

# AUDIT REPORT

EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA

JUNE 30, 2014

## KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: [KERSHAWCPA.COM](http://KERSHAWCPA.COM)  
E-MAIL: [REK@KERSHAWCPA.COM](mailto:REK@KERSHAWCPA.COM)

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
JUNE 30, 2014

TABLE OF CONTENTS

|   | <u>PAGE</u> |
|---|-------------|
| INTRODUCTORY SECTION:   |             |
| BOARD OF DIRECTORS  | 3           |
| FINANCIAL SECTION:  |             |
| INDEPENDENT AUDITOR'S REPORT  | 4-6         |
| BASIC FINANCIAL STATEMENTS:   |             |
| EXHIBIT A    STATEMENT OF NET POSITION  | 7           |
| EXHIBIT B    STATEMENT OF REVENUES, EXPENSES,<br>AND CHANGES IN NET POSITION  | 8           |
| EXHIBIT C    STATEMENT OF CASH FLOWS  | 9           |
| NOTES TO THE FINANCIAL STATEMENTS   | 10-17       |
| REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON<br>COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL<br>STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING<br/>STANDARDS</i> | 18-19       |

EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
JUNE 30, 2014

BOARD OF DIRECTORS

| <u>NAME</u>       | <u>POSITION</u> | <u>TERM EXPIRATION</u> |
|-------------------|-----------------|------------------------|
| MICK RABB         | CHAIRMAN        | 8/2014                 |
| MICHAEL MCPHERSON | VICE-CHAIRMAN   | 8/2016                 |
| GIP ALLEN         | SECRETARY       | 8/2015                 |
| ANDREW YATES      | BOARD MEMBER    | 8/2016                 |
| STEVE HUGHES      | BOARD MEMBER    | 8/2015                 |

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

---

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Evergreen Rural Water District #18  
Osage County, Oklahoma

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Evergreen Rural Water District #18, as of and for the fiscal year ended June 30, 2014, 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

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

---

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 respective financial position of the Evergreen Rural Water District #18, as of June 30, 2014, 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*

Evergreen Rural Water District #18 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

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

---

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 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 January 19, 2015, on our consideration of the Evergreen Rural Water District #18'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 Evergreen Rural Water District #18's internal control over financial reporting and compliance.

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

January 19, 2015

## EXHIBIT A

EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
STATEMENT OF NET POSITION  
JUNE 30, 2014

| <u>ASSETS</u>                              | <u>2014</u>              | <u>Memo Only<br/>2013</u> |
|--|--------------------------|---------------------------|
| <u>Current Assets:</u>                     |                          |                           |
| Cash and cash equivalents                  | \$ 58,334                | \$ 58,387                 |
| Accounts Receivable                        | 9,476                    | 8,450                     |
| Prepaid Insurance                          | 1,723                    | 1,674                     |
| Total Current Assets                       | <u>69,533</u>            | <u>68,511</u>             |
| <u>Capital Assets:</u>                     |                          |                           |
| Water System                               | 955,312                  | 954,910                   |
| Extension System                           | 107,992                  | 107,992                   |
| Less: Accumulated Depreciation             | <u>(389,028)</u>         | <u>(362,392)</u>          |
| Total Fixed Assets                         | <u>674,277</u>           | <u>700,511</u>            |
| <u>Other Assets:</u>                       |                          |                           |
| Restricted - Loan reserve (Note 2)         | 16,687                   | 16,687                    |
| Restricted - Interest reserve (Note 2)     | 778                      | 742                       |
| Loan fees, net of accumulated amortization | <u>1,003</u>             | <u>1,133</u>              |
| Total Other Assets                         | <u>18,467</u>            | <u>18,562</u>             |
| <b>TOTAL ASSETS</b>                        | <b><u>\$ 762,276</u></b> | <b><u>\$ 787,584</u></b>  |
| <u>LIABILITIES &amp; NET POSITION</u>      |                          |                           |
| <u>Current Liabilities:</u>                |                          |                           |
| Accounts Payable                           | \$ 9,606                 | \$ 6,685                  |
| Accrued interest payable                   | 144                      | 159                       |
| Current Portion of Long-Term Debt          | <u>7,950</u>             | <u>7,350</u>              |
| Total Current Liabilities                  | <u>17,700</u>            | <u>14,194</u>             |
| <u>Long-Term Liabilities:</u>              |                          |                           |
| Notes Payable                              | 119,500                  | 126,850                   |
| Less: Current Portion of Long-Term Debt    | <u>(7,950)</u>           | <u>(7,350)</u>            |
| Total Long-Term Debt                       | <u>111,550</u>           | <u>119,500</u>            |
| <b>TOTAL LIABILITIES</b>                   | <b><u>129,250</u></b>    | <b><u>133,694</u></b>     |
| <u>NET POSITION:</u>                       |                          |                           |
| Net investment in capital assets           | 554,777                  | 573,661                   |
| Restricted for debt service                | 17,464                   | 17,429                    |
| Unrestricted                               | <u>60,785</u>            | <u>62,800</u>             |
| <b>TOTAL NET POSITION</b>                  | <b><u>633,026</u></b>    | <b><u>653,890</u></b>     |
| <b>TOTAL LIABILITIES AND NET POSITION</b>  | <b><u>\$ 762,276</u></b> | <b><u>\$ 787,584</u></b>  |

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

## EXHIBIT B

EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION  
FOR THE TWELVE MONTHS ENDED JUNE 30, 2014

|  | 2014              | Memo Only<br>2013 |
|--|-------------------|-------------------|
| <b><u>Operating Revenues:</u></b>                |                   |                   |
| Water sales                                      | \$ 99,907         | \$ 97,703         |
| Penalties  | 1,538             | 2,153             |
| Transfer fees                                    | 170               | 640               |
| Miscellaneous                                    | 824               | 770               |
| <b>Total Operating Revenues</b>                  | <b>102,439</b>    | <b>101,266</b>    |
| <b><u>Operating Expenses:</u></b>                |                   |                   |
| Water purchases                                  | 40,941            | 36,555            |
| Trustee fees                                     | 750               | 750               |
| Insurance  | 1,502             | 1,390             |
| Postage and bank charges                         | -                 | 17                |
| Management fees                                  | 42,600            | 42,000            |
| Transfer charges                                 | 170               | 655               |
| Utilities  | 1,947             | 1,983             |
| Maintenance and repair                           | 8,063             | 5,138             |
| Accounting                                       | 600               | 3,100             |
| Membership fees                                  | 141               | 136               |
| Miscellaneous                                    | 83                | 278               |
| Bad Debt Expense                                 | -                 | 740               |
| Depreciation Expense                             | 26,636            | 26,626            |
| Amortization expense                             | 130               | 130               |
| <b>Total Operating Expenses</b>                  | <b>123,564</b>    | <b>119,498</b>    |
| <b>Net Operating Income (Loss)</b>               | <b>(21,125)</b>   | <b>(18,233)</b>   |
| <b><u>Non-operating Income (Expense):</u></b>    |                   |                   |
| Interest Income                                  | 0                 | 1                 |
| Interest Expense                                 | (1,833)           | (1,693)           |
| Benefit Units                                    | 750               | 2,300             |
| <b>Total Non-operating Income (Expense)</b>      | <b>(1,083)</b>    | <b>609</b>        |
| <b>Change in Net Position</b>                    | <b>(22,208)</b>   | <b>(17,624)</b>   |
| <b>Capital Contributions</b>                     | <b>-</b>          | <b>-</b>          |
| <b>Total Net Position, Beginning of Year</b>     | <b>653,890</b>    | <b>671,514</b>    |
| <b>Total Net Position, Prior Year Adjustment</b> | <b>1,344</b>      | <b>-</b>          |
| <b>Total Net Position, End of Year</b>           | <b>\$ 633,026</b> | <b>\$ 653,890</b> |

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



## EXHIBIT C

EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS  
FOR THE TWELVE MONTHS ENDED JUNE 30, 2014

|   | 2014             | Memo Only<br>2013 |
|---|------------------|-------------------|
| <b><u>Cash Flows from Operating Activities:</u></b>   |                  |                   |
| Cash Receipts from Customers & Others   | \$ 101,413       | \$ 103,051        |
| Payments to Suppliers for Goods & Services  | (93,925)         | (93,677)          |
| Net Cash Provided (Used) by Operating Activities  | <u>7,488</u>     | <u>9,373</u>      |
| <b><u>Cash Flows from Capital &amp; Related Financing Activities:</u></b>                               |                  |                   |
| Additions to Capital Assets   | (402)            | (1,570)           |
| Proceeds from Sale of Capital Assets  | -                | -                 |
| (Increase)Decrease in reserve funds   | (35)             | (53)              |
| Issuance of benefit units   | 750              | 2,300             |
| Loan Proceeds   | -                | -                 |
| Principal paid on long-term debt  | (7,350)          | (6,800)           |
| Interest paid on Debt   | (1,848)          | (1,664)           |
| Net Cash Provided (Used) by Capital & Related Financing Activities                                      | <u>(8,885)</u>   | <u>(7,788)</u>    |
| <b><u>Cash Flows from Investing Activities:</u></b>   |                  |                   |
| Interest Income   | 0                | 1                 |
| Net Cash Provided (Used) by Investing Activities  | <u>0</u>         | <u>1</u>          |
| Net Increase (Decrease) in Cash and Cash Equivalents  | (1,397)          | 1,587             |
| Cash & Cash Equivalents, Beginning of Year  | 58,387           | 56,800            |
| Cash & Cash Equivalents, Prior Year Adjustment  | 1,344            | -                 |
| Cash & Cash Equivalents, End of Year  | <u>\$ 58,334</u> | <u>\$ 58,387</u>  |
| <b><u>Reconciliation of operating income (loss) to net cash provided<br/>operating activities:</u></b>  |                  |                   |
| Operating Income (Loss)   | \$ (21,125)      | \$ (18,233)       |
| Adjustments to reconcile operating income (loss) to net cash<br>provided (used) by operating activities |                  |                   |
| Depreciation & Amortization   | 26,766           | 26,756            |
| (Increase)Decrease in Accounts Receivable   | (1,026)          | 1,785             |
| (Increase)Decrease in Prepaid Insurance   | (49)             | (104)             |
| Increase(Decrease) in Accounts Payable & other liabilities  | 2,921            | (832)             |
| Net Cash Provided (Used) by Operating Activities  | <u>\$ 7,488</u>  | <u>\$ 9,373</u>   |
| <b>Supplemental disclosures of cash flow information:</b>   |                  |                   |
| Interest paid (cash basis)  | <u>\$ 1,848</u>  | <u>\$ 1,664</u>   |
| Interest incurred (accrual basis)   | <u>\$ 1,833</u>  | <u>\$ 1,693</u>   |

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

EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies employed by Evergreen Rural Water District #18 (the District) are consistent with accounting principles generally accepted in the United States of America. Significant policies are described below.

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. The statement established a new reporting model for governments that is substantially different from prior reporting standards. The District adopted the new reporting model June 30, 2004, which includes the following segments:

*Management's Discussion & Analysis* - provides introductory information on basic financial statements and an analytical overview of the District's financial activities. For the year ended June 30, 2014, management has not presented the Management's Discussion and Analysis as required by the Governmental Accounting Standards Board (GASB) and GASB has determined it necessary to supplement, although not required to be part of, the basic financial statements.

*Fund financial statements* - provide information about the District's proprietary fund. The proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets.

A. Financial Reporting Entity:

The District is a rural water distribution system organized pursuant to the provisions of the Oklahoma Rural Water, Sewer and Solid Waste Management Districts Act, as amended 1820.S Supp. 1972, SS1324.1-1324.26 and is operated principally to provide water to its members south of the Pawhuska area of Osage County, Oklahoma.

EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

B. Basis of Accounting:

The financial statements are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenditures are recorded when the liability is incurred.

C. Income Taxes:

The District is incorporated under Title 82, Chapter 18, of the Oklahoma Statutes as a Rural Water District. The management of Evergreen Rural Water District #18 believes the District is exempt from Federal income tax under IRC Section 115. This code section states that income to any state or political subdivision is exempt from taxation. Therefore, the District does not file an income tax return.

D. Estimates:

The preparation of financial statements in conformity with accounting principles generally in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

E. Membership Benefit Units:

Members purchase benefit units for the right to obtain services from the Water District. Fees paid for benefit units are considered donations to the Water District and are nonrefundable. A membership certificate is issued to each holder of a fully paid membership fee. Membership certificates may be transferred with the approval of the Board of Directors. Benefit units sold are reflected as non-operating income in the period the services are established.

F. Cash and Cash Equivalents:

Cash and cash equivalents include amounts in demand deposits, money market funds, and certificates of deposit with and original maturity of three months or less.

EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

G. Property, Plant and Equipment:

The property, plant and equipment is stated, generally, at cost. Depreciation of these assets is computed by the straight-line method over the estimated useful life of the asset. Purchases of capital items in excess of \$350 that increase the capacity or operation efficiency or extends the useful life of any asset are capitalized.

The water distribution system (including the extension) is recorded at cost and depreciated over its estimated useful life using the straight-line method.

H. 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.

EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

I. 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.

J. Accounts receivables & doubtful accounts:

The district maintains a strict policy of cutting off and collecting delinquent accounts. Therefore, no provision has been made for bad debts or uncollectible receivables. Any such amounts would be considered immaterial.

K. Memorandum Only

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

NOTE 2 - OTHER ASSETS

Evergreen Rural Water District #18 established two reserve accounts held by the Bank of Oklahoma Trust Department from the Oklahoma Water Resources Board's loan proceeds. The loan reserve account is for the purpose of debt servicing. This amount will remain in the account during the life of the loan to provide funds in the event Evergreen Rural Water District #18 is unable to make a full payment, or for the last payment of the loan. Any funds used from the loan reserve must be replaced.

The interest reserve account was established from interest paid during the construction phase of the project. Interest expense was capitalized during the construction phase and will be depreciated over the estimated life of the asset. Since completion of the construction phase, the interest reserve account is used to accumulate funds for debt service to the Oklahoma Water Resource Board's loan.

NOTE 3 - 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

EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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

See Note 2 above.

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 4 - DEPOSITS AND INVESTMENTS

Custodial Credit Risk

At June 30, 2014, the District held deposits of approximately \$58,334 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

EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended June 30, 2014, was as follows:

|   | Balance at<br>June 30, 2013 | Additions          | Deductions  | Balance at<br>June 30, 2014 |
|---|-----------------------------|--------------------|-------------|-----------------------------|
| Water System                                  | \$ 954,910                  | \$ 402             | \$ -        | \$ 955,312                  |
| Extension System                              | 107,992                     | -                  | -           | 107,992                     |
| Subtotal                                      | 1,062,903                   | 402                | -           | 1,063,305                   |
| Less: Accum. Depr.                            | (362,392)                   | (26,636)           | -           | (389,028)                   |
| Total Capital Assets<br>(Net of Depreciation) | <u>\$ 700,511</u>           | <u>\$ (26,234)</u> | <u>\$ -</u> | <u>\$ 674,277</u>           |

NOTE 6 - LONG-TERM DEBT

The District has a loan numbered FAP-97-003-L with the Oklahoma Water Resources Board, payable in semi-annual installments, currently at 1.550% interest. The maturity date is September 1, 2024. The water system and its gross revenues serve as collateral. Principal payments commenced on August 15, 2000.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2014:

EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

|                      | Balance at<br>June 30,<br>2013 | Additions   | Deductions        | Balance at<br>June 30,<br>2014 |
|----------------------|--------------------------------|-------------|-------------------|--------------------------------|
| Note Payable - OWRB  | \$ 126,850                     | \$ -        | \$ (7,350)        | \$ 119,500                     |
| Total Long-Term Debt | <u>\$ 126,850</u>              | <u>\$ -</u> | <u>\$ (7,350)</u> | <u>\$ 119,500</u>              |

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal only, for long-term debt, as of June 30, 2014, are as follows:

Long-Term Note - OWRB

| Year Ending<br>June 30, | Principal         |
|-------------------------|-------------------|
| 2015                    | \$ 7,950          |
| 2016                    | 8,600             |
| 2017                    | 9,250             |
| 2018                    | 10,000            |
| 2019                    | 10,800            |
| 2020-2024               | 68,850            |
| 2025                    | 4,050             |
| Total                   | <u>\$ 119,500</u> |

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

Restricted amounts are described in Note 2 above.

NOTE 8 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at June 30, 2014, which would have a material effect on the financial statements.



EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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 - ECONOMIC DEPENDENCE

Evergreen Rural Water District #18 is dependent upon the City of Pawhuska, Oklahoma, for the District's water supply. The contract extends for a term of forty years from February 1, 1999, and may be automatically extended for successive like terms until terminated by the mutual consent of both parties.

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through January 19, 2015, 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, 2014.

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

---

## 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  
Evergreen Rural Water District #18  
Osage 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 Evergreen Rural Water District #18, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated January 19, 2015. The Evergreen Rural Water District #18 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 Evergreen Rural Water District #18'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 Evergreen Rural Water District #18's internal control. Accordingly, we do not express an opinion on the effectiveness of Evergreen Rural Water District #18'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.

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

---

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 Evergreen Rural Water District #18'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

January 19, 2015