

Financial Statements

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

December 31, 2011 and 2010

Briscoe, Burke & Grigsby LLP
CERTIFIED PUBLIC ACCOUNTANTS
Tulsa, Oklahoma

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

INDEPENDENT AUDITOR'S REPORT

and

FINANCIAL STATEMENTS

December 31, 2011 and 2010

Briscoe, Burke & Grigsby LLP
CERTIFIED PUBLIC ACCOUNTANTS

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

December 31, 2011 and 2010

TABLE OF CONTENTS

	<u>Page</u>
Board of Trustees List	
Independent Auditor's Report	
Financial Statements:	
Balance Sheets	2-3
Statements of Revenues, Expenses and Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6-16

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

BOARD OF TRUSTEES

December 31, 2011

<u>Trustee</u>	<u>County</u>	<u>Term Expires</u>
Don B. Ellis, Chairman	Kiowa	July 2016
Tim Bingham	Kiowa	July 2014
LaWayne Drury	Jackson	January 2014
Ray Walker	Tillman	July 2016
Leon Wright	Tillman	September 2014
Marty Clinton	Jackson	January 2013

Briscoe, Burke & Grigsby LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Southwest Rural Development Authority
Tipton, Oklahoma

We have audited the accompanying balance sheets of Southwest Rural Development Authority as of December 31, 2011 and 2010 and the related statements of revenues, expenses and net assets and statement of cash flows for the years then ended. These financial statements are the responsibility of Southwest Rural Development Authority Trustee's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Southwest Rural Development Authority has not presented Managements Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and generally accepted 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 opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Southwest Rural Development Authority as of December 31, 2011 and 2010, and the results of its operations 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 our report dated October 12, 2012 on our consideration of Southwest Rural Development Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 the 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 read in conjunction with this report in considering the results of our engagement.

Briscoe, Burke & Grigsby LLP

Certified Public Accountants

October 12, 2012
Tulsa, Oklahoma

Briscoe, Burke & Grigsby LLP
CERTIFIED PUBLIC ACCOUNTANTS

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

Balance Sheets
December 31, 2011 and 2010

ASSETS	2011	2010
Current assets:		
Unrestricted:		
Cash	\$ 45,066	\$ 13,128
Accounts receivable	141,425	1,103
Prepaid expenses	3,198	2,243
Total unrestricted current assets	189,689	16,474
Restricted cash and equivalents:		
Bond fund	38,569	42,368
Defaulted interest reduction fund	1	3
Principle reduction fund	124	124
Operating and maintenance fund	303	303
Revenue fund	-	-
Operating, maintenance and improvement reserve fund	23,769	33,120
Expense fund	10,359	10,158
Tenant deposit account	17,990	13,412
Total restricted cash and equivalents	91,115	99,488
Property and equipment (Note 2B):		
Land	111,234	111,234
Buildings	6,906,978	6,906,978
Office furniture and equipment	46,874	46,874
Less: accumulated depreciation	(2,119,177)	(1,888,598)
Total property and equipment	4,945,909	5,176,488
Other assets (Note 2C):		
Deferred costs	205,162	214,280
Total other assets	205,162	214,280
TOTAL ASSETS	\$ 5,431,875	\$ 5,506,730

The accompanying notes are an integral part of these financial statements

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

Balance Sheets

December 31, 2011 and 2010

LIABILITIES and NET ASSETS	<u>2011</u>	<u>2010</u>
Current liabilities:		
Accounts payable	\$ 162,718	\$ 15,503
Refundable deposits	18,185	14,325
Current maturity - Series A & B bonds	101,362	96,114
Accrued interest payable	<u>1,008,048</u>	<u>1,056,235</u>
Total current liabilities	<u>1,290,313</u>	<u>1,182,177</u>
Non-current liabilities (Note 2D):		
Multi-family housing revenue		
Bonds - Series A & B, net of discount	<u>6,571,166</u>	<u>6,672,528</u>
Total non-current liabilities	<u>6,571,166</u>	<u>6,672,528</u>
NET ASSETS		
Unrestricted net assets	<u>(2,429,604)</u>	<u>(2,347,975)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,431,875</u>	<u>\$ 5,506,730</u>

The accompanying notes are an integral part of these financial statements

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

Statements of Revenues, Expenses and Net Assets
For the Years Ended December 31, 2011 and 2010

REVENUES	2011	2010
Apartment rentals and fees	\$ 822,990	\$ 809,806
Interest income	14	114
Total revenue	823,004	809,920
EXPENSES		
Administrative	5,552	6,679
Advertising	2,119	2,387
Amortization and depreciation	239,698	241,280
Professional services	11,208	12,347
Bank service charges	208	190
Insurance	25,972	37,086
Interest	318,851	323,689
Repairs and maintenance	89,963	58,749
Management fees	34,579	34,685
Staffing	102,686	98,510
Supplies	4,537	5,329
Trustee fees	5,000	5,200
Utilities	41,116	30,051
Janitorial and cleaning	5,210	4,804
Miscellaneous	17,934	21,284
Total operating expenses	904,633	882,270
Net loss	(81,629)	(72,350)
Unrestricted net assets - beginning	(2,347,975)	(2,275,625)
Unrestricted net assets - ending	\$ (2,429,604)	\$ (2,347,975)

The accompanying notes are an integral part of these financial statements

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Net loss	\$ (81,629)	\$ (72,350)
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Items not requiring (providing) cash		
Amortization of bond issue fees	9,118	9,118
Depreciation	230,580	232,162
(Increase) Decrease in:		
Accounts receivable	(140,322)	(1,103)
Prepaid expenses	(955)	9,663
Increase (Decrease) in:		
Accounts payable	147,215	(11,332)
Refundable deposits	3,860	(367)
Interest payable	(48,188)	(81,047)
Net cash provided by operating activities	119,679	84,744
Cash flows from financing activities:		
Payments on revenue bonds	(96,114)	(90,838)
Net cash used for financing activities	(96,114)	(90,838)
Net increase (decrease) in cash and cash equivalents	23,565	(6,094)
Cash and cash equivalents at beginning of year	112,616	118,710
Cash and cash equivalents at end of year	\$ 136,181	\$ 112,616

The accompanying notes are an integral part of these financial statements

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

Notes to Financial Statements

December 31, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Southwest Rural Development Authority was created by action of the Trustees on August 1, 1998 and operates as a non-expendable trust. The Authority has prepared the financial statements in accordance with generally accepted accounting principles (GAAP) as applied to non-expendable trusts and governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. As a "proprietary" type fund the Authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The more significant of these accounting principles follow.

Reporting Entity - The Southwest Rural Development Authority is a public trust created pursuant to the Statutes of the State of Oklahoma now in force and effect, generally, but not exclusively, Sections 176 to 180.4, inclusive of Title 60, Oklahoma Statutes, 1991, the Oklahoma Trust Act and other applicable statutes of the State of Oklahoma. The Trust was created for the benefit of Jackson, Kiowa and Tillman Counties, Oklahoma, which are the beneficiaries of the Trust, acting by and through their respective Boards of County Commissioners pursuant to the terms of Title 60, Oklahoma Statutes, Sections 176 et seq.

The Board of Trustees of Southwest Rural Development Authority is composed of six Trustees. Two Trustees are appointed by the Board of County Commissioners of each member County of the Trust, only one of which may be a then serving County Commissioner. The initial terms of the Trustees so appointed are staggered two-year terms, two of which expire July 31, 2010, two on July 31, 2012 and the remaining three on January 1, 2011 and July 31, 2011. Thereafter the terms of the Trustees will be for four years.

The purposes of the Trust are to promote and aid in the creation, renovation, construction and acquisition of residential housing facilities and to promote the economic development of the community, increase the usage of municipal services, retain existing jobs and maintain the existing employment base within the beneficiaries' boundaries and to provide funds to accomplish the stated objective of the Trust through the issuance of revenue bonds, notes or other evidences of indebtedness of the Trust.

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

Notes to Financial Statements

December 31, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting – The financial statements of Southwest Rural Development Authority (Authority) are prepared in accordance with Generally Accepted Accounting Principles (GAAP). As a proprietary type fund the Authority applies Financial Accounting Standards Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB), in which case, GASB prevails.

In accordance with Generally Accepted Governmental Accounting Standards, Southwest Rural Development Authority has maintained its financial records on the accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recorded when the related fund liability is incurred.

Cash Equivalents – Holdings of highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

Property and Equipment – Property and equipment are recorded at cost, including capitalized interest, less depreciation. Depreciation will be accounted for on the straight-line method based on the following estimated useful lives:

Buildings	30 years
Equipment and furniture	7 years

Betterments and large renewals, which extend the life of the assets, will be capitalized whereas maintenance and repairs and small renewals will be expensed as incurred.

Intangible Costs – Intangible costs consist of issuance costs associated with debt instruments issued by Southwest Rural Development Authority and are recorded at cost less amortization. Amortization is accounted for on the straight-line method based on the term of the associated debt instrument.

Long-Term Debt - Long-term debt represents the amount of long-term borrowings that have a maturity of more than one year. Any discounts incurred on the issuance long-term debt instruments are amortized over the life of the underlying instrument utilizing the interest method of amortization.

Restricted Assets – Certain assets of Southwest Rural Development Authority are classified as restricted assets because their use is restricted by bond or mortgage indentures.

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

Notes to Financial Statements

December 31, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates – The governing board of Southwest Rural Development Authority uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Subsequent Events – In preparing these financial statements management has evaluated and disclosed all material subsequent events through October 12, 2012, which is the date these statements were available to be issued.

2. DETAILED NOTES ON FINANCIAL STATEMENT AMOUNTS

Cash and Investments

1. Cash

On March 8, 2000 Southwest Rural Development Authority opened a bank checking account at Bancfirst (formerly First Southwest Bank), Frederick, Oklahoma, primarily to facilitate payments to local contractors involved in construction of the Altus, Oklahoma apartment complex. As the cash balance reflected consists primarily of transfers from the "Project Fund" maintained by the Trustee such amount would remain restricted as to use.

Cash deposits at financial institutions can be categorized according to levels of risk as follows:

Category 1 – Deposits which are insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

Category 2 – Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.

Category 3 – Deposits which are not collateralized or insured.

Based on these three levels of risk, up to \$250,000 of the Authority's cash deposits in each account itemized above would be classified as Category 1, and any other amounts would be classified as Category 3.

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

Notes to Financial Statements

December 31, 2011 and 2010

2. DETAILED NOTES ON FINANCIAL STATEMENT AMOUNTS (continued)

2. Trustee Administered Investment Funds

On December 1, 2005 Southwest Rural Development Authority entered into a trust agreement with Bank of Oklahoma, N.A. for the purpose of maintaining, investing and administering the proceeds, in accordance with the provisions contained in the Offering Document and other agreements, of the Southwest Rural Development Authority Multifamily Housing Revenue Bonds, Series 1999. As of December 31, 2010 all of the below itemized funds were invested by the Trustee in U. S. Treasury Bonds which are permissible investments according to the provisions of the Trust Indenture. The investments are currently yielding a return of .01% for 2010 and .01% for 2009 and the market price is equal to the cost thereof. The various funds established in accordance with the Trust Agreement and their restrictions and balances as of December 31, 2011 and 2010 are as follows:

	2011	2010
1. Bond Fund	<u>\$ 38,569</u>	<u>\$ 42,368</u>

Deposits into the Fund

- a. All accrued interest on the sale and delivery of the Series 1999 Bonds.
- b. Transfers from the Revenue Fund, when the Project is revenue producing, in amounts sufficient to make payments of interest and principal on the outstanding Bonds.
- c. Additional security or any other amounts received by the Trustee that are subject to the lien and pledge of the Trust Indenture.
- d. Proceeds of insurance policies or condemnation awards that would necessitate the early retirement of the Bonds.
- e. Amounts required to redeem the Bonds pursuant to a "Determination of Taxability".
- f. Transfers from other available funds required to remedy any shortfall in the Bond Fund.
- g. Any other amounts required to be transferred pursuant to Section 6.4 of the Trust Indenture.

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

Notes to Financial Statements

December 31, 2011 and 2010

2. DETAILED NOTES ON FINANCIAL STATEMENT AMOUNTS (continued)

Cash and Investments

2. Trustee Administered Investment Funds

Disbursements from the Bond Fund

- a. Payment of the debt service on the 1999 Bonds – Amended Series A when due.
- b. Payment of interest due on the 1999 Bonds – Amended Subordinate Series B to the extent funds are available.

	<u>2011</u>	<u>2010</u>
2. Operations, Maintenance, and Improvements Reserve Fund	<u>\$ 23,769</u>	<u>\$ 33,120</u>

Deposits to the Operations, Maintenance, and Improvements Reserve Fund

- a. The Trustee shall transfer moneys from the Revenue Fund to the Operations, Maintenance, and Improvements Reserve Fund to the extent the balance therein shall be less than the Fund requirement, an amount equal to 1/12th of the annual budgeted replacement reserves, as set forth in the Annual Budget.

Disbursements from the Operations, Maintenance, and Improvements Reserve Fund

- a. Moneys shall be disbursed upon requisition or transferred upon written direction to the Trustee solely from the Servicer.

	<u>2011</u>	<u>2010</u>
3. Revenue Fund	<u>\$ -</u>	<u>\$ -</u>

Deposits to the Revenue Fund

- a. All gross revenues generated by the project.

Disbursements from the Revenue Fund

All money in the Revenue Fund to the extent there is money therein shall be transferred by the Trustee on the twentieth day of each month in the following priority:

- a. Transfer to the Operating and Maintenance Fund, 1/12th of the Trustee's annual fees and expenses and any unpaid reasonable extraordinary or additional fees and expenses of the Trustee, including but not limited to its reasonable legal fees.

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

Notes to Financial Statements

December 31, 2011 and 2010

2. DETAILED NOTES ON FINANCIAL STATEMENT AMOUNTS (continued)

Cash and Investments

2. Trustee Administered Investment Funds

- b. Transfer to the Operating and Maintenance Fund, an amount equal to 1/12th of the cost of preparing the annual audit with respect to the Project required by Oklahoma law to be filed with the office of the Oklahoma Auditor and Inspector.
- c. Transfer to the Operating and Maintenance Fund, an amount equal to 1/12th of the Annual Budget for Operation Expenses of the Project for the current month, including the Manager fee for the current month.
- d. Notwithstanding anything to the contrary herein, this subsection (a) is subject in all respects to Section 4.10 of the Indenture to the effect that the Servicer has exclusive control over the direction of funds from the Revenue Fund and from or to any reserve fund under the Indenture, including the Operating and Maintenance Fund.
- e. Transfer to the Operations, Maintenance, and Improvements Reserve Fund, to the extent the balance therein shall be less than the Operations, Maintenance, and Improvements Reserve Fund Requirement, an amount equal to 1/12th of the annual budgeted replacement reserves, as set forth in the Annual Budget.
- f. Transfer to the Bond Fund, to the extent and until the amounts therein shall be sufficient to pay (i) the interest coming due on the 1999 Bonds – Amended Series A on the next Payment Date; (ii) the principal amount due on the 1999 Bonds – Amended Series A (including any mandatory sinking fund payment) on the next Payment Date; and (iii) the interest coming due on the 1999 Bonds – Amended Subordinate Series B on the next Payment Date.
- g. Beginning January 20, 2007, transfer to the Operating and Maintenance Fund, an amount equal to 1/12th of the greater of \$12,000 or 2% of Net Revenues Available for Debt Service for payment in lieu of taxes to Jackson County, Oklahoma which will be due annually in December, beginning December 2007.
- h. Transfer to the Defaulted Interest Payment Fund, the balance to the extent and until the Defaulted Interest shall have been paid in full.
- i. Transfer the balance to the Principal Reduction Fund to be applied as provided for in Section 6.19 of the Indenture.

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

Notes to Financial Statements

December 31, 2011 and 2010

2. DETAILED NOTES ON FINANCIAL STATEMENT AMOUNTS (continued)

2. Trustee Administered Investment Funds (continued)

	2011	2010
4. Defaulted Interest Payment Fund	<u>\$ 1</u>	<u>\$ 3</u>

Deposits to the Defaulted Interest Payment Fund

- a. Transfers from the Revenue Fund pursuant to Section 218(e) of the Third Amendment to the Trust Indenture.

Disbursements from the Defaulted Interest Payment Fund

- a. Any amount on deposit in the Defaulted Interest Payment Fund shall be used by the Trustee on each Payment Date to make payments to the owners of 1999 Bonds – Amended Subordinate Series B, on a pro rata basis, with respect to the defaulted interest until such time as the defaulted interest shall have been paid in full.

	2011	2010
5. Principal Reduction Fund	<u>\$ 124</u>	<u>\$ 124</u>

Deposits to the Principal Reduction Fund

- a. Transfers from the Revenue Fund pursuant to Section 218(f) of the Third Amendment to the Trust Indenture.

Disbursements from the Principal Reduction Fund

- a. To purchase 1999 Bonds – Amended Subordinate Series B (“Special Purchase Bonds”), at the written direction of the Servicer to the Trustee, to the extent such Special Purchase Bonds can be purchased in the secondary market at a price of less than par.
- b. To call for redemption pursuant to Section 3.1(e) hereof 1999 Bonds – Amended Subordinate Series B.
- c. To purchase 1999 Bonds – Amended Series A, when all outstanding Series B bonds have been purchased.
- d. To call for redemption pursuant to Section 3.1(e) hereof 1999 Bonds – Amended Series A.

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

Notes to Financial Statements

December 31, 2011 and 2010

2. DETAILED NOTES ON FINANCIAL STATEMENT AMOUNTS (continued)

2. Trustee Administered Investment Funds (continued)

	2011	2010
6. Operating and Maintenance Fund	\$ 303	\$ 303
<u>Deposits into the Operating and Maintenance Fund</u>		
a. Transfers from the Revenue Fund for payment in lieu of taxes to Jackson County.		
<u>Disbursements from the Operating and Maintenance Fund</u>		
a. Annual payments on December 20 th in lieu of taxes to Jackson County, provided the funds were transferred into this fund pursuant to section 6.10(a)(4) of the Trust Indenture.		
7. Expense Fund	\$ 10,359	\$ 10,158
<u>Deposits into the Expense Fund</u>		
a. Transfers from the Revenue Fund for payment of trustee fees.		
<u>Disbursements from the Expense Fund</u>		
a. Annual payment of trustee fees to the Bank of Oklahoma.		

Cash and Investments

Additional Funds authorized by the Trust Indenture are required upon completion of the Project. All Funds established by the Trust Indenture will pay the applicable Trustee fees associated with the transactions in the various funds.

Similar to cash deposits, investments held at a financial institution, or its related trust department, can be categorized according to three levels of risk as follows:

Category 1 – Investments that are insured, registered or held by the entity or by its agent in the Authority's name.

Category 2 – Investments that are uninsured and unregistered held by the counter-party's trust department or agent in the Authority's name.

Category 3 – Uninsured and unregistered investments held by the counter-party, its trust or its agent, but not in the Authority's name.

Southwest Rural Development Authority's investment in U. S. Treasury Funds is classified by risk level as Category 2.

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

Notes to Financial Statements

December 31, 2011 and 2010

2. DETAILED NOTES ON FINANCIAL STATEMENT AMOUNTS (continued)

B. Property and Equipment

On June 1, 1999 Southwest Rural Development Authority entered into a Development Agreement with Eastern Development No. 1, Inc. for the design, land acquisition, construction and equipping a 112 unit rental apartment complex located within Jackson County, Oklahoma. The Agreement provides for a "Turn-Key Project" for a cash sum not to exceed \$5,492,000 including the Developer Fee. The cash sum approved in the Agreement does not include the amounts of construction period interest and expenses properly allocable to the Project in accordance with Generally Accepted Accounting Procedures.

A summary of changes in property and equipment is as follows:

	Balance 1/1/2011	Additions	Balance 12/31/2011
Buildings	\$ 6,906,978	\$ -	\$ 6,906,978
Property, equipment	46,874	-	46,874
Land	111,234	-	111,234
	<u>\$ 7,065,086</u>	<u>\$ -</u>	<u>\$ 7,065,086</u>

	Balance 1/1/2010	Additions	Balance 12/31/2010
Buildings	\$ 6,906,978	\$ -	\$ 6,906,978
Property, equipment	46,874	-	46,874
Land	111,234	-	111,234
	<u>\$ 7,065,086</u>	<u>\$ -</u>	<u>\$ 7,065,086</u>

C. Other Assets

Other assets consists of the costs associated with the issuance of the Series 1999 Revenue Bonds. As of December 31, 2011 and 2010 balances in the accounts are as follows:

	2011	2010
Bond issuance costs	\$ 319,141	\$ 319,141
Less amortization based on the term of the issue of 420 months	<u>(113,979)</u>	<u>(104,861)</u>
Net Intangible Costs	<u>\$ 205,162</u>	<u>\$ 214,280</u>

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

Notes to Financial Statements

December 31, 2011 and 2010

2. DETAILED NOTES ON FINANCIAL STATEMENT AMOUNTS (continued)

D. Long-Term Liabilities

On June 2, 1999 the Trustees of Southwest Rural Development Authority, concurrent with the approval of the Commissioners of Tillman, Kiowa and Jackson Counties, Oklahoma, approved the issuance of the Southwest Rural Development Authority Multifamily Housing Revenue Bonds, Series 1999 in the amount of \$7,265,000, with a stated interest rate of 7.25% maturing on June 1, 2034 and are secured by a pledge of the revenues of the apartment complex. An event of default was declared by the Trustee Bank (Bank One, Texas, N.A.) beginning August 21, 2002. In December 2005 the bonds were amended and re-offered in the amount of \$6,575,000 consisting of the following:

Series A Serial Bonds

<u>Original Principal</u>	<u>Interest Rate</u>	<u>Maturity</u>
\$1,480,000	5.500%	June 1, 2023
\$ 830,000	5.625%	June 1, 2028
\$2,590,000	6.000%	June 1, 2034

Series B Term Bond

<u>Principal</u>	<u>Interest Rate</u>	<u>Maturity</u>
\$1,675,000	4.000%	June 1, 2034

The payment terms of the Bonds are structured as follows:

The Series A Bonds pay interest-only for a thirty-month period beginning on June 1, 2006 through and including June 1, 2008. Thereafter, interest and principal shall be payable on a semi-annual basis on each June 1 and December 1 through the final maturity of the Series A Bonds on June 1, 2034.

The Series B Bonds are subordinate to the Series A Bonds. No payment of any kind will be made toward the interest or principal amounts owed on the Series B Bonds until the full debt service payment due on the Series A Bonds has been paid. The Series B Bonds are structured to pay interest only. There are no scheduled principal payments and the Series B Bonds are not subject to mandatory sinking fund redemption. The Series B Bonds are subject to repurchase in the secondary market or mandatory redemption from available to the Trustee in the Principal Reduction Fund. The Series B Bonds have been assigned the right to receive all of the Defaulted Interest owed on the Bonds prior to December 1, 2005, in the amount of \$1,381,101.

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

Notes to Financial Statements

December 31, 2011 and 2010

2. DETAILED NOTES ON FINANCIAL STATEMENT AMOUNTS (continued)

D. Long-Term Liabilities (continued)

U.S. generally accepted accounting principles require this debt restructuring to be accounted for prospectively. Rather than recognizing a gain upon restructuring, the carrying amount of the loan is not adjusted. It is necessary to adjust current and future interest expense through the calculation of a new effective interest rate, based upon the new terms. The effective rate is the rate of interest that equates the present value of the future payments (under the new terms) with the carrying value of the loan.

The total principle outstanding of the bonds per U.S. GAAP is \$6,672,528 at December 31, 2011 at an effective interest rate of 4.69%.

The total principle of the bonds outstanding per the bond agreement is \$6,325,000 at the interest rates noted above.

As of December 31, 2011, the annual maturities of long-term debt outstanding is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 101,362	\$ 313,175
2013	\$ 106,582	\$ 308,418
2014	\$ 111,772	\$ 303,415
2015	\$ 112,068	\$ 298,169
2016	\$ 122,103	\$ 292,909

Briscoe, Burke & Grigsby LLP
CERTIFIED PUBLIC ACCOUNTANTS

October 12, 2012

Board of Trustees
Southwest Rural Development Authority
Tipton, Oklahoma

We have audited the financial statements of Southwest Rural Development Authority as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated October 12, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of Southwest Rural Development Authority, we considered the Cooperative's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative'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 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 believe that the following deficiencies constitute material weaknesses, as defined above:

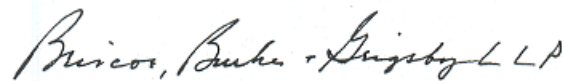
- Lack of Segregation of Noncompatible Duties
- Lack of Expertise in Financial Accounting and Reporting

Southwest Rural Development Authority
October 12, 2012
Page 2.....

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southwest Rural Development Authority'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 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 communication is intended solely for the information of the Board of Directors, management, the Rural Development Utilities Program, and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.


Briscoe, Burke & Grigsby LLP
Certified Public Accountants

October 12, 2012
Tulsa, Oklahoma

Briscoe, Burke & Grigsby LLP
CERTIFIED PUBLIC ACCOUNTANTS

APPENDIX I – MATERIAL WEAKNESSES

Finding 2011-1: Lack of Segregation of Duties

Criteria: A fundamental concept in an effective system of internal control is the segregation of duties such that no single individual is responsible for performing duties related to recording, approving and authorizing transactions.

Condition: There is not proper segregation of duties related to recording, approving and authorizing transactions.

Cause: The limited number of staff does not allow for the proper segregation of duties.

Effect: The Authority is susceptible to loss from employee dishonesty or error.

Management Response: The Board of Trustees reviews the monthly reports from the apartment management company and reviews the Trustees' account statements. The Trustee Bank and the financial advisor for the bond holders also receive the financial reports of the actions of the apartment management company, which also provides oversight of the management company.

Finding 2011-2: Lack of Expertise in Financial Accounting and Reporting

Criteria: The authority should have sufficient expertise in selecting and applying accounting principles to prepare GAAP basis financial statements.

Condition: The Authority does not have the expertise in selecting and applying accounting principles or the preparation of GAAP basis financial statements.

Cause: The financial records are maintained by the apartment management company who does not have access to all the Authority's transactions.

Effect: The auditor had to make several adjustments in order to prepare GAAP basis financial statements.

Management Response: The Authority receives no income from the apartment project and has no resources to pay for GAAP basis financial statements. The cost of retaining someone with GAAP basis expertise verses the benefit received is not financially feasible for the Authority.

Briscoe, Burke & Grigsby LLP
CERTIFIED PUBLIC ACCOUNTANTS

October 12, 2012

To the Board of Trustees
Southwest Rural Development Authority

We have audited the financial statements of Southwest Rural Development Authority for the year ended December 31, 2011, and have issued our report thereon dated October 12, 2012. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated December 13, 2011 our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with the modified cash basis. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated December 13, 2011 and our discussion with your staff about planning, scope and timing matters during the month of May of 2012.

SIGNIFICANT AUDIT FINDINGS:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Southwest Rural Development Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended December 31, 2011. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We did not identify any sensitive estimates affecting the financial statements.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures affecting the financial statements.

Difficulties Encountered in Performing the Audit

We are pleased to report that we encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached journal entries, detected as a result of audit procedures, were corrected by management. The adjustments recorded were expected by management and do not constitute a deficiency in internal control. There were no uncorrected misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 12, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Southwest Rural Development Authority
October 12, 2012
Page 3.....

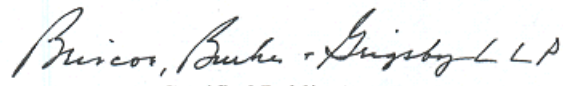
Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We noted two material weaknesses in internal control related to the segregation of duties and the lack of expertise in financial accounting and reporting. These material weaknesses are discussed in Appendix I of the report on compliance and internal control dated October 12, 2012.

This information is intended solely for the use of the Board of Trustees and management of Southwest Rural Development Authority and is not intended to be and should not be used by anyone other than these specified parties.

If you have any questions regarding the above, please do not hesitate to contact us at your convenience.


Certified Public Accountants

October 12, 2012
Tulsa, Oklahoma

10/8/2012
2:28 PM

Client: SWRDA - SOUTHWEST RURAL DEVELOPMENT AUTHORITY
Engagement: SOUTHWEST RURAL DEVELOPMENT AUTHORITY
Period Ending: 12/31/2011
Trial Balance: 103 TB - Annual Trial Balance - 2 Year
Workpaper: 103 AJE - Adjusting Journal Entries Report -

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 101				
TO PUT INVESTMENTS, BUILDING, AND DEBT ON THE BOOKS.				
100	Bond Fund		42,368.14	
101	Defaulted Interest Reduction Fund		3.42	
102	Principle Reduction Fund		124.12	
103	Op & Maint Fund		302.99	
105	OP Main Imp Reserve Fund		33,120.44	
107	Expense Fund		10,158.36	
1128	Transfer from Trustee		1,366,459.79	
200	Property & Equipment		45,826.83	
206	Apartment CIP - Altus		400.00	
208	Landscaping		24,320.00	
210	Apartment buildings		6,880,459.11	
230	Land - Altus		111,234.15	
250	Intangible Costs		319,140.84	
260	Discount on bonds		290,600.00	
3210	Retained Earnings		4,945,342.12	
1124	Escrow Cash			2,419.25
1127	Transfer to Trustee			3,734,063.62
1426	Building Improvements			155,895.79
1450	Furniture and Fixtures			357.44
1451	Computer (Software & Hardware)			7,480.93
1470	Maintenance Equipment			506.04
205	Accumulated depr - P & E			1,888,597.66
255	Accumulated amortization - costs			104,860.68
265	Discounts accreted			70,882.87
310	Revenue bonds pay - ST amount			96,114.00
3115	Paid in Capital			6,222.15
320	Accrued Int Pay - Ser 99 Rev			1,056,234.88
350	SRDA - Multifam Hsg Rev Bd Ser 1999			6,892,245.00
3500	Distributions			54,000.00
Total			14,069,860.31	14,069,860.31
Adjusting Journal Entries JE # 102				
TO MAKE RETAINED EARNINGS ON HENRY MANAGEMENT'S BOOKS ROLL FORWARD.				
3210	Retained Earnings		426.23	
6960	Non-recurring Expenses			426.23
Total			426.23	426.23
Adjusting Journal Entries JE # 103				
TO BOOK AMORTIZATION OF BOND ISSUANCE COSTS FOR 2011.				
735	Amortization expense	801	9,118.32	
255	Accumulated amortization - costs			9,118.32
Total			9,118.32	9,118.32
Adjusting Journal Entries JE # 104				
TO BOOK ACTIVITY IN RESTRICTED INVESTMENT ACCOUNTS.				
103	Op & Maint Fund		0.44	
107	Expense Fund		200.71	
1128	Transfer from Trustee		271,380.00	
320	Accrued Int Pay - Ser 99 Rev		48,186.62	
350	SRDA - Multifam Hsg Rev Bd Ser 1999		96,114.00	
722	Taxes Expense		12,000.00	
725	Interest Expense		318,786.00	
730	Trustee Fees		5,000.00	
100	Bond Fund			3,799.18

Briscoe, Burke & Grigsby LLP
CERTIFIED PUBLIC ACCOUNTANTS

10/8/2012
2:28 PM

Client: SWRDA - SOUTHWEST RURAL DEVELOPMENT AUTHORITY
Engagement: SOUTHWEST RURAL DEVELOPMENT AUTHORITY
Period Ending: 12/31/2011
Trial Balance: 103 TB - Annual Trial Balance - 2 Year
Workpaper: 103 AJE - Adjusting Journal Entries Report -

Account	Description	W/P Ref	Debit	Credit
101	Defaulted Interest Reduction Fund			3.15
105	OP Main Imp Reserve Fund			9,351.17
1128	Transfer from Trustee			738,500.00
510	Interest earned			14.27
Total			751,667.77	751,667.77
Adjusting Journal Entries JE # 105				
TO RECORD DEPRECIATION EXPENSE FOR 2011.				
720	Depreciation	701-1	230,579.19	
205	Accumulated depr - P & E			230,579.19
Total			230,579.19	230,579.19
Adjusting Journal Entries JE # 106				
TO REMOVE INTERCOMPANY PAYABLE.				
2111	Accounts Payable - Intercompany		95,214.91	
6542	Carpentry			90,370.19
6548	Carpet Cleaning/Repair			4,844.72
Total			95,214.91	95,214.91
Adjusting Journal Entries JE # 107				
TO RECORD RECEIVABLE FROM INSURANCE COMPANY AND PAYABLE TO HENRY CONSTRUCTION AS OF 12-31-2011.				
121	Accounts Receivable		138,257.00	
719	Repairs & Maintenance		138,257.00	
306	Accounts payable - Madison			138,257.00
719	Repairs & Maintenance			138,257.00
Total			276,514.00	276,514.00
Adjusting Journal Entries JE # 108				
TO GET TRANSFER CASH ACCOUNTS TO SET TO ZERO AT YEAR END.				
6960	Non-recurring Expenses		30.00	
1127	Transfer to Trustee			30.00
Total			30.00	30.00