

FINANCIAL STATEMENTS

OF

***RURAL WATER DISTRICT NO. 9
WAGONER COUNTY, OKLAHOMA***

December 31, 2012 and 2011

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Clothier & Company CPA's P.C.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rural Water District No. 9
Wagoner County, Oklahoma

We have audited the accompanying financial statements of Rural Water District No. 9, Wagoner County, Oklahoma, as of December 31, 2012 and 2011, which collectively comprise the District's basic financial statements, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Rural Water District No. 9, as of December 31, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matter

Our audit was conducted for the purpose of forming opinions on the financial statement that collectively comprise the District's financial statements as a whole. The management's discussion and analysis on page I, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 or provide any assurance on it.

The budgetary comparison information on pages 13 and 14 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



Clothier & Company, CPA's, P.C.
Muskogee, Oklahoma
February 25, 2013

Rural Water District No. 9

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Management Discussion and Analysis
For Year Ended December 31, 2012

For Wagoner County Rural Water District No. 9, this is our presentation of Management's Discussion and Analysis (MD&A). This analysis serves as an introduction to the financial statements for users to facilitate whether overall financial health has improved or deteriorated as a result of the past year's operation. A required component of the MD&A is to briefly describe the reasons for change in our revenue, liability, asset, and expenditure balances compared to the previous (2011) year.

Business Activities:

In this review, total revenue account decreased by \$25,505 due, in part, to the extreme drought and the economy. We lost 21 accounts due to foreclosures. We renewed two Certificates of Deposit (\$111,028) each. With the terms of our revenue bond loan, we have a C.D. in the amount of (\$215,811) to offset against future rate increase.

The District's expenses decreased \$17,819 from 2011. Most of this year was dedicated to the maintenance of the existing system, plant repairs and replacing water lines.

For the year ended December 31, 2012, total assets exceeded liabilities by \$1,278,248. The District has a note payable to Bank of Oklahoma in the amount of \$3,865,000. The balance sheet has a net decrease of \$92,519.

Future Activities of Wagoner County Rural Water District No. 9:

The 2013 year will see the District focusing on replacing water lines throughout the District. We plan to install 2 miles of new water lines, replacing old water meters with more efficient new meters, and continuing to make improvements to the water plant.

Overall Outlook:

The quality of the water continues to be superb and we will continue working to improve the distribution system. The District remains financially strong as we make improvements through out the system, meeting the EPA standards, and paying our bills. The economy continues to affect our efforts. The cost of fuel, chemicals, pipe, etc. continues to fluctuate. All of that is out of our control but, it will not stop our progress.

Wagoner County Rural Water District #9
Balance Sheet
December 31, 2012 and 2011

	2012	2011
Current Assets		
Cash & Equivalents	\$ 773,039	\$ 694,427
Accounts Rec. (Net of Allow)	73,823	79,834
Prepaid Expenses	68,155	21,088
Total Current Assets	915,017	795,349
 Fixed Assets		
Water Systems	5,540,983	5,498,438
Office Equipment	53,664	53,664
Trucks and Equipment	453,698	400,439
Buildings & Improvements	214,744	205,956
Land	25,408	25,408
Less: Accum. Depreciation	(2,702,330)	(2,505,125)
Total Fixed Assets	3,586,167	3,678,780
 Other Assets		
Loan Fees	318,033	318,033
Less: Accumulated Amortization	(106,972)	(87,733)
Cash - Restricted	522,757	623,092
Total Other Assets	733,818	853,392
Total Assets	\$ 5,235,002	\$ 5,327,521

See accompanying notes and independent auditors' report.

Wagoner County Rural Water District #9
Balance Sheet
December 31, 2012 and 2011

	2012	2011
Current Liabilities		
Customer Deposits	\$ 23,957	\$ 23,261
Emergency Siren Payable	1,705	1,705
Accrued Expenses	66,092	66,085
Current Maturities (Note 2)	70,000	70,000
Total Current Liabilities	161,754	161,051
Long Term Liabilities		
Notes Payable (Note 2)	3,865,000	3,935,000
Less: Current Maturities	(70,000)	(70,000)
Total Long Term Liabilities	3,795,000	3,865,000
Fund Balance		
Invested in Capital Assets	(278,833)	(256,220)
Unrestricted	1,057,547	824,337
Restricted for Debt Service	522,757	623,092
Current Income (Loss)	(23,223)	110,261
Total Fund Balance	1,278,248	1,301,470
Total Liabilities & Fund Balance	\$ 5,235,002	\$ 5,327,521

See accompanying notes and independent auditors' report.

Wagoner County Rural Water District #9
Statement of Revenues, Expenses, and Changes in Fund Balance
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenue		
Water Sales	\$ 1,044,876	\$ 1,068,311
Benefit Unit Sales	4,000	8,250
Transfer Fees	5,400	4,500
Ambulance-Pass Through	11,890	12,900
New Services, Collected Bad Debt	<u>17,518</u>	<u>15,228</u>
 Total Revenue	 <u>1,083,684</u>	 <u>1,109,189</u>
 Cost of Sales		
Water Purchases	7,743	16,566
Merchant Bank Card Fees	3,034	1,707
Chemicals	52,865	59,915
Heavy Equipment Agreement	8,729	7,413
Equipment Maintenance	2,629	2,948
Maint. Agreement-Office Equip	1,382	0
Water Testing	5,654	10,522
Repairs and Supplies	30,240	29,419
Truck	23,103	23,208
Lab Supplies	11,463	7,313
Plant Repairs	28,820	76,269
Ambulance-Pass Through	<u>11,970</u>	<u>12,910</u>
 Total Cost of Sales	 <u>187,632</u>	 <u>248,190</u>
 Gross Profit	 <u>896,052</u>	 <u>860,999</u>
 Operating Expenses		
Salaries	272,633	252,099
Payroll Taxes	26,357	20,488
Retirement Expense	6,633	6,015
Insurance	53,418	57,661
Workman's Compensation Ins.	9,024	7,682
Accounting	4,185	3,970
Legal	2,670	12,959

See accompanying notes and independent auditors' report.

	<u>2012</u>	<u>2011</u>
Maintenance - Mowing	495	733
DEQ Fees	5,405	5,320
Membership Fees	1,229	1,108
Miscellaneous	0	1,667
Bank Charges	104	(586)
Miscellaneous	501	0
Advertising	500	1,113
Office Supplies	7,713	7,334
Postage	6,795	7,229
Schools & Training	776	1,168
District Manager Expense	0	34
Bad Debts	6,328	2,633
Telephone/Cell	8,143	8,541
Security System	288	288
Utilities	47,509	53,033
Depreciation	197,204	189,706
Amortization	19,239	19,239
Bonus	2,000	2,500
Drug Testing	245	225
Loan Service Fees	1,000	225
Board Training	2,505	1,964
Manager Expense	129	99
Line Projects	23,704	0
Consulting Fees	1,950	0
	<u>708,682</u>	<u>664,447</u>
Total Operating Expenses	708,682	664,447
Operating Income	<u>187,370</u>	<u>196,552</u>
Other Revenue (Expenses)		
Interest Income	4,782	5,849
Grant Income	0	124,731
Interest Expense	<u>(215,375)</u>	<u>(216,871)</u>
Total Other Income	<u>(210,593)</u>	<u>(86,291)</u>
Net Income (Loss)	\$ <u><u>(23,223)</u></u>	\$ <u><u>110,261</u></u>

See accompanying notes and independent auditors' report.

Wagoner County Rural Water District #9
STATEMENT OF CASH FLOWS
December 31, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities:		
Cash received from customers	\$ 1,077,212	\$ 1,069,857
Cash received from other sources	12,483	29,492
Cash paid to employees	(272,633)	(252,099)
Cash paid to suppliers	(186,935)	(249,887)
Other operating payments	(266,666)	(201,568)
Net Cash Flows from Operating Activities	363,461	395,795
Cash Flows From Noncapital Financing Activities:		
Grant	0	124,731
Net Cash Flows from Noncap. Finan. Activities	0	124,731
Cash Flows From Capital and Related Financing Activities:		
Proceeds from issuance of debt	0	0
Payment of debt	(70,000)	(65,000)
Acquisition and construction of capital assets	(104,592)	(707,669)
Payment of Interest	(215,374)	(218,086)
Net Cash (Used) By Capital and Related Financing Activities	(389,966)	(990,755)
Cash Flows From Investing Activities:		
Decrease (Increase) in restricted cash	100,335	486,030
Receipt of interest and dividends	4,782	5,797
Net Cash Provided (Used) By Investing Activities	105,117	491,827
Net Increase (Decrease) In Cash	78,612	21,598
Cash Beginning of Year	694,427	672,829
Cash End of Year	\$ 773,039	\$ 694,427
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:		
Operating income (loss)	\$ 187,370	\$ 196,552
Add depreciation/amortization expense	216,443	208,945
(Increase)/Decrease in Current Assets:		
Accounts receivables, net	6,011	(9,840)
Prepaid expenses	(47,067)	0
Increase/(Decrease) in Current Liabilities:		
Accounts payable	0	1,705
Accrued expenses	7	2,158
Customer deposits	697	(3,725)
Net Cash Flows from Operating Activities	\$ 363,461	\$ 395,795

See accompanying notes and independent auditors' report.

Wagoner County Rural Water District No. 9
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 9 is a political subdivision of the State of Oklahoma organized in August of 1978, with its office located in Wagoner County, Oklahoma. The District was formed to furnish water service to the residents of the district by constructing and maintaining a water system.

Method of Accounting

The accrual method of accounting is utilized in reporting financial information in accordance with U. S. generally accepted accounting principles (GAAP). The accrual basis of accounting records revenue in the period in which earned rather than when received and records expenses in the period incurred rather than when paid. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District had the option to apply FASB pronouncements issued after that date to its business-type activities, it has chosen not to do so.

Cash and Cash Equivalents

For the purposes of preparing the statement of cash flows, cash on hand, cash in savings and checking, and certificates of deposit with an original maturity of three months or less, are considered cash equivalents.

Funds on Deposits

The district maintains the following accounts for funds deposited with a fully insured bank:

Operations and Maintenance – The gross revenues of the District are deposited to this account and the bills of the District are generally paid. Excess revenues are transferred to savings as needed.

Savings Account - A cash reserve is set aside in this account for unforeseen catastrophes, extensions and improvements to the water system.

Reserve Account – A reserve is set aside in this account for unforeseen catastrophes, extensions or improvements to the water system, and payments on the loan.

Debt Service – The District transfers money into this account monthly to satisfy loan requirements. The Trust company then makes semi-annual payments to the bondholders.

Construction Fund – The loan proceeds were placed in this account to pay for line projects and the new tower project. The District submits invoices to the Trust company for payment.

Wagoner County Rural Water District No. 9

Property and Equipment

Property and equipment are recorded at cost, with depreciation provided on a straight-line method over the estimated useful lives of the assets.

Income Tax

As a political subdivision of the State of Oklahoma, the District is exempt from income taxes.

Benefit Units

Residents wishing water service are required to purchase a benefit unit at \$1,000. In accordance with Article 6, Section 3 of the By Laws, consideration paid for benefit units is considered a donation.

Use of Estimates

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

NOTE 2 - LONG TERM DEBT

Notes payable to Well Nelson & Associates, LLC., payments due in yearly installments of principal and interest. The interest is variable and increases every five years. Current interest rate on the note is 4.25%. District revenues are pledged as collateral as well as assets. The balance as of December 31, 2012 was \$3,865,000. The note matures August 1, 2038. Funds not used to pay off loans were and are being used to replace deteriorated water lines and build a new water tower.

The following are the current maturity and debt service requirements:

	<u>Maturities</u>	<u>Debt Service</u>
2013	\$70,000	\$282,400
2014	75,000	284,425
2015	75,000	280,863
2016	80,000	282,300
2017	85,000	283,500
2018-2022	500,000	1,424,237
2023-2027	635,000	1,413,188
2028-2032	830,000	1,411,835
2033-2037	1,105,000	1,421,440
2038	410,000	433,575
	<u>\$3,865,000</u>	<u>\$7,517,763</u>

NOTE 3 – RENTER’S DEPOSITS

The District adopted a policy that requires renters to pay a deposit of \$100. When they leave the property, they are refunded the deposit or it may be applied to water bills they owe. These deposits are deposited in a separate checking account and the refunds are paid out of this account. If the deposit is used to pay a water bill, the District writes a check from this account to the operations and maintenance account.

NOTE 4 – ACCOUNTS RECEIVABLE

Due for Water Services	\$78,113
Due for Ambulance pass Through	910
Allowance For Doubtful Accounts	<u>(5,200)</u>
 Total Accounts Receivable	 <u><u>\$73,823</u></u>

NOTE 5 - CONCENTRATION OF CREDIT RISK

The District maintains deposits at First Bank & Trust located in Wagoner, Oklahoma. The Federal Deposit Insurance Corporation up to \$500,000 insures deposits at each institution for all interest-bearing accounts. The District has a letters of credit with FHL Bank of Topeka for \$550,000 through First Bank & Trust of Wagoner. As of December 31, 2012 cash balances totaled \$973,039 (\$300 cash on hand and \$200,000 Rate Stabilization Fund included). Deposits are categorized into three levels of custodial risk as follows:

1. Uncollateralized.
2. Collateralized with securities held by the pledging financial institution, or,
3. Collateralized with securities held by the pledging financial institution’s trust department or agent but not in the depositor’s name.

The District’s deposits were categorized as follows at December 31, 2012:

	<u>Balance</u>	<u>Insured</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
First Bank checking	\$325,542	\$250,000	\$0	\$75,542	\$0
First Bank CD's	437,867	250,000	0	187,867	0
First Bank Renter's	23,957	0	0	23,957	0
First Bank Savings	185,373	0	0	185,373	0
	<u>\$972,738</u>	<u>\$500,000</u>	<u>\$0</u>	<u>\$472,738</u>	<u>\$0</u>

NOTE 6 – GRANTS

The District did not receive grant funding during 2012.

Wagoner County Rural Water District No. 9

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment activity for the year ended December 31, 2012 was as follows:

	<u>Cost</u>	<u>Additions</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Water Plan & System	\$5,498,438	\$42,545	(\$2,216,753)	\$3,324,230
Office Furniture/Fixtures	53,664	0	(52,559)	1,105
Trucks & Equipment	400,439	53,259	(333,853)	119,845
Land	25,408	0	0	25,408
Building & Improvements	205,956	8,788	(99,165)	115,579
	<u>\$6,183,905</u>	<u>\$104,592</u>	<u>(\$2,702,330)</u>	<u>\$3,586,167</u>

NOTE 8 – OTHER INFORMATION

At December 31, 2012 the water rates in effect were as follows:

0 - 1,000 gallons	\$35.00	Minimum
1,000 - 9,999 gallons	\$3.50	per 1,000 gallons
10,000 gallons & above	\$4.00	per 1,000 gallons
Multi-User rates:		
0 - 10,000 gallons	\$100.00	Minimum
10,000+	\$10.00	per 1,000 gallons

The Board of Directors are as follows:

Term Expires:

Jim Stevens - Chairman	2015
Bob Biting - Vice Chairman	2015
Chuck Bradley - Secretary	2014
Pat Seck - Director	2014
Lester Gross - Director	2014

NOTE 9 – SUBSEQUENT EVENT

Rural Water District No. 9 has evaluated subsequent events through the date which the financial statements were available to be issued with none found.



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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**

To the Board of Directors
Rural Water District No. 9
Wagoner County, Oklahoma

We have audited the financial statements of Rural Water District No. 9 Wagoner County, Oklahoma, as of and for the years ended December 31, 2012 and 2011, and have issued our report thereon dated February 25, 2013. 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

Management of Rural Water District No. 9 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Rural Water District No. 9's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 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 was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 9'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*.

This report is intended solely for the information and use of management, the Board of Directors, others within the organization, State of Oklahoma Auditor and Inspector and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Clothier & Company CPA's".

Clothier & Company, CPA's, P.C.

February 25, 2013

Wagoner County Rural Water District #9
Budget to Actual (Unaudited)
December 31, 2012

	ORIGINAL	FINAL	ACTUAL	VARIANCE
REVENUES:				
Water Sales & Penalties	1,066,800	1,066,800	1,044,301	(22,499)
Benefit Units/New Serv/Transfers	11,800	11,800	26,900	15,100
Interest	5,040	5,040	4,782	(258)
Collection of Bad Debt	3,150	3,150	18	(3,132)
Ambulance-Pass Through	14,200	14,200	11,890	(2,310)
Miscellaneous Income	4,300	4,300	575	(3,725)
Total Revenue	1,105,290	1,105,290	1,088,466	(16,824)
EXPENDITURES:				
Water Purchased - GRDA	17,700	17,700	7,743	(9,957)
Chemicals	62,500	62,500	52,865	(9,635)
Maintenance Agreements	18,400	18,400	12,740	(5,660)
Water Testing	13,000	13,000	5,654	(7,346)
Field Repairs/Supplies	27,700	27,700	30,240	2,540
Truck Expenses	26,500	26,500	23,103	(3,397)
Lab Supplies	10,000	10,000	11,463	1,463
Plant Repairs	60,000	60,000	28,820	(31,180)
Ambulance - City of Wagoner	14,200	14,200	11,970	(2,230)
Salary Expense	281,300	281,300	272,633	(8,667)
Payroll Taxes	23,250	23,250	26,357	3,107
Retirement Expense	5,470	5,470	6,633	1,163
Medical Insurance-Employee	34,700	34,700	28,812	(5,888)
Workers Comp	8,046	8,046	9,024	978
Plant System/Truck Insurance	31,450	31,450	24,606	(6,844)
CPA/Audit Fees	4,375	4,375	4,185	(190)
Legal Fees	5,000	5,000	2,670	(2,330)
Supplies/Lawn Mower/Cleanup	1,080	1,080	495	(585)
ORWA/Association Fees	1,200	1,200	1,229	29
DEQ Fees	5,500	5,500	5,405	(95)
Miscellaneous	2,000	2,000	501	(1,499)
NSF Bank Charges	2,490	2,490	3,138	648
Office Supplies	8,200	8,200	7,713	(487)
Postage	7,860	7,860	6,795	(1,065)
Training Session/Exams/Travel	1,500	1,500	776	(724)
Telephone/Cell Phone	8,975	8,975	8,143	(832)
Security	360	360	288	(72)
Bad Debts	3,475	3,475	6,328	2,853
Utilities	57,180	57,180	47,509	(9,671)

See accompanying footnotes and independent auditors' report.

Advertising	1,200	1,200	500	(700)
Employee Bonuses	2,000	2,000	2,000	0
Medical/Drug Screening	900	900	245	(655)
Board Training/Conferences	3,300	3,300	2,505	(795)
Manager Expense	400	400	129	(271)
Plant Expense	300	300	0	(300)
Line Projects/Water Towers	23,500	23,500	25,654	2,154
Principal Payments	289,400	289,400	286,375	(3,025)
Total Expenditures	<u>1,064,411</u>	<u>1,064,411</u>	<u>965,246</u>	<u>(99,165)</u>
Net Income (Loss)	<u>40,879</u>	<u>40,879</u>	123,220	<u>82,341</u>
Less: Depreciation/Amortization			(216,443)	
Add: Principal payment			<u>70,000</u>	
Change in Fund Balance			<u>(23,223)</u>	

See accompanying footnotes and independent auditors' report.