

**Pushmataha County Rural Water District No. 1
Clayton, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended December 31, 2011

Audited by

**SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP**

BROKEN ARROW, OK

Pushmataha County Rural Water District No. 1
Clayton, Oklahoma
Board of Directors
December 31, 2011

BOARD OF DIRECTORS

Chairman

Gary Davis

Vice Chairman

Jeanne Little

Secretary/Treasurer

Betty Scott

Members

Sandra Johnson

Larry Bell

MANAGER/
BOOKKEEPER

Jerry Buchanan

Pushmataha County Rural Water District No. 1
Clayton, Oklahoma
December 31, 2011

TABLE OF CONTENTS

	<u>Page</u>
Board of Directors	1
Table of Contents	2
Independent Auditor's Report	3
Management Discussion and Analysis	5
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	7
Disposition of Prior Year's Reportable Conditions	9
Schedule of Audit Results	10
<u>COMBINED FINANCIAL STATEMENTS:</u>	
Statement of Net Assets	11
Statement of Activities	12
Statement of Cash Flows	13
Notes to Financial Statements	14
<u>OTHER SUPPLEMENTARY INFORMATION:</u>	
Balance Sheet (comparative)	18
Statement of Revenue, Expenses and Changes in Retained Earnings (comparative)	19



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

Board of Directors
Pushmataha County Rural Water District No. 1
Clayton, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Pushmataha County Rural Water District No. 1 (the District), Clayton, Oklahoma, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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. 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 the 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting generally accepted in the United States of America.

The Management Discussion and Analysis on pages 5-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 27, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 the internal control over financial reporting or on compliance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting generally accepted in the United States of America.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 27, 2012

Pushmataha County Rural Water District No. 1
Management's Discussion and Analysis
December 31, 2011

Our discussion and analysis of the Rural Water District No. 1, Pushmataha County's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2011. Please read it in conjunction with the District's financial statements that begin on page 11.

FINANCIAL HIGHLIGHTS

- The District's total operating expenses exceeded total operating revenues by \$255. Overall, the District had net income of \$1,331, and its cash and cash equivalents increased by \$34,293 in the current fiscal year. These amounts include \$43,146 in annual depreciation costs.
- Interest earnings increased from \$2,554 in 2010 to \$2,812 in 2011. The District was able to retain all certificates of deposit, and added two for a total of 13 in 2011.
- The District is indebted by one note only to the Oklahoma Office of Rural Development.

Using This Report

This report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's basis of accounting.

Basis of Accounting

The District has elected to present its financial statements in the accrual basis of accounting. According to the accrual basis, revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

The Financial Statements

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The statement of Assets, Liabilities and Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows report information about the District and about its activities in a way that helps answer this question.

These three statements report the District's net assets and the changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health or financial position. Over time, increases or decreases

in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in water rates paid or charged and the condition of the District's water system, to assess the overall health of the District.

The District has only one type of fund or activity, which is defined as *Business-type activities*. This is considered a proprietary fund. This means the District charges a fee to customers to help it cover all or most of the cost of certain services it provides.

Fixed Assets

At December 31, 2011, the District had \$971,644 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment. The District made no improvements to the water system during the 2011 fiscal year.

Long-Term Debt

The District is indebted to the Oklahoma Office of Rural Development on one note obtained for previously extensive extensions and the current water system. The outstanding principal balance owed on the note decreased from \$38,666 to \$27,572 during the 2011 fiscal year. The \$250,000 note, at 3.75% interest, is scheduled to be paid off in 2014. The District has satisfied the required reserve account balance required by the loan.

Economic Factors and Next Year's Budget and Rates

The District attempts to absorb Sardis Lake Water Authority rate increases, but may be forced to increase our customer rates if additional increases are made by the Authority.

The District's budget for fiscal year 2012 will remain much like previous years budgets. Your Board of Directors does anticipate small budget changes made primarily to better allow for office and field personnel operations, without the necessity of hiring additional part-time or permanent employees.

The District had applied for a grant and loan from USDA Rural Development and has applied for Federal Stimulus funds for system improvements.

Contacting the District's Management

This report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District Office at P.O. Box 160, Clayton, OK 74536 or call (918) 569-4326.



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Pushmataha County Rural Water District No. 1
Clayton, Oklahoma

We have audited the financial statements of the Pushmataha County Rural Water District (the District) No. 1, Clayton, Oklahoma, as of and for the year ended December 31, 2011, and have issued our report thereon dated February 27, 2012. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial 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 that are required to be reported under generally accepted auditing standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of

management in the financial statements. This reportable condition is described in the accompanying schedule of audit results as item 11-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that item 11-1 is not a material weakness.

This report is intended solely for the information of management and the Board of Directors, and is not intended to be, and should not be, used by anyone other than these specified parties.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 27, 2012

PUSHMATAHA COUNTY RURAL DISTRICT NO. 1
Disposition of Prior Year's Reportable Conditions
December 31, 2011

Lack of Segregation of Duties

The exception that there were inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available which prevented a proper segregation of accounting functions which is necessary to assure adequate internal accounting controls continued in the current fiscal year.

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 1
Schedule of Audit Results
December 31, 2011

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed a reportable condition in the internal controls which was not considered a material weakness.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

11-1 – Lack of Segregation of Duties

Condition-

The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting controls.

Criteria-

An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses.

Cause-

The District is not large enough to justify the hiring of additional personnel.

Effect-

There is always the possibility that not all collections are actually received or deposited, and the possibility that funds expended are not used for actual District obligations.

Recommendation-

The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

Response-

Additional personnel will be hired when the actual funds are available.

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 1
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

ASSETS:

Current assets:

Cash	\$ 25,066
Investments	360,801
Accounts Receivable	22,869
Total current assets	408,736

Noncurrent assets:

Restricted cash and cash equivalents	17,928
Capital assets:	
Water distribution system-net	971,644
Total noncurrent assets	989,572

Total Assets	1,398,308
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LIABILITIES:

Current liabilities:

Accounts payable	8,167
Accrued interest on long-term debt	85
Current portion of long-term debt	11,517
Total current liabilities	19,769

Noncurrent liabilities:

Refundable deposits	2,393
Long-term notes payable	16,055
Total noncurrent liabilities	18,448

Total Liabilities	38,217
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NET ASSETS:

Invested in capital assets, net of related debt	961,915
Restricted for debt service	17,928
Unrestricted	380,248
Total Net Assets	\$ 1,360,091

The accompanying notes are an integral part of the financial statements

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 1
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Operating Revenues:	
Water revenue	\$ 247,251
Other sales and services	<u>5,192</u>
Total operating revenues	<u>252,443</u>
Operating Expenses:	
Salaries and taxes	66,749
Health insurance	5,503
Utilities and telephone	4,493
Depreciation	43,146
Water purchases	71,517
Office	1,251
Insurance	7,812
Repairs and maintenance	28,303
Postage	1,987
Vehicles	14,241
Dues and fees	2,509
Fuel	862
Professional fees	2,400
Miscellaneous	<u>1,925</u>
Total expenses from operations	<u>252,698</u>
Operating Income (Loss)	(255)
Non-Operating Revenues (Expenses):	
Interest income	2,812
Interest paid on long-term debt	<u>(1,226)</u>
Total Non-Operating Revenues (Expenses)	<u>1,586</u>
Change in Net Assets	1,331
Total Net Assets, beginning of period	<u>1,358,760</u>
Total Net Assets, end of period	<u><u>\$ 1,360,091</u></u>

The accompanying notes are an integral part of the financial statements

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 1
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

Cash Flows from Operating Activities:

Receipts from customers	\$ 252,892
Payments to employees	(67,092)
Payments to vendors	<u>(142,395)</u>
Net Cash Provided by (used in) Operating Activities	<u>43,835</u>

Cash Flows from Financing Activities:

Principal paid on long-term debt	(11,094)
Interest paid on long-term debt	<u>(1,260)</u>
Net Cash Provided by (used in) Financing Activities	<u>(12,354)</u>

Cash Flows from Investing Activities:

Interest earned on investments	<u>2,812</u>
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Net increase (decrease) in cash and cash equivalents	34,293
Cash and cash equivalents, beginning of period	<u>369,502</u>
Cash and cash equivalents, end of period	<u><u>\$ 403,795</u></u>

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating Income (loss)	\$ (255)
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	43,146
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	449
Increase (decrease) in accounts payable	65
Increase (decrease) in meter deposit reserves	<u>430</u>
Net cash provided by operating activities	<u><u>\$ 43,835</u></u>

The accompanying notes are an integral part of the financial statements

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 1
BALANCE SHEET
DECEMBER 31, 2011

	DECEMBER 31,	
	2011	(memo only) 2010
<u>ASSETS</u>		
Current Assets:		
Cash on hand	\$ 200	200
Cash in bank	24,866	39,288
Investments	360,801	312,128
Accounts receivable	22,869	23,318
Total Current Assets	408,736	374,934
Fixed Assets:		
Water distribution system	1,861,689	1,861,689
Less: accumulated depreciation	(890,045)	(846,899)
Total Fixed Assets (net of depreciation)	971,644	1,014,790
Restricted Assets:		
Investment reserves	17,928	17,886
Total Assets	\$ 1,398,308	1,407,610
 <u>LIABILITIES AND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 8,167	8,102
Meter deposits	2,393	1,963
Accrued interest	85	119
Current maturities of long-term debt	11,517	11,093
Total Current Liabilities	22,162	21,277
Long-Term Debt, less current maturities:		
Notes payable	16,055	27,573
Total Liabilities	38,217	48,850
Equity:		
Contributed capital	1,423,965	1,423,965
Retained earnings	(63,874)	(65,205)
Total Equity	1,360,091	1,358,760
Total Liabilities and Equity	\$ 1,398,308	1,407,610

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note A – Significant Accounting Policies

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and expenses are recognized when incurred. This policy is accordance with generally accepted accounting principles.

New Reporting Standard

In June 1999, the GASB issued Statement No. 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Government.” This statement establishes new financial reporting requirements for state and local governments throughout the United States. It creates new information and restructures much of the information that governments have presented in the past. Comparability with reports issued in all prior years is affected.

Cash

The District’s cash accounts are with the Shamrock Bank N.A., Clayton, Oklahoma, and are detailed as follows:

	December 31,	
	2011	2010
Operating Account	\$ 25,010	39,469
Less: Outstanding checks	(144)	(181)
Balance	\$ 24,866	39,288

Collateral Pledged

It appears that all funds were adequately insured by the \$250,000 of FDIC coverage and additional collateral pledged by the banking institution as of December 31, 2011.

Restricted Asset – Investment Reserves

In compliance with Rural Economic and Community Development regulations, cash reserves have been established to collect up to one year’s payments on the notes payable, or \$15,726, at which time deposits in the reserve can be suspended. The reserve account funds have been deposited in an interest bearing savings account at Shamrock Bank N.A., Clayton, Oklahoma, which is insured by the federal government. At December 31, 2011 the restricted asset-investment reserve balance was \$17,928.

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note A – Significant Accounting Policies – cont'd

Investments

The District's investment accounts are with the Shamrock Bank N.A., Clayton, Oklahoma, and are detailed as follows:

	December 31,	
	2011	2010
Capital Account (savings)	\$ 40,896	34,905
Deposit Account (savings)	11,716	11,688
Depreciation Account (savings)	27,605	27,541
Certificate of Deposit no. 4041092 dated 2-21-10, due 6-15-12, @ 1.20%	20,121	-
Certificate of Deposit no. 4041126 dated 8-13-10, due 10-13-12, @ .55%	20,018	-
Certificate of Deposit no. 4900901, dated 2-21-10, due 2-21-12, @ .75%	13,265	13,026
Certificate of Deposit no. 4040131 dated 8-13-10, due 8-13-12, @ .60%	24,966	24,680
Certificate of Deposit no. 4040051 dated 7-9-10, due 1-9-12, @ .47%	12,320	12,261
Certificate of Deposit no. 4040242 dated 9-11-10, due 3-11-12, @ .45%	23,739	23,566
Certificate of Deposit no. 4040429 dated 5-12-10, due 5-12-12, @ .70%	23,480	23,140
Certificate of Deposit no. 4040492 dated 12-7-10, due 12-7-12, @ .55%	23,400	23,225
Certificate of Deposit no. 4040575 dated 8-21-10, due 8-21-12, @ .60%	22,892	22,630
Certificate of Deposit no. 4040612 dated 11-6-10, due 11-6-12, @ .55%	22,769	22,555
Certificate of Deposit no. 4040710 dated 8-10-10, due 8-10-12, @ .60%	21,945	21,694
Certificate of Deposit no. 4040790 dated 11-6-10, due 5-6-12, @ .40%	20,899	20,764
Certificate of Deposit no. 4040964 dated 9-24-10, due 9-24-12, @ .55%	30,770	30,453
Total Investments	\$ 360,801	312,128

Fixed Assets

Fixed assets obtained prior to December 31, 1984, are carried at estimated cost, which is equivalent to the loan proceeds and grants obtained to finance the purchase of property, plant, and equipment. Subsequent additions are recorded at cost. Depreciation of the waterworks system and improvements is provided using the straight-line method based on a forty-year life. Equipment is depreciated over a five-year life. Depreciation expense for the year is presented as an operating expense and closed, along with other operating expenses, directly to retained earnings.

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note A – Significant Accounting Policies – cont'd

The fixed asset information for the District is shown below:

	12/31/2010 Amount	Additions	Deletions	12/31/2011 Amount
Land	\$ 2,000	-	-	2,000
Office equipment	47,393	-	-	47,393
Plant and water sys.	1,787,846	-	-	1,787,846
Vehicles	24,450	-	-	24,450
Total Fixed Assets	1,861,689	-	-	1,861,689
Less: Accumulated Depreciation	(846,899)	(43,146)	-	(890,045)
Total	<u>\$ 1,014,790</u>	<u>(43,146)</u>	<u>-</u>	<u>971,644</u>

Note B – Accounts Receivable

Billings for accounts receivable at December 31, 2011 were \$24,857. Allowance for doubtful accounts at December 31, 2011 was computed at \$1,988, or 8.00%.

Note C – Long-Term Debt

The District is indebted to the USDA Rural Development Program on one note obtained to finance system improvements. The notes are secured by system revenues and property, plant and equipment. Long-term debt at December 31 is summarized as follows:

	2011	2010
Note No. 91-06, issued for \$250,911, dated 2-1-75, at 3.75% interest, due in annual installments of \$12,347 (\$1,029.50 monthly), until paid;	\$ 27,572	38,666
Less: Current maturities of long-term debt	(11,517)	(11,093)
Total Long-Term Debt, Less Current Maturities	<u>\$ 16,055</u>	<u>27,573</u>

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note C – Long-Term Debt – cont'd

The estimated maturities for the next five years, based on the required monthly payments, are detailed as follows:

Rural Development	
2012	\$ 11,517
2013	11,424
2014	4,631
Total	\$ 27,572

Note D- Contributed Capital

Contributed capital was provided by grants from the Rural Economic and Community Development and other sources to assist in building and improving the water system totaling \$568,172. In 1999, water system equipment, valued at \$500,000, was donated to the District by the Choctaw Nation of Oklahoma. In 2000, a REAP grant was received from Oklahoma Water Resources Board in the amount of \$99,900. These funds were used to construct additional water system equipment. Also in 2000, a REAP grant was received from the Kiamichi Economic Development District of Oklahoma (KEDDO) in the amount of \$11,994, to assist in the purchase of a dump truck and backhoe trailer. In 2002, KEDDO contributed \$13,100 for the erection of a steel building for storage and maintenance of District equipment. In 2005, a REAP grant was received from the Oklahoma Water Resources board in the amount of \$99,999. These funds were used to construct additional water system equipment. Also in 2005, an Emergency grant was received from the USDA, Rural Development in the amount of \$130,800, to assist in building and improving the water system.

Note E- Water Usage

Water purchased, sold, and lost by the District is detailed as follows:

	2011	2010
Gallons purchased	32,837,300	29,023,900
Gallons sold	30,569,000	26,769,700
Total loss	2,268,300	2,254,200
Gallons lost (percentage)	6.91%	7.77%

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>	<u>(memo only)</u> <u>2010</u>
Revenue from operations:		
Water revenue	\$ 247,251	238,739
Installations and connections	2,101	825
Benefit units	1,350	1,700
Parts reimbursements	523	5,889
Miscellaneous	1,218	1,379
Total revenue from operations	<u>252,443</u>	<u>248,532</u>
Expenses from operations:		
Salaries and taxes	66,749	68,388
Health insurance	5,503	5,368
Utilities and telephone	4,493	3,886
Depreciation	43,146	43,035
Water purchases	71,517	64,442
Office	1,251	1,795
Insurance	7,812	7,446
Repairs and maintenance	28,303	23,253
Postage	1,987	1,961
Vehicles	14,241	13,568
Dues and fees	2,509	2,770
Fuel	862	498
Professional fees	2,400	2,350
Miscellaneous	1,925	1,916
Total expenses from operations	<u>252,698</u>	<u>240,676</u>
Net Income (Loss) From Operations	(255)	7,856
Non-operating revenue:		
Interest earnings	<u>2,812</u>	<u>2,554</u>
Non-operating expenses:		
Interest paid on long-term debt	<u>(1,226)</u>	<u>(1,632)</u>
Net Income (Loss)	1,331	8,778
Retained earnings, beginning of period	<u>(65,205)</u>	<u>(73,983)</u>
Retained earnings, end of period	<u>\$ (63,874)</u>	<u>(65,205)</u>