

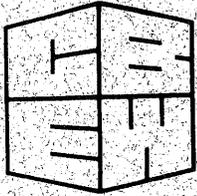
**FIFTY-ONE EAST WATER, INC.
PAYNE COUNTY
Stillwater, Oklahoma**

**FINANCIAL STATEMENTS
September 30, 2011**

FIFTY-ONE EAST WATER, INC.
PAYNE COUNTY
Stillwater, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

November 11, 2011

Board of Directors
Fifty-One East Water, Inc.
Payne County
Stillwater, Oklahoma

We have audited the accompanying statement of financial position of Fifty-One East Water, Inc., Payne County, Stillwater, Oklahoma as of September 30, 2011 and 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Fifty-One East Water Inc.'s management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fifty-One East Water, Inc., Payne County, Stillwater, Oklahoma as of September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 11, 2011, on our consideration of Fifty-One East Water, Inc., Payne County, Stillwater, Oklahoma's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

CBEW Professional Group, LLP

CBEW PROFESSIONAL GROUP, LLP
Certified Public Accountants

FIFTY-ONE EAST WATER, INC.
PAYNE COUNTY
Stillwater, Oklahoma

STATEMENT OF NET ASSETS
September 30, 2011 and 2010

	<u>September 30,</u> <u>2011</u>	<u>September 30,</u> <u>2010</u>
Current assets:		
Cash and cash equivalents (Note 2)	\$ 136,772	\$ 259,691
Investments	130,188	183,622
Temporarily restricted:		
Cash and cash equivalents (Note 3)	30,288	30,288
Accounts receivable, net of uncollectibles	72,072	69,133
Prepaid insurance	6,165	7,451
Accrued interest receivable	151	1,460
Inventory	377,688	103,702
Total current assets	<u>753,324</u>	<u>655,347</u>
Capital assets (Note 1):		
Water system	2,555,302	2,513,067
Equipment	134,071	146,962
Buildings	209,136	203,548
Vehicles	48,895	48,895
Land	30,221	30,221
Work in progress	79,451	17,113
Accumulated depreciation	<u>(1,232,725)</u>	<u>(1,179,734)</u>
Total capital assets	<u>1,824,351</u>	<u>1,780,072</u>
Other assets:		
Debt issue costs, net of amortization	<u>15,898</u>	<u>16,436</u>
Total other assets	<u>15,898</u>	<u>16,436</u>
Total assets	<u>\$ 2,593,573</u>	<u>\$ 2,451,855</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 90,851	\$ 15,225
Accrued interest payable	238	181
Accrued payroll taxes	7,197	6,279
Accrued salaries	6,423	6,733
Customer membership deposits	2,825	2,825
Current portion of notes payable (Note 4)	7,456	7,180
Total current liabilities	<u>114,990</u>	<u>38,423</u>
Long-term liabilities:		
Notes payable (Note 4)	<u>441,848</u>	<u>449,306</u>
Total long-term liabilities	<u>441,848</u>	<u>449,306</u>
Total liabilities	<u>556,838</u>	<u>487,729</u>
Net assets:		
Unrestricted	2,006,447	1,936,746
Temporarily restricted (Note 3)	<u>30,288</u>	<u>27,380</u>
Total net assets	<u>2,036,735</u>	<u>1,964,126</u>
Total liabilities and net assets	<u>\$ 2,593,573</u>	<u>\$ 2,451,855</u>

The accompanying notes are an integral part of these financial statements.

**FIFTY-ONE EAST WATER, INC.
PAYNE COUNTY
Stillwater, Oklahoma**

**STATEMENT OF ACTIVITIES
For the Years Ended September 30, 2011 and 2010**

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Support and revenue:		
Water sales	\$ 620,267	\$ 542,199
Membership income	28,500	50,000
Interest	4,145	2,130
Other income	64,120	76,212
Total support and revenue	<u>717,032</u>	<u>670,541</u>
Expenses:		
Advertising	-	135
Amortization	537	537
Bad debts	7,898	2,245
Contract labor	-	-
Depreciation	73,100	67,890
Dues and licenses	1,364	1,604
Employee benefits	-	-
Engineering expense	-	-
Insurance	14,817	10,975
Interest	27,196	27,300
Lab fees	711	2,140
Meals	273	170
Meeting expenses	999	1,220
Meter installs	-	2,525
Office supplies	4,390	4,187
Penalties	-	5
Professional fees	13,185	12,090
Repairs and maintenance	5,524	20,955
Salaries	226,244	180,842
Supplies	138,230	58,177
Taxes - payroll	-	-
Telephone	4,537	4,037
Truck expense	15,464	11,404
Utilities	9,343	8,783
Water production	100,610	68,736
Total expenses	<u>644,422</u>	<u>485,957</u>
Increase (decrease) in unrestricted net assets	<u>\$ 72,610</u>	<u>\$ 184,584</u>
Changes in temporarily restricted assets:		
Required transfers to repair and replacement reserve (Note 3)	\$ 2,908	\$ 2,908
Increase (decrease) in temporarily restricted net assets	<u>2,908</u>	<u>2,908</u>

The accompanying notes are an integral part of these financial statements.

FIFTY-ONE EAST WATER, INC.
PAYNE COUNTY
Stillwater, Oklahoma

STATEMENT OF CHANGES IN NET ASSETS
For the Years Ended September 30, 2011 and 2010

	<u>Net Assets (Unrestricted)</u>	<u>Net Assets (Temporarily Restricted)</u>	<u>Total Net Assets</u>
Balance - beginning of year 9-30-09	\$ 1,755,070	\$ 24,472	\$ 1,779,542
Increase (decrease) in net assets	181,676	2,908	184,584
Balance - end of year 9-30-10	\$ 1,936,746	\$ 27,380	\$ 1,964,126
 Balance - beginning of year 9-30-10	 \$ 1,936,745	 \$ 27,380	 \$ 1,964,125
Increase (decrease) in net assets	69,702	2,908	72,610
Balance - end of year 9-30-11	\$ 2,006,447	\$ 30,288	\$ 2,036,735

The accompanying notes are an integral part of these financial statements.

FIFTY-ONE EAST WATER, INC.
PAYNE COUNTY
 Stillwater, Oklahoma

STATEMENT OF CASH FLOWS
 For the Years Ended September 30, 2011 and 2010

	<u>September, 30</u> <u>2011</u>	<u>September, 30</u> <u>2010</u>
Cash flows from operating activities:		
Cash received from customers & service users	\$ 709,948	\$ 644,714
Interest Income	5,454	670
Cash payments for goods & services & employees	(740,055)	(388,921)
Interest Expense	(27,139)	(27,426)
Net cash provided by operating activities	<u>(51,792)</u>	<u>229,037</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(117,379)	(136,764)
Principal paid on notes	(7,182)	(6,845)
Net cash used in capital and related financing activities	<u>(124,561)</u>	<u>(143,609)</u>
Cash flows from investing activities:		
(Purchase) liquidation of investments - unrestricted	53,434	(183,622)
Net cash (used) provided by investing activities	<u>53,434</u>	<u>(183,622)</u>
Net increase (decrease) in cash and cash equivalents	(122,919)	(98,194)
Beginning cash and cash equivalents	<u>289,979</u>	<u>388,173</u>
Ending cash and cash equivalents	<u>\$ 167,060</u>	<u>\$ 289,979</u>
Reconciliation of operating income to net cash provided by operating activities:		
Increase (decrease) in net assets	\$ 72,610	\$ 184,584
Adjustments to reconcile operating income to net cash provided by operating activities:		
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	73,637	68,427
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(2,939)	(21,672)
Inventory	(273,986)	5,449
Prepaid insurance	1,286	(2,989)
Accrued interest receivable	1,309	(1,460)
Increase (decrease) in liabilities:		
Accounts payable	75,626	(4,816)
Accrued interest payable	57	(126)
Accrued payroll taxes	918	1,568
Accrued salaries	(310)	2,097
Customer membership deposits	-	(2,025)
Total adjustments	<u>(124,402)</u>	<u>44,453</u>
Net cash provided by operating activities	<u>\$ (51,792)</u>	<u>\$ 229,037</u>

The accompanying notes are an integral part of these financial statements.

FIFTY-ONE EAST WATER, INC.
PAYNE COUNTY
Stillwater, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fifty-One East Water, Inc., Payne County, Oklahoma (the Corporation), was organized for the purpose of providing water works system including pumps and distribution lines to the members it serves. Membership in the water Corporation consists of water users who have paid the required membership and connection fees. The Corporation was granted tax exempt status under Section 501 (c) (12) of the Internal Revenue Code and is required to file annual information returns (Form 990) with the Internal Revenue Service.

The membership consists of approximately 845 users, each entitled to one vote. The Board of Directors consists of 5 members serving 3-year terms. The vacant Board seats are elected at the annual meeting in November, and following, the Board of Directors meet and elect a chairman, vice-chairman, and secretary-treasurer. All Board members serve without pay.

The more significant of the Corporation's accounting policies are described below.

A. Reporting Entity

Fifty-One East Water, Inc. is an independent, self-contained reporting entity. Although the corporation is a not-for-profit entity, it is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges. The Corporation purchases all of its water from the City of Stillwater and Lone Chimney Water Association.

B. Basis of Accounting

The accompanying financial statements have been presented following the recommendations of the Financial Accounting Standards Board's Accounting Standards Codification ASC 958-205-05 (Formerly SFAS 117), Financial Statements of Not-for-Profit Organizations. The organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the balance sheet. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Depreciation expense is provided for fixed assets based upon estimated useful lives.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 29 PCPPA has elected to only apply Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do not conflict with GASB.

C. Deposits and Investments

All bank deposits and certificates of deposit are held at various financial institutions and are carried at cost. For purposes of statements of cash flows, the corporation considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

FIFTY-ONE EAST WATER, INC.
PAYNE COUNTY
Stillwater, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fair Value of Financial Instruments

The Corporation's financial instruments include cash and cash equivalents, investments, accounts receivable, inventory, accounts payable and notes payable. The Corporation's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial condition. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

E. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Accordingly, actual results could differ from those estimates.

F. Inventories

Inventories consist primarily of water line supplies for the addition of new water lines and repair of old water lines. Inventory is valued at cost, principally on a first-in, first-out basis, but not in excess of market.

G. Property, Plant, Equipment

Additions to the water storage delivery system and other equipment are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The Corporation maintains a capitalization threshold of \$250.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	40 years
Water System & Improvements	20-40 years
Furniture & Equipment	5-10 years
Vehicles	5 years

H. Deferred Charges

Debt issue costs are amortized ratably over the repayment period of the applicable loan using the straight-line method and is presented net of amortization as required by Governmental Accounting Standards Board Statement No. 23.

I. Compensated Absences

The Corporation does not have a written policy regarding unused vacation time. The Board of Directors makes any decision regarding the payment of vested vacation or sick leave upon termination. The Corporation has not accrued compensated absences because the amount, if any, would not be material to the financial statements.

FIFTY-ONE EAST WATER, INC.
PAYNE COUNTY
Stillwater, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Advertising Costs

Advertising costs are charged to operations in the period incurred.

K. Income Taxes

The Corporation is exempt from federal and state income taxes as described in Section 501(c)(6) of the Internal Revenue Code. The Corporation is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. The Corporation has not recognized any unrelated business taxable income. As a result, no provision for current or deferred income tax liability is recognized in the Corporation's books and records. The Corporation evaluates and accounts for uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 740, Income Taxes* (Formerly FASB Interpretation 48 (FIN 48) *Accounting for Uncertainty in Income Taxes*). This standard requires certain disclosures about uncertain income tax positions. When tax returns are filed, it is probable that most tax positions would be sustained upon examination by taxing authorities. However, it is also possible that some positions might be subject to uncertainty. The Corporation evaluates any uncertain tax positions using the provisions of ASC 450, *Contingencies*. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. Interest and penalties, if any, resulting from any uncertain tax positions required to be recorded by the organization would be presented in other expenses in the statement of activities. The Corporation does not believe that it has engaged in any activity that would result in an uncertain tax position. As a result, management does not believe that any uncertain tax positions currently exist and no loss contingency has been recognized in the accompanying financial statements. Federal and state income tax statutes dictate that tax returns filed in any of the previous three reporting periods remain open to examination. Currently, the Corporation has no open examination with either the Internal Revenue Service or state taxing authorities.

2. CASH AND INVESTMENTS

Custodial Credit Risk

At September 30, 2011, the Corporation held deposits of approximately \$297,248 at financial institutions. The Corporation's cash deposits, including interest-bearing certificates of deposit, weren't entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Corporation or by its agent in the Corporation's name but has been corrected after year-end.

Investment Interest Rate Risk

The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The Corporation has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.

**FIFTY-ONE EAST WATER, INC.
PAYNE COUNTY
Stillwater, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011 and 2010**

2. CASH AND INVESTMENTS (Continued)

- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The investments held at September 30, 2011 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Bonds	20.57		\$ 72,334	\$ 73,416
CDs	12.00		5,161	5,217
Money Market	N/A	AAAm	218,615	218,615
Total			<u>\$ 296,110</u>	<u>\$ 297,248</u>

Concentration of Investment Credit Risk

The Corporation places no limit on the amount it may invest in any one issuer. The Corporation has the following of credit risk: 2% in Certificates of Deposit (\$5,217), 25% in Corporate Bonds (\$73,416) and 73% in Money Market funds (\$218,615).

3. TEMPORARILY RESTRICTED ASSETS

Under the terms of the various note indentures with Rural Development, the Corporation is required to make monthly contributions into a reserve account of \$188 for the life of Loan # 01 and \$54.30 for the life of Loan # 03. The funds are temporarily restricted and are to be used for repairing or replacing damaged assets caused by unforeseen catastrophes. With prior written approval from Rural Development, the reserve funds can also be used for making improvements to the water system or for debt service. The balance at the end of the year for Loan # 01 is \$23,500 and # 03 is \$6,788 with a total combined balance of \$30,288.

4. LONG-TERM DEBT

Long-term debt consists of two notes with the United States Department of Agriculture, Rural Development. The notes are secured by the water works system, distribution lines, pump stations and reservoirs. These notes are listed as follows:

Loan # 01 – Original amount of \$400,000, issued April 25, 2000, payable in monthly installments of \$1,880 for 40 years at 4.75% interest, maturing in April of 2040.

FIFTY-ONE EAST WATER, INC.
PAYNE COUNTY
 Stillwater, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2011 and 2010

4. LONG-TERM DEBT (Continued)

Loan # 03 – Original amount of \$109,500, issued April 25, 2000, payable in monthly installments of \$543 for 40 years at 5.125% interest, maturing in April of 2040.

The following is a summary of long-term debt transactions during the year:

	Balance September 30, 2010	Additions	Reductions	Balance September 30, 2011	Current Portion
USDA Rural Dev. - 01	\$ 357,883	\$ -	\$ 5,684	\$ 352,199	\$ 5,959
USDA Rural Dev. - 03	98,603	-	1,498	97,105	1,497
Total	<u>\$ 456,486</u>	<u>\$ -</u>	<u>\$ 7,182</u>	<u>\$ 449,304</u>	<u>\$ 7,456</u>

Annual cash requirements to amortize the notes are as follows:

Year Ending <u>September 30,</u>	
2012	\$ 29,076
2013	29,076
2014	29,076
2015	29,076
2016	29,076
2017-2021	145,380
2022-2026	145,380
2027-2031	145,380
2032-2036	145,380
2037-2040	129,976
Total	<u>856,876</u>
Less interest	<u>(407,572)</u>
Note balance	<u>\$ 449,304</u>

5. RISK MANAGEMENT

Fifty-One East Water, Inc. is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Corporation continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

6. DEFERRED COMPENSATION AND PENSION PLAN

The Corporation does not offer a qualified deferred compensation or pension plan but has provided the manager with an additional 5% of gross wages in lieu of such retirement plan to be utilized, as they individually desire. Total additional compensation was \$3,125 for 2011 and \$5,000 for 2010.

FIFTY-ONE EAST WATER, INC.
PAYNE COUNTY
Stillwater, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011 and 2010

7. CHANGES IN PROPERTY, PLANT AND EQUIPMENT

The following is a summary of changes in property, plant and equipment during the years ended September 30, 2011 and 2010.

	Balance September 30, 2010	Additions	Deletions	Balance September 30, 2011
Water system	\$ 2,513,067	\$ 42,235	\$ -	\$ 2,555,302
Buildings	203,548	5,588	-	209,136
Land	30,221	-	-	30,221
Trucks	48,895	-	-	48,895
Equipment	146,962	7,218	20,109	134,071
Work in Process	17,113	62,338	-	79,451
Total	<u>2,959,806</u>	<u>117,379</u>	<u>20,109</u>	<u>3,057,076</u>
Less accumulated depreciation	1,179,734	73,100	20,109	1,232,725
Net	<u>\$ 1,780,072</u>	<u>\$ 73,100</u>	<u>\$ 20,109</u>	<u>\$ 1,824,351</u>

	Balance September 30, 2009	Additions	Deletions	Balance September 30, 2010
Water system	\$ 2,453,203	\$ 59,864	\$ -	\$ 2,513,067
Buildings	201,101	2,447	-	203,548
Land	30,221	-	-	30,221
Trucks	28,815	20,080	-	48,895
Equipment	84,483	62,479	-	146,962
Work in Process	25,218	-	8,105	17,113
Total	<u>2,823,041</u>	<u>144,870</u>	<u>8,105</u>	<u>2,959,806</u>
Less accumulated depreciation	1,111,844	67,890	-	1,179,734
Net	<u>\$ 1,711,197</u>	<u>\$ 67,890</u>	<u>\$ -</u>	<u>\$ 1,780,072</u>

8. OTHER INFORMATION

A. Contingent Liabilities

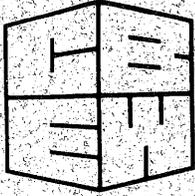
Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Corporation expects such amounts, if any, to be immaterial.

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 11, 2011, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

**FIFTY-ONE EAST WATER, INC.
PAYNE COUNTY
Stillwater, Oklahoma**

**REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
September 30, 2011**



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

November 11, 2011

Board of Directors
Fifty-One East Water, Inc.
Payne County
Stillwater, Oklahoma

We have audited the financial statements of the Fifty-One East Water, Inc., Payne County, Stillwater, Oklahoma, as of and for the year ended September 30, 2011, and have issued our report thereon dated November 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fifty-One East Water, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fifty-One East Water, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fifty-One East Water, Inc.'s internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fifty-One East Water, Inc., Payne County, Stillwater, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Fifty-One East Water, Inc.
November 11, 2011

This report is intended solely for the information and use of management and applicable federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

CBEW Professional Group, LLP

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