AUDIT REPORT

ELM BEND WATER DISTRICT, INC.
NOWATA COUNTY, OKLAHOMA

JUNE 30, 2013

KERSHAW CPA & ASSOCIATES, PC

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ELM BEND WATER DISTRICT, INC.
NOWATA COUNTY, OKLAHOMA
JUNE 30, 2013

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ELM BEND WATER DISTRICT, INC.
NOWATA COUNTY, OKLAHOMA
JUNE 30, 2013

BOARD OF DIRECTORS

NAME	POSITION	TERM EXPIRATION
GARY KULCHINSKI	CHAIRMAN	NOVEMBER 2015
JIM BELL	VICE-CHAIRMAN	NOVEMBER 2015
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

Report on the Financial Statements

We have audited the accompanying financial statements of Elm Bend Water District, Inc., as of and for the fiscal year ended June 30, 2013, as listed in the table of contents and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 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 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

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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 respective financial position of the Elm Bend Water District, Inc., as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

The introductory section listed in the accompanying table of contents is presented for the purpose of additional analysis and is 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

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accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 18, 2013, 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 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 Elm Bend Water District, Inc.'s internal control over financial reporting and compliance.

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

November 18, 2013

EXHIBIT A

ELM BEND WATER DISTRICT, INC.
NOWATA COUNTY, OKLAHOMA
STATEMENT OF NET POSITION
JUNE 30, 2013

	Total 2013	Total (Memo Only) 2012
ASSETS		
Current Assets:		
Cash in Bank - Operations & Maintenance	$ 10,642	$ 11,133
Cash in Bank - Revenue Acct	38,813	53,824
Cash in Bank - Expansion Acct	5,420	5,415
Certificate of Deposit - Expansion Acct	124,120	122,885
Accounts Receivable	8,525	7,454
Interest Receivable	551	545
Prepaid Insurance	2,409	2,449
Total Current Assets	190,481	203,704
Capital Assets:		
Water Distribution System & Equipment	1,240,122	1,212,220
Less: Accumulated Depreciation	(594,106)	(569,688)
Total Capital Assets	646,016	642,532
TOTAL ASSETS	$ 836,497	$ 846,236
LIABILITIES		
Current Liabilities:		
Accounts Payable	$ 18,546	$ 19,188
Total Current Liabilities	18,546	19,188
Long-Term Liabilities:		
Notes Payable	-	-
TOTAL LIABILITIES	18,546	19,188
NET POSITION		
Net investment in capital assets	646,016	642,532
Restricted for debt service	-	-
Unrestricted	171,935	184,517
TOTAL NET POSITION	817,951	827,049
TOTAL LIABILITIES & NET POSITION	$ 836,497	$ 846,236

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 POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Total June 30, 2013	Total (Memo Only) June 30, 2012
Operating Revenues:		
Water Sales	$ 213,708	$ 211,954
Membership Income (Extensions Granted)	12,000	16,000
Penalty Income	1,915	1,937
Other Income	1,547	2,140
Total Operating Revenues	229,170	232,031
Operating Expenses:		
Water Purchased	102,388	101,088
Management Fees	72,924	71,331
Repairs & Maintenance	25,127	23,060
Professional Fees	1,275	1,200
Director Stipend	1,500	1,475
Bookkeeping	-	-
Bad Debt	401	479
Utilities	6,519	6,108
Insurance	1,762	1,874
Depreciation	24,418	23,850
Other Miscellaneous Expenses	3,275	1,680
Total Operating Expenses	239,589	232,146
Operating Income (Loss)	(10,419)	(115)
Non-Operating Revenues (Expenses):		
Interest Income	1,321	1,301
Interest Expense	-	-
Gain(Loss) on Sale/Disposal of Assets	-	-
Total Non-operating Revenues (Expenses)	1,321	1,301
Net Income (Loss) Before Contributions	(9,098)	1,186
Capital Contributions	-	-
Change in Net Position	(9,098)	1,186
Total Net Position - Beginning	827,049	825,863
Total Net Position - Prior Year Adjustment	-	-
Total Net Position - Ending	$ 817,951	$ 827,049

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, 2013

	June 30, 2013	Memorandum Only June 30, 2012
Cash Flows from Operating Activities:		
Cash Receipts from Customers	$ 228,098	$ 229,365
Other Cash Receipts	-	-
Payments to Suppliers & Laborers	(215,773)	(204,510)
Net Cash Provided (Used) by Operating Activities	12,326	24,856
Cash Flows from Capital & Related Financing Activities:		
Additions/Deductions to Capital Assets	(27,902)	(22,459)
Proceeds from sale of Capital Assets	-	-
Principal paid on Debt	-	-
Interest paid on Debt	-	-
Net Cash Provided (Used) by Capital & Related Financing Activities	(27,902)	(22,459)
Cash Flows from Investing Activities:		
Interest Income Received	1,315	1,349
Net Cash Provided (Used) by Investing Activities	1,315	1,349
Net Increase (Decrease) in Cash and Cash Equivalents	(14,261)	3,746
Cash & Cash Equivalents, Beginning of Year	193,256	189,511
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	$ 178,996	$ 193,256
Reconciliation of operating income (loss) to net cash provided operating activities:		
Operating Income (Loss)	$ (10,419)	$ (115)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	24,418	23,850
(Increase)Decrease in Accounts Receivable	(1,072)	(2,666)
(Increase)Decrease in Prepaid Expenses	41	2
Increase(Decrease) in Accounts Payable	(642)	3,784
Net Cash Provided (Used) by Operating Activities	$ 12,326	$ 24,856

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

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. Financial Position

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.

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, 2013, the District had money invested in one certificate of deposit with a balance of $124,120.06. 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 position and displayed in three components:

1. Net investment in capital assets — 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 and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

2. Restricted — Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction 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 amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

F. Revenues, expenditures & expenses

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, 2013 the District held deposits of approximately $178,996 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.

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, 2013, was as follows:

	Balance at June 30, 2012	Additions	Deductions	Balance at June 30, 2013
Office Equipment	$ -	$ -	$ -	$ -
Water System	1,212,220	27,902	-	1,240,122
Subtotal	1,212,220	27,902	-	1,240,122
Less: Accum. Depr.	(569,688)	(24,418)	-	(594,106)
Total Capital Assets (Net of Depreciation)	$ 642,532	$ 3,484	$ -	$ 646,016

NOTE 6 - LONG-TERM DEBT

The District currently has no long-term debt.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2013:

	Balance at June 30, 2012	Additions	Deductions	Balance at June 30, 2013
Notes Payable	$ -	$ -	$ -	$ -
Total Long-Term Debt	$ -	$ -	$ -	$ -

NOTE 7 - FUND EQUITY

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

1. Net investment in capital assets
2. Restricted
3. Unrestricted

The District does not have any restricted amounts.

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, 2013 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.

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 18, 2013, 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, 2013.

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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, 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, and in accordance with Oklahoma Statutes, the financial statements of the Elm Bend Water District, Inc., as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated November 18, 2013. 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.

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 (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Elm Bend Water District, Inc.'s internal control.

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. A significant deficiency is a deficiency, or a 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.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

This report is intended 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.

Kershaw, CPA & Associates, PC

November 18, 2013