

# AUDIT REPORT

ELM BEND WATER DISTRICT, INC.  
NOWATA COUNTY, OKLAHOMA

JUNE 30, 2012



KERSHAW CPA & ASSOCIATES, PC

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ELM BEND WATER DISTRICT, INC.  
NOWATA COUNTY, OKLAHOMA  
JUNE 30, 2012

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ELM BEND WATER DISTRICT, INC.  
NOWATA COUNTY, OKLAHOMA  
JUNE 30, 2012

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
GARY KULCHINSKI	CHAIRMAN	NOVEMBER 2012
JIM BELL	VICE-CHAIRMAN	NOVEMBER 2012
JENIFER PIERCE	SEC/TREASURER	NOVEMBER 2013
CHARLES DRAKE	MEMBER	NOVEMBER 2013
JACKIE VOSS	MEMBER	NOVEMBER 2014

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Elm Bend Water District, Inc.  
Nowata County, Oklahoma

We have audited the accompanying financial statements of the Elm Bend Water District, Inc., as of and for the fiscal year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Elm Bend Water District, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Elm Bend Water District, Inc., Nowata County, Oklahoma, as of June 30, 2012, and the results of its operations and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 16, 2012, on our consideration of the Elm Bend Water District, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreement and other matters. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

Elm Bend Water District, Inc. has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However, the District has not presented the Management's Discussion and Analysis required by the

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Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion thereon.

*Kershaw CPA & Associates, P.C.*  
Kershaw CPA & Associates, PC

November 16, 2012

## EXHIBIT A

ELM BEND WATER DISTRICT, INC.  
 NOWATA COUNTY, OKLAHOMA  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2012

	Total 2012	Total (Memo Only) 2011
<b><u>ASSETS</u></b>		
<b><u>Current Assets:</u></b>		
Cash in Bank - Operations & Maintenance	\$ 11,133	\$ 4,423
Cash in Bank - Revenue Acct	53,824	58,074
Cash in Bank - Expansion Acct	5,415	5,409
Certificate of Deposit - Expansion Acct	122,885	121,605
Accounts Receivable	7,454	4,788
Interest Receivable	545	594
Prepaid Insurance	2,449	2,451
<b>Total Current Assets</b>	<b>203,704</b>	<b>197,344</b>
<b><u>Capital Assets:</u></b>		
Water Distribution System & Equipment	1,212,220	1,189,761
Less: Accumulated Depreciation	(569,688)	(545,838)
<b>Total Capital Assets</b>	<b>642,532</b>	<b>643,923</b>
<b>TOTAL ASSETS</b>	<b>\$ 846,236</b>	<b>\$ 841,267</b>
<b><u>LIABILITIES</u></b>		
<b><u>Current Liabilities:</u></b>		
Accounts Payable	\$ 19,188	\$ 15,404
<b>Total Current Liabilities</b>	<b>19,188</b>	<b>15,404</b>
<b><u>Long-Term Liabilities:</u></b>		
Notes Payable	-	-
<b>TOTAL LIABILITIES</b>	<b>19,188</b>	<b>15,404</b>
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	642,532	643,923
Restricted for debt service	-	-
Unrestricted	184,517	181,940
<b>TOTAL NET ASSETS</b>	<b>827,049</b>	<b>825,863</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 846,236</b>	<b>\$ 841,267</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

## EXHIBIT B

**ELM BEND WATER DISTRICT, INC.  
NOWATA COUNTY, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<b>Total June 30, 2012</b>	<b>Total (Memo Only) June 30, 2011</b>
<b><u>Operating Revenues:</u></b>		
Water Sales	\$ 211,954	\$ 192,264
Membership Income (Extensions Granted)	16,000	8,000
Penalty Income	1,937	1,817
Other Income	2,140	1,778
<b>Total Operating Revenues</b>	<b>232,031</b>	<b>203,860</b>
<b><u>Operating Expenses:</u></b>		
Water Purchased	101,088	95,692
Management Fees	71,331	70,830
Repairs & Maintenance	23,060	20,995
Professional Fees	1,200	1,200
Director Stipend	1,475	1,375
Bookkeeping	-	309
Bad Debt	479	-
Utilities	6,108	7,371
Insurance	1,874	1,758
Depreciation	23,850	23,531
Other Miscellaneous Expenses	1,680	1,966
<b>Total Operating Expenses</b>	<b>232,146</b>	<b>225,026</b>
<b>Operating Income (Loss)</b>	<b>(115)</b>	<b>(21,166)</b>
<b><u>Non-Operating Revenues (Expenses):</u></b>		
Interest Income	1,301	1,525
Interest Expense	-	-
Gain(Loss) on Sale/Disposal of Assets	-	-
<b>Total Non-operating Revenues (Expenses)</b>	<b>1,301</b>	<b>1,525</b>
<b>Net Income (Loss) Before Contributions</b>	<b>1,186</b>	<b>(19,642)</b>
<b>Capital Contributions</b>	<b>-</b>	<b>-</b>
<b>Change in Net Assets</b>	<b>1,186</b>	<b>(19,642)</b>
<b>Total Net Assets - Beginning</b>	<b>825,863</b>	<b>845,504</b>
<b>Total Net Assets - Prior Year Adjustment</b>	<b>-</b>	<b>-</b>
<b>Total Net Assets - Ending</b>	<b>\$ 827,049</b>	<b>\$ 825,863</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

## EXHIBIT C

ELM BEND WATER DISTRICT, INC.  
 NOWATA COUNTY, OKLAHOMA  
 STATEMENT OF CASH FLOWS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	June 30, 2012	Memorandum Only June 30, 2011
<b><u>Net Cash Flows from Operating Activities:</u></b>		
Cash Receipts from Customers	\$ 229,365	\$ 200,373
Other Cash Receipts	-	-
Payments to Suppliers & Laborers	(204,510)	(196,046)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>24,856</b>	<b>4,327</b>
<b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions/Deductions to Capital Assets	(22,459)	(17,955)
Proceeds from sale of Capital Assets	-	-
Principal paid on Debt	-	-
Interest paid on Debt	-	-
<b>Net Cash Provided (Used) by Capital &amp; Related Financing Activities</b>	<b>(22,459)</b>	<b>(17,955)</b>
<b><u>Net Cash Flows from Investing Activities:</u></b>		
Interest Income Received	1,349	1,725
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>1,349</b>	<b>1,725</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>3,746</b>	<b>(11,903)</b>
<b>Cash &amp; Cash Equivalents, Beginning of Year</b>	<b>189,511</b>	<b>201,413</b>
<b>Cash &amp; Cash Equivalents, Prior Year Adjustment</b>	<b>-</b>	<b>-</b>
<b>Cash &amp; Cash Equivalents, End of Year</b>	<b>\$ 193,256</b>	<b>\$ 189,511</b>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>		
Operating Income (Loss)	\$ (115)	\$ (21,166)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	23,850	23,531
(Increase)Decrease in Accounts Receivable	(2,666)	(3,487)
(Increase)Decrease in Prepaid Expenses	2	46
Increase(Decrease) in Accounts Payable	3,784	5,404
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 24,856</b>	<b>\$ 4,327</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements



ELM BEND WATER DISTRICT, INC.  
NOWATA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Elm Bend Water District, Inc. (the District) was created under the provisions of the laws of the State of Oklahoma. The activities of the District constitute the entire reporting entity. There are no component or oversight units. The purpose of the water district is to provide for the use and benefit of its members a water distribution system, operations and maintenance.

B. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The District uses the accrual basis of accounting, which is in accordance with U.S. generally accepted accounting principles. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

D. Budgetary Data

In accordance with the By-laws of the District, an annual budget is prepared for internal bookkeeping purposes.

E. Assets, Liabilities, & Equity

Cash & Cash Equivalents

For the purpose of financial reporting, "cash & cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

ELM BEND WATER DISTRICT, INC.  
NOWATA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

Investments

Investments classified in the financial statements consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value. As of June 30, 2012, the District had money invested in one certificate of deposit with a balance of \$122,884.76. The certificate of deposit held at Regent Bank is reserved for expansion expenses.

Capital Assets

The District depreciates all of its water systems at the rate of 2% per year. The computer and office equipment are being written off at a rate of 20% per year. Purchases of capital items in excess of \$300.00 for water system additions and \$1,000.00 for equipment additions that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Equity Classification

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

F. Revenues, expenditures & expenses

ELM BEND WATER DISTRICT, INC.  
NOWATA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

G. Memorandum Only

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

Because the District has no long-term debt, there are no reserve requirements.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2012 the District held deposits of approximately \$193,256 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

ELM BEND WATER DISTRICT, INC.  
NOWATA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

### Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

### NOTE 4 - RESTRICTED ASSETS

The District currently has no restricted assets.

### NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended June 30, 2012, was as follows:

	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
Office Equipment	\$ -	\$ -	\$ -	\$ -
Water System	1,189,761	22,459	-	1,212,220
Subtotal	1,189,761	22,459	-	1,212,220
Less: Accum. Depr.	(545,838)	(23,850)	-	(569,688)
Total Capital Assets (Net of Depreciation)	<u>\$ 643,923</u>	<u>\$ (1,391)</u>	<u>\$ -</u>	<u>\$ 642,532</u>

### NOTE 6 - LONG-TERM DEBT

The District currently has no long-term debt.

ELM BEND WATER DISTRICT, INC.  
NOWATA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2012:

	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
Notes Payable	\$ -	\$ -	\$ -	\$ -
Total Long-Term Debt	\$ -	\$ -	\$ -	\$ -

NOTE 7 - FUND EQUITY

As described in Note 1 above, equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

The District does not have any restricted net assets.

NOTE 8 - CONTINGENCIES

Litigation

The District currently has no pending litigation.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 9 - WATER SUPPLY

Elm Bend Water District, Inc. purchases its water from the City of Nowata.

NOTE 10 - WATER RATES

As of June 30, 2012 the water rates were as follows:

- Minimum \$12.00 (zero water usage)
- \$5.50 per 1,000 gallons of water usage

The charge for new membership units is \$4,000.

ELM BEND WATER DISTRICT, INC.  
NOWATA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

NOTE 11 - DIRECTORS' FEES

The by-laws of the District were amended during the November 9, 1989 general membership meeting to include a cash disbursement of \$25.00 to each member of the Board for attendance at each regularly scheduled meeting of the Board and to reimburse each member of the Board for travel expenses incurred while attending upon necessary business of the Corporation. This expense is shown as directors' stipend.

NOTE 12 - INSURANCE

The District maintains the following insurance coverage through OWRA Assurance Group:

- Auto Liability
- Property Coverage
- Comprehensive General Liability
- Errors or Omissions
- Employment Related Practices Liability
- Employee Dishonesty and Crime Coverage

NOTE 13 - SUBSEQUENT EVENTS

The District did not have any subsequent events through November 16, 2012, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2012.

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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Elm Bend Water District, Inc.  
Nowata County, Oklahoma

We have audited the financial statements of the Elm Bend Water District, Inc., as of June 30, 2012 and have issued our report thereon dated November 16, 2012. The Elm Bend Water District, Inc. has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes.

### Internal Control Over Financial Reporting

Management of the Elm Bend Water District, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Elm Bend Water District, Inc.'s internal control over financial reporting 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 Elm Bend Water District, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Elm Bend Water District, Inc.'s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

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## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Elm Bend Water District, Inc.'s financial statements are free of material misstatement, we performed tests of compliance with certain laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the board of directors and management of the Elm Bend Water District, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

*Kershaw CPA & Associates, P.C.*  
Kershaw CPA & Associates, PC

November 16, 2012