as defined in the 2012 Bond Resolution and are not payable in any manner from funds raised by taxation. The 2012 Bonds do not constitute general obligations of the Water District nor do they constitute an indebtedness of the Water District within the meaning of any constitutional or statutory provision, limitation or restriction.

* Subject to change.

3. The 2012 Bond Resolution has been duly adopted by the Governing Body of the Water District, and the covenants and agreements made by the Water District in the 2012 Bond Resolution for the purpose of providing funds for and safeguarding the payment of the 2012 Bonds are valid and legally binding on the Water District. Said covenants and agreements include a covenant by the Water District that it will fix, maintain and collect such rates and charges for the use and services of the System sufficient to pay the costs of operation and maintenance of the System, to pay the principal of and interest on the 2012 Bonds as and when the same become due and to provide reasonable and adequate reserve funds.

4. Pursuant to the Act, the 2012 Bond Resolution creates a valid lien on the Pledged Revenues; which lien is subordinate with respect to the payment of principal and interest from Pledged Revenues to the Outstanding Senior Parity Bonds and on a parity with respect to the payment of principal and interest from Pledged Revenues with the Outstanding Second Lien Parity Bonds. On compliance with the terms of the Second Lien Parity Bond Resolutions, the Water District may issue additional bonds and secure Hedge Payments with a pledge of the Pledged Revenues which will stand on a parity to the 2012 Bonds with respect to the payment of principal and interest from the Pledged Revenues.

5. The interest on the 2012 Bonds [(including any original issue discount properly allocable to an owner thereof)] is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. The opinions set forth in this paragraph are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the 2012 Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the inclusion of interest on the 2012 Bonds in gross income for federal income tax purposes retroactive to the date of issuance of the 2012 Bonds. Because the District has properly designated the 2012 Bonds as a "qualified tax-exempt obligation" under Section 265(b)(3) of the Code, in the case of "financial institutions" as defined in Section 265(b)(5) of the Code owning the 2012 Bonds, a deduction is allowed for 80% of the otherwise allowable deduction of that portion of such institutions' interest expense allocable to interest on the 2012 Bonds. We offer no opinion with respect to any deduction for federal tax law purposes of interest on indebtedness incurred or continued by a holder of the 2012 Bonds or a related person to purchase or carry the 2012 Bonds. We express no opinion regarding other federal tax consequences arising with respect to the 2012 Bonds.

6. The interest on the 2012 Bonds is exempt from computation of Kansas adjusted gross income.

Water District No. 1
of Johnson County, Kansas
[November 8, 2012]
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We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material relating to the 2012 Bonds except to the extent, if any, stated in the official statement, and we express no opinion relating thereto excepting only the matters set forth as our opinion in the official statement.

The rights of the owners of the 2012 Bonds and the enforceability of the 2012 Bonds and the 2012 Bond Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and their enforcement may be subject to the exercise of judicial discretion in appropriate cases.

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FORM OF CONTINUING DISCLOSURE

November 8, 2012

Governing Body of
Water District No. 1 of
Johnson County, Kansas

Re: Continuing Disclosure Letter of Instructions for \$6,860,000* Water Revenue Refunding Bonds, Series 2012, of Water District No. 1 of Johnson County, Kansas, Dated November 8, 2012 (the "2012 Bonds")

The purpose of this letter is to assist the Underwriter (as defined below) in complying with the requirements of the SEC Rule (as defined below). It being the intention of the District that there be full and complete compliance with the SEC Rule and EMMA (as defined below), this letter shall be construed in accordance with the written interpretative guidance and no-action letters published from time to time by the Commission (as defined below) and its staff or the MSRB (as defined below) and its staff with respect to the SEC Rule or EMMA, as the case may be. The District represents that it will be the only Obligated Person (as defined below) with respect to the 2012 Bonds at the time the 2012 Bonds are delivered to the Underwriter and that no other person is expected to become so committed at any time after issuance of the 2012 Bonds.

Section 1. Definitions. Unless the context otherwise requires, the following capitalized terms have the following meanings:

"Annual Financial Information" means the financial information or operating data with respect to the District, provided at least annually, of the type included in the portions of the Final Official Statement set forth in Exhibit A to this Letter, and shall include, at a minimum, that financial information and operating data which is customarily prepared by the District and publicly available.

"Audited Financial Statements" means the District's annual financial statements, prepared in accordance with GAAP for governmental units as prescribed by GASB, which financial statements shall have been audited by such auditor as shall be then required or permitted by the laws of the State.

"Bond Counsel" means the firm of Kutak Rock LLP, 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 District.

"Commission" means the Securities and Exchange Commission.

* Subject to change.

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“Continuing Disclosure Letter of Instructions” or **“Letter”** means this Continuing Disclosure Letter of Instructions the execution of which is authorized by the 2012 Bond Resolution, as the same may be amended or supplemented in accordance with its terms.

“District” means Water District No. 1 of Johnson County, Kansas.

“EMMA” means the Electronic Municipal Market Access facility for municipal securities disclosure of the MSRB, or any other market access method approved under the SEC Rule.

“Final Official Statement” means the Official Statement and Addendum prepared by the District or its representatives in connection with the sale of the 2012 Bonds and delivered to the Underwriter within seven business days after the sale of the 2012 Bonds in accordance with the SEC Rule. The Final Official Statement includes the information in the Official Statement as supplemented or amended.

“GAAP” means generally accepted accounting principles.

“GASB” means the Governmental Accounting Standards Board or its successors or assigns.

“MSRB” means the Municipal Securities Rulemaking Board and any successors or assigns, or any other entities or agencies approved under the SEC Rule.

“Obligated Person” means an obligated person as defined in the SEC Rule.

“Official Statement” means the Official Statement which was prepared by the District and its advisors in connection with the sale of the 2012 Bonds and distributed to potential purchasers of the 2012 Bonds before the Final Official Statement, as described in the SEC Rule, was made available.

“Outstanding” means as of a particular date of determination, all 2012 Bonds authenticated and delivered under the provisions of the 2012 Bond Resolution, except:

- A. 2012 Bonds canceled by the Paying Agent or delivered to the Paying Agent for cancellation pursuant to the 2012 Bond Resolution;
- B. 2012 Bonds for the payment or redemption of which moneys or investments have been deposited in accordance with the defeasance provisions of the 2012 Bond Resolution; and

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C. 2012 Bonds in exchange for or in lieu of which other 2012 Bonds have been authenticated and delivered pursuant to the 2012 Bond Resolution.

“Prescribed Form” means such electronic format accompanied by such identifying information as shall have been prescribed by the MSRB and which shall be in effect on the date of filing of the applicable information.

“Reporting Event” means any of the following events with respect to the 2012 Bonds:

- A. principal and interest payment delinquencies;
- B. non-payment related defaults, if material;
- C. unscheduled draws on debt service reserves reflecting financial difficulties;
- D. unscheduled draws on credit enhancements reflecting financial difficulties;
- E. substitution of credit or liquidity providers, or their failure to perform;
- F. 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 security, or other material events affecting the tax status of the security;
- G. modifications to rights of security holders, if material;
- H. bond calls (other than mandatory sinking fund redemptions), if material, and tender offers;
- I. defeasances;
- J. release, substitution, or sale of property securing repayment of the securities, if material;
- K. rating changes;
- L. bankruptcy, insolvency, receivership or similar event of the obligated person (this event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in proceedings under the U.S. Bankruptcy Code or in any other proceedings under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and

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officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person);

M. the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, 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

N. appointment of a successor or additional trustee or the change of name of a trustee, if material.

“Reporting Event Notice” means notice in Prescribed Form in accordance with EMMA of a Reporting Event.

“SEC Report Date” means within 180 days after the end of each fiscal year, beginning with the fiscal year commencing January 1, 2013.

“SEC Rule” means the Securities and Exchange Commission Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (17 CFR part 240, § 240.15c2-12).

“State” means the state of Kansas.

“Underwriter” means each broker, dealer or municipal securities dealer acting as an underwriter in the primary offering of the 2012 Bonds.

“2012 Bond Resolution” means the resolution of the District prescribing the terms and details of the 2012 Bonds.

“2012 Bonds” means the “2012 Bonds” as previously defined herein.

Section 2. Undertaking.

A. This Letter constitutes the written undertaking for the benefit of the holders of the 2012 Bonds required by Section (b)(5)(i) of the SEC Rule.

B. The District, as an “obligated person” within the meaning of the SEC Rule, undertakes to provide the following information as provided in this Letter:

- (1) Annual Financial Information;

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- (2) Audited Financial Statements, if any; and
 - (3) Reporting Event Notices.
- C. (1) The District shall while any 2012 Bonds are Outstanding provide the Annual Financial Information in Prescribed Form in accordance with EMMA to the MSRB, on or before the SEC Report Date. The District may adjust the SEC Report Date if the District changes its fiscal year by providing written notice of the change of fiscal year and the new SEC Report Date to the MSRB; provided that the new SEC Report Date shall be six months after the end of the new fiscal year and provided further that the period between the final SEC Report Date relating to the former fiscal year and the initial SEC Report Date relating to the new fiscal year shall not exceed one year in duration. It shall be sufficient if the District provides to the MSRB the Annual Financial Information by specific reference to documents available to the public on the MSRB's Internet Web site, or filed with the Commission.
- (2) If not provided as part of the Annual Financial Information, the District shall provide the Audited Financial Statements when and if available while any 2012 Bonds are Outstanding to the MSRB in Prescribed Form in accordance with EMMA.
- (3) If a Reporting Event occurs while any 2012 Bonds are Outstanding, the District shall file a Reporting Event Notice in a timely manner not in excess of ten business days after the occurrence of such event in Prescribed Form in accordance with EMMA with the MSRB. Each Reporting Event Notice shall be so captioned and shall prominently state the date, title and CUSIP numbers of the 2012 Bonds.
- (4) The District shall provide in Prescribed Form in accordance with EMMA in a timely manner not in excess of ten business days after the occurrence of such event to the MSRB notice of any failure by the District while any 2012 Bonds are Outstanding to provide to the MSRB Annual Financial Information on or before the SEC Report Date.
- D. Any failure by the District to perform in accordance with this Letter shall not constitute an "event of default" under the 2012 Bond Resolution, and the rights and remedies provided therein upon the occurrence of an event of default shall not apply to any such failure.

Section 3. Method of Transmitting Continuing Disclosure. The information listed in Section 2 shall be provided by the District to the MSRB, at www.emma.msrb.org, in the

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Prescribed Form or by such other method of transmitting information that is approved by the Commission.

Section 4. Termination or Amendment of Obligation to Provide Continuing Disclosure. The continuing obligation hereunder of the District to provide Annual Financial Information, Audited Financial Statements, if any, and Reporting Event Notices shall terminate immediately once the 2012 Bonds no longer are Outstanding. This Letter, or any provision hereof, shall be null and void in the event that the District delivers to the MSRB an opinion of Bond Counsel to the effect that those portions of the SEC Rule which require this Letter, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the 2012 Bonds. This Letter may be amended without the consent of the holders of the 2012 Bonds, but only upon the delivery by the District to the MSRB, of the proposed amendment and an opinion of Bond Counsel to the effect that such amendment, and giving effect thereto, will not adversely affect the compliance of this Letter by the District with the SEC Rule.

Section 5. Dissemination Agent. The District may, from time to time, appoint or engage an agent to assist it in carrying out its obligations under this Letter and may discharge any such agent with or without appointing a successor agent.

Section 6. Additional Information. Nothing in this Letter shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this subsection or any other means of communication, or including any other information in any Annual Financial Information or notice of occurrence of a Reporting Event in addition to that which is required by this Letter. If the District chooses to include any information from any document or notice of occurrence of a Reporting Event in addition to that which is specifically required by this Letter, the District shall not have any obligation under this Letter to update such information or include it in any future disclosure or notice of the occurrence of a Reporting Event.

Section 7. Beneficiaries. This Letter has been executed in order to assist the Underwriter in complying with the Rule; however, this Letter shall inure solely to the benefit of the holders of the 2012 Bonds as required by Section (b)(5)(i) of the SEC Rule, and shall create no rights in any other person or entity.

Section 8. Recordkeeping. The District shall maintain records of all disclosure made pursuant to this Letter, including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure.

KUTAK ROCK LLP

THIS CONTINUING DISCLOSURE LETTER OF INSTRUCTIONS, received,
acknowledged and agreed to as of November 8, 2012.

WATER DISTRICT NO. 1 OF
JOHNSON COUNTY, KANSAS

By _____
Chairman, Water District Board

EXHIBIT A

ANNUAL FINANCIAL INFORMATION

“*Annual Financial Information*” shall include the District’s audited financial statements and, if not included in the audited financial statements, the following portions of the Final Official Statement:

SECURITY AND REMEDIES; Water System Debt Service Coverage History; Five Year History of Income, Expenses and Debt Service Coverage

THE WATER SYSTEM; Water Usage

THE WATER SYSTEM; Customer Information, *Retail Customers and Wholesale Customers*