

Financial Statements

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

December 31, 2015 and 2014

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

INDEPENDENT AUDITOR'S REPORT

and

FINANCIAL STATEMENTS

December 31, 2015 and 2014

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

December 31, 2015 and 2014

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SOUTHWEST RURAL DEVELOPMENT AUTHORITY

BOARD OF TRUSTEES

December 31, 2015

<u>Trustee</u>	<u>County</u>	<u>Term Expires</u>
Don B. Ellis, Chairman	Kiowa	July 2016
Tom Anderson	Kiowa	July 2018
Ray Walker, Vice Chairman	Tillman	July 2016
Jimmie Smith	Tillman	July 2018
David Brown	Jackson	January 2019
Kirk Butler	Jackson	December 2016

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 financial statements of Southwest Rural Development Authority which comprise the balance sheets as of December 31, 2015 and 2014 and the related statements of revenues, expenses and net assets and statements 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 our audits. 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 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.

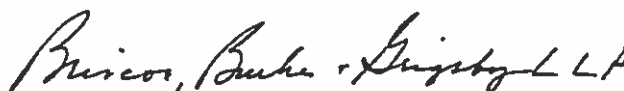
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of Southwest Rural Development Authority as of December 31, 2015 and December 31, 2014 and the results of its operations and cash flows for the years then ended in accordance 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 August 5, 2016 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

August 5, 2016
Tulsa, OK

Briscoe, Burke & Grigsby LLP
CERTIFIED PUBLIC ACCOUNTANTS

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SOUTHWEST RURAL DEVELOPMENT AUTHORITY

Balance Sheets

December 31, 2015 and 2014

ASSETS	2015	2014
Current assets:		
Unrestricted:		
Cash	\$ 46,518	\$ 16,864
Prepaid expenses	23,538	32,685
Total unrestricted current assets	70,056	49,549
Restricted cash and equivalents:		
Bond fund	36,180	36,190
Principle reduction fund	124	124
Operating and maintenance fund	1,148	3,304
Operating, maintenance and improvement reserve fund	49,891	33,090
Expense fund	5,761	10,760
Tenant deposit account	77,584	53,246
Total restricted cash and equivalents	170,688	136,714
Property and equipment:		
Land	111,234	111,234
Buildings	7,005,637	6,960,564
Office furniture and equipment	50,115	49,417
Less: accumulated depreciation	(3,060,290)	(2,818,776)
Total property and equipment	4,106,696	4,302,439
Other assets:		
Deferred costs	168,689	177,807
Total other assets	168,689	177,807
TOTAL ASSETS	\$ 4,516,129	\$ 4,666,509

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

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

Balance Sheets

December 31, 2015 and 2014

LIABILITIES and NET ASSETS	2015	2014
Current liabilities:		
Accounts payable	\$ 27,347	\$ 24,013
Refundable deposits	26,610	25,060
Current maturity - Series A & B bonds	122,103	112,068
Accrued interest payable	902,304	932,304
Total current liabilities	1,078,364	1,093,445
Non-current liabilities :		
Multi-family housing revenue		
Bonds - Series A & B, net of discount	6,118,641	6,240,744
Total non-current liabilities	6,118,641	6,240,744
NET ASSETS		
Unrestricted net assets	(2,680,876)	(2,667,680)
TOTAL LIABILITIES AND NET ASSETS	\$ 4,516,129	\$ 4,666,509

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, 2015 and 2014

REVENUES	2015	2014
Apartment rentals and fees	\$ 880,622	\$ 878,339
Interest income	5	-
Total revenues	880,627	878,339
EXPENSES		
Interest on bonds	299,407	305,552
Amortization and depreciation	250,632	246,380
Staffing	119,970	111,430
Utilities	37,057	49,236
Management fees	40,248	39,913
Repairs and maintenance	37,617	36,373
Insurance	41,080	29,106
Administrative	15,653	17,588
Miscellaneous	15,303	17,010
Supplies	8,668	11,605
Advertising	8,795	10,795
Professional services	8,092	6,333
Janitorial and cleaning	5,834	6,283
Trustee fees	5,000	5,000
Bank service charges	467	423
Total operating expenses	893,823	893,027
Net loss	(13,196)	(14,688)
Unrestricted net assets - beginning	(2,667,680)	(2,652,992)
Unrestricted net assets - ending	\$ (2,680,876)	\$ (2,667,680)

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Net loss	\$ (13,196)	\$ (14,688)
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	241,514	237,262
(Increase) Decrease in:		
Prepaid expenses	9,147	(30,862)
Increase (Decrease) in:		
Accounts payable	3,334	(11,109)
Refundable deposits	1,550	(645)
Interest payable	(30,000)	(54,101)
Net cash provided by operating activities	<u>221,467</u>	<u>134,975</u>
Cash flows from investing activities:		
Purchase of fixed assets	<u>(45,772)</u>	<u>(30,349)</u>
Net cash used for investing activities	<u>(45,772)</u>	<u>(30,349)</u>
Cash flows from financing activities:		
Payments on revenue bonds	<u>(112,068)</u>	<u>(111,772)</u>
Net cash used for financing activities	<u>(112,068)</u>	<u>(111,772)</u>
Net increase (decrease) in cash and cash equivalents	<u>63,627</u>	<u>(7,146)</u>
Cash and cash equivalents at beginning of year	<u>153,579</u>	<u>160,725</u>
Cash and cash equivalents at end of year	<u><u>\$ 217,206</u></u>	<u><u>\$ 153,579</u></u>

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

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

Notes to Financial Statements

December 31, 2015 and 2014

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, 2015 and 2014

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, 2015 and 2014

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 August 5, 2016, 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, 2015 and 2014

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, 2015 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 2015 and .01% for 2014 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, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
1. Bond Fund	<u>\$ 36,180</u>	<u>\$ 36,190</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, 2015 and 2014

2. DETAILED NOTES ON FINANCIAL STATEMENT AMOUNTS (continued)

Cash and Investments

2. Trustee Administered Investment Funds (continued)

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>2015</u>	<u>2014</u>
2. Operations, Maintenance, and Improvements Reserve Fund	<u>\$ 49,891</u>	<u>\$ 33,090</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>2015</u>	<u>2014</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, 2015 and 2014

2. DETAILED NOTES ON FINANCIAL STATEMENT AMOUNTS (continued)

Cash and Investments

2. Trustee Administered Investment Funds (continued)

- 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, 2015 and 2014

2. DETAILED NOTES ON FINANCIAL STATEMENT AMOUNTS (continued)

2. Trustee Administered Investment Funds (continued)

	<u>2015</u>	<u>2014</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 rate 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>\$ 124</u>	<u>\$ 124</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, 2015 and 2014

2. DETAILED NOTES ON FINANCIAL STATEMENT AMOUNTS (continued)

2. Trustee Administered Investment Funds (continued)

	<u>2015</u>	<u>2014</u>
6. Operating and Maintenance Fund	<u>\$ 1,148</u>	<u>\$ 3,304</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 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	<u>\$ 5,761</u>	<u>\$ 10,760</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, 2015 and 2014

2. DETAILED NOTES ON FINANCIAL STATEMENT AMOUNTS (continued)

3. 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 1/1/2015	Additions	Balance 12/31/2015
Buildings	\$ 6,960,564	\$ 45,073	\$ 7,005,637
Property, equipment	49,417	698	50,115
Land	111,234	-	111,234
	<u>\$ 7,121,215</u>	<u>\$ 45,771</u>	<u>\$ 7,166,986</u>

	Balance 1/1/2014	Additions	Balance 12/31/2014
Buildings	\$ 6,930,311	\$ 30,253	\$ 6,960,564
Property, equipment	49,321	96	49,417
Land	111,234	-	111,234
	<u>\$ 7,090,866</u>	<u>\$ 30,349</u>	<u>\$ 7,121,215</u>

4. Other Assets

Other assets consist of the costs associated with the issuance of the Series 1999 Revenue Bonds. As of December 31, 2015 and 2014 balances in the accounts are as follows:

	2015	2014
Bond issuance costs	\$ 319,141	\$ 319,141
Less amortization based on the term of the issue of 420 months	<u>(150,452)</u>	<u>(141,334)</u>
Net Intangible Costs	<u>\$ 168,689</u>	<u>\$ 177,807</u>

SOUTHWEST RURAL DEVELOPMENT AUTHORITY

Notes to Financial Statements

December 31, 2015 and 2014

2. DETAILED NOTES ON FINANCIAL STATEMENT AMOUNTS (continued)

5. 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, 2015 and 2014

2. DETAILED NOTES ON FINANCIAL STATEMENT AMOUNTS (continued)

5. 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 \$6,240,744 at December 31, 2015 at an effective interest rate of 4.75%.

The total principle of the bonds outstanding per the bond agreement is \$5,980,000 at the interest rates noted above.

As of December 31, 2015, the annual maturities of long-term debt outstanding are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 122,103	\$ 292,909
2017	\$ 127,197	\$ 287,178
2018	\$ 132,254	\$ 281,208
2019	\$ 137,274	\$ 275,001
2020	\$ 142,254	\$ 268,558