

*Financial Statements*

**SOUTHWEST RURAL DEVELOPMENT AUTHORITY**

December 31, 2013 and 2012

**SOUTHWEST RURAL DEVELOPMENT AUTHORITY**

INDEPENDENT AUDITOR'S REPORT

and

FINANCIAL STATEMENTS

*December 31, 2013 and 2012*

# **SOUTHWEST RURAL DEVELOPMENT AUTHORITY**

*December 31, 2013 and 2012*

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# **SOUTHWEST RURAL DEVELOPMENT AUTHORITY**

## **BOARD OF TRUSTEES**

*December 31, 2013*

<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 2015

**Briscoe, Burke & Grigsby LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Southwest Rural Development Authority  
Tipton, Oklahoma

We were engaged to audit the accompanying financial statements of Southwest Rural Development Authority which comprise the balance sheets as of December 31, 2013 and 2012 and the related statements of revenues, expenses and net assets and statement of cash flows for the years then ended, and the related notes to the financial statements.

Southwest Rural Development Authority has not presented Management's 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.

**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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on conducting the 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 from 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 auditor's 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 on 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Basis for Disclaimer of Opinion on Accounts Payable and Operations**

The Authority was not able to provide financial records for the first 6 months of the year after changing management companies. In addition, we were not able to obtain documents required to substantiate the details of accounts payable as of December 31, 2013.

## **Disclaimer of Opinion on Accounts Payable and 2013 Operations**

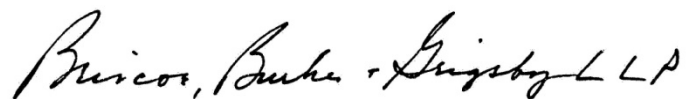
Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis of opinion on the accounts payable balance or the results of operations for the year ended December 31, 2013. Accordingly, we do not express an opinion on the balance of accounts payable or the results of operations as of and for the year ended December 31, 2013.

## **Opinion**

In our opinion, except for the matter described in the Disclaimer of Opinion paragraph, the balance sheets present fairly, in all material respects, the financial position of Southwest Rural Development Authority as of December 31, 2013 and 2012, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Report on Other Legal and Regulatory Requirements**

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2015 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 in considering Southwest Rural Development Authority's internal control over financial reporting and compliance.



Certified Public Accountants

March 26, 2015

Tulsa, OK

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# SOUTHWEST RURAL DEVELOPMENT AUTHORITY

Balance Sheets  
December 31, 2013 and 2012

ASSETS	2013	2012
<b>Current assets:</b>		
<b>Unrestricted:</b>		
Cash	\$ 44,259	\$ 17,250
Accounts receivable	-	142,925
Prepaid expenses	1,822	3,198
<b>Total unrestricted current assets</b>	<b>46,081</b>	<b>163,373</b>
<b>Restricted cash and equivalents:</b>		
Bond fund	36,876	33,470
Principle reduction fund	125	125
Operating and maintenance fund	304	303
Operating, maintenance and improvement reserve fund	44,187	54,820
Expense fund	10,760	10,862
Tenant deposit account	24,214	17,993
<b>Total restricted cash and equivalents</b>	<b>116,466</b>	<b>117,573</b>
<b>Property and equipment (Note 2B):</b>		
Land	111,234	111,234
Buildings	6,932,443	6,906,978
Office furniture and equipment	47,189	46,874
Less: accumulated depreciation	(2,581,514)	(2,349,756)
<b>Total property and equipment</b>	<b>4,509,352</b>	<b>4,715,330</b>
<b>Other assets (Note 2C):</b>		
Deferred costs	186,925	196,044
<b>Total other assets</b>	<b>186,925</b>	<b>196,044</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,858,824</b>	<b>\$ 5,192,320</b>

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



# **SOUTHWEST RURAL DEVELOPMENT AUTHORITY**

## **Balance Sheets**

*December 31, 2013 and 2012*

<b>LIABILITIES and NET ASSETS</b>	<u>2013</u>	<u>2012</u>
<b>Current liabilities:</b>		
Accounts payable	\$ 35,122	\$ 155,884
Refundable deposits	25,705	23,680
Current maturity - Series A & B bonds	111,772	106,582
Accrued interest payable	<u>986,405</u>	<u>1,011,405</u>
 <b>Total current liabilities</b>	 <b><u>1,159,004</u></b>	 <b><u>1,297,551</u></b>
 <b>Non-current liabilities (Note 2D):</b>		
Multi-family housing revenue		
Bonds - Series A & B, net of discount	<u>6,352,812</u>	<u>6,464,584</u>
 <b>Total non-current liabilities</b>	 <b><u>6,352,812</u></b>	 <b><u>6,464,584</u></b>
 <b>NET ASSETS</b>		
Unrestricted net assets	<u>(2,652,992)</u>	<u>(2,569,815)</u>
 <b>TOTAL LIABILITIES         AND NET ASSETS</b>	 <b><u>\$ 4,858,824</u></b>	 <b><u>\$ 5,192,320</u></b>

*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, 2013 and 2012

REVENUES	2013	2012
Apartment rentals and fees	\$ 537,678	\$ 768,646
Interest income	9	14
<b>Total revenues</b>	<b>537,687</b>	<b>768,660</b>
EXPENSES		
Administrative	12,712	8,169
Advertising	7,575	1,570
Amortization and depreciation	240,876	239,698
Professional services	5,687	9,000
Bank service charges	149	-
Insurance	-	34,711
Interest	309,656	314,276
Repairs and maintenance	25,218	63,400
Management fees	25,080	32,607
Staffing	66,655	98,695
Supplies	6,561	6,768
Trustee fees	5,000	5,000
Utilities	26,202	48,890
Janitorial and cleaning	4,585	5,105
Miscellaneous	69,610	40,982
Unidentified (income) expense	(184,702)	-
<b>Total operating expenses</b>	<b>620,864</b>	<b>908,871</b>
 <b>Net loss</b>	 <b>(83,177)</b>	 <b>(140,211)</b>
Unrestricted net assets - beginning	(2,569,815)	(2,429,604)
<b>Unrestricted net assets - ending</b>	<b>\$ (2,652,992)</b>	<b>\$ (2,569,815)</b>

*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, 2013 and 2012*

	<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities</b>		
Net loss	\$ (83,177)	\$ (140,211)
<b>Adjustments to reconcile net income to net cash provided (used) by operating activities:</b>		
<b>Items not requiring (providing) cash</b>		
Amortization of bond issue fees	9,118	9,118
Depreciation	231,758	230,580
<b>(Increase) Decrease in:</b>		
Accounts receivable	4,668	(1,500)
Prepaid expenses	1,376	-
<b>Increase (Decrease) in:</b>		
Accounts payable	17,495	(6,834)
Refundable deposits	2,025	5,495
Interest payable	(25,000)	3,356
<b>Net cash provided by operating activities</b>	<b><u>158,263</u></b>	<b><u>100,004</u></b>
<b>Cash flows from investing activities:</b>		
Purchase of fixed assets	(25,780)	-
<b>Net cash used for investing activities</b>	<b><u>(25,780)</u></b>	<b><u>-</u></b>
<b>Cash flows from financing activities:</b>		
Payments on revenue bonds	(106,581)	(101,362)
<b>Net cash used for financing activities</b>	<b><u>(106,581)</u></b>	<b><u>(101,362)</u></b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>25,902</b>	<b>(1,358)</b>
Cash and cash equivalents at beginning of year	134,823	136,181
<b>Cash and cash equivalents at end of year</b>	<b><u>\$ 160,725</u></b>	<b><u>\$ 134,823</u></b>

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

# **SOUTHWEST RURAL DEVELOPMENT AUTHORITY**

## **Notes to Financial Statements**

*December 31, 2013 and 2012*

### **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 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, 2013 and 2012*

### 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.

# **SOUTHWEST RURAL DEVELOPMENT AUTHORITY**

## **Notes to Financial Statements**

*December 31, 2013 and 2012*

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**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 March 26, 2015, 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, 2013 and 2012*

### **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, 2013 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 2013 and .01% for 2012 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, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
1. Bond Fund	<u>\$ 36,876</u>	<u>\$ 33,470</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, 2013 and 2012*

### **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>2013</u>	<u>2012</u>
2. Operations, Maintenance, and Improvements Reserve Fund	<u><b>\$ 44,187</b></u>	<u><b>\$ 54,820</b></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 1/12<sup>th</sup> 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>2013</u>	<u>2012</u>
3. Revenue Fund	<u><b>\$ -</b></u>	<u><b>\$ -</b></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, 1/12<sup>th</sup> 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, 2013 and 2012*

### **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 1/12<sup>th</sup> 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 1/12<sup>th</sup> 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 1/12<sup>th</sup> 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 1/12<sup>th</sup> 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, 2013 and 2012*

### **2. DETAILED NOTES ON FINANCIAL STATEMENT AMOUNTS (continued)**

#### **2. Trustee Administered Investment Funds (continued)**

	<u>2013</u>	<u>2012</u>
4. Defaulted Interest Payment Fund	<u>\$ -</u>	<u>\$ -</u>
<u>Deposits to the Defaulted Interest Payment Fund</u>		
a. Transfers from the Revenue Fund pursuant to Section 218(e) of the Third Amendment to the Trust Indenture.		
<u>Disbursements from the Defaulted Interest Payment Fund</u>		
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.		
5. Principal Reduction Fund	<u>\$ 125</u>	<u>\$ 125</u>
<u>Deposits to the Principal Reduction Fund</u>		
a. Transfers from the Revenue Fund pursuant to Section 218(f) of the Third Amendment to the Trust Indenture.		
<u>Disbursements from the Principal Reduction Fund</u>		
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, 2013 and 2012*

### **2. DETAILED NOTES ON FINANCIAL STATEMENT AMOUNTS (continued)**

#### **2. Trustee Administered Investment Funds (continued)**

	<u>2013</u>	<u>2012</u>
6. Operating and Maintenance Fund	<u>\$ 304</u>	<u>\$ 303</u>
<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 <sup>th</sup> 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.		
	<u>2013</u>	<u>2012</u>
7. Expense Fund	<u>\$ 10,760</u>	<u>\$ 10,862</u>
<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, 2013 and 2012*

### 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 1/1/2013	Additions	Balance 12/31/2013
Buildings	\$ 6,906,978	\$ 25,465	\$ 6,932,443
Property, equipment	46,874	315	47,189
Land	111,234	-	111,234
	<b><u>\$ 7,065,086</u></b>	<b><u>\$ 25,780</u></b>	<b><u>\$ 7,090,866</u></b>

	Balance 1/1/2012	Additions	Balance 12/31/2012
Buildings	\$ 6,906,978	\$ -	\$ 6,906,978
Property, equipment	46,874	-	46,874
Land	111,234	-	111,234
	<b><u>\$ 7,065,086</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 7,065,086</u></b>

#### C. Other Assets

Other assets consists of the costs associated with the issuance of the Series 1999 Revenue Bonds. As of December 31, 2013 and 2012 balances in the accounts are as follows:

	2013	2012
Bond issuance costs	\$ 319,141	\$ 319,141
Less amortization based on the term of the issue of 420 months	<u>(132,216)</u>	<u>(123,097)</u>
<b>Net Intangible Costs</b>	<b><u>\$ 186,925</u></b>	<b><u>\$ 196,044</u></b>

# **SOUTHWEST RURAL DEVELOPMENT AUTHORITY**

## **Notes to Financial Statements**

*December 31, 2013 and 2012*

### **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>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, 2013 and 2012*

### **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 \$6,464,584 at December 31, 2013 at an effective interest rate of 4.71%.

The total principle of the bonds outstanding per the bond agreement is \$6,160,000 at the interest rates noted above.

As of December 31, 2013, the annual maturities of long-term debt outstanding are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 111,772	\$ 303,415
2015	\$ 112,068	\$ 298,169
2016	\$ 122,103	\$ 292,909
2017	\$ 127,197	\$ 287,178
2018	\$ 132,254	\$ 281,208

**Briscoe, Burke & Grigsby LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

March 26, 2015

Board of Trustees  
Southwest Rural Development Authority  
Tipton, Oklahoma

We have audited, in accordance with the 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, the financial statements of Southwest Rural Development Authority which comprise the balance sheets as of and for the years ended December 31, 2013 and 2012, and the related statements of revenues, expenses and net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 26, 2015.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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. 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

## **Compliance and Other Matters**

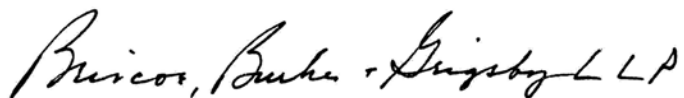
As part of obtaining reasonable assurance about whether Southwest Rural Development Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct 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*.

## **Southwest Rural Development Authority's Response to Findings**

Southwest Rural Development Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. This response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Briscoe, Burke & Grigsby LLP  
Certified Public Accountants

March 26, 2015  
Tulsa, Oklahoma



## APPENDIX I – MATERIAL WEAKNESSES

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### **Finding 2013-1: 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 2013-2: 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. The application of a standard capitalization policy is not in place.

**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.