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16929

## AUDIT REPORT

# EVERGREEN RURAL WATER DISTRICT #18 OSAGE COUNTY, OKLAHOMA

JUNE 30, 2011

### KERSHAW CPA & ASSOCIATES, PC

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EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
JUNE 30, 2011

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EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
JUNE 30, 2011

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
MICK RABB	CHAIRMAN	8/2011
MICHAEL MCPHERSON	VICE-CHAIRMAN	8/2013
GIP ALLEN	SECRETARY	8/2012
ANDREW YATES	BOARD MEMBER	8/2013
STEVE HUGHES	BOARD MEMBER	8/2012

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## INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the Evergreen Rural Water District #18, as of and for the fiscal year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Evergreen Rural Water District #18's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Evergreen Rural Water District #18, Osage County, Oklahoma, as of June 30, 2011, and the changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated October 24, 2011, on my consideration of the Evergreen Rural Water District #18's internal control over financial reporting and on my 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 compliance with Government

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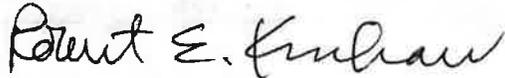
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Auditing Standards and should be considered in assessing the results of my audit.

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.

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 my audit of the basic financial statements, and accordingly, I do not express an opinion thereon.



Robert E. Kershaw  
Certified Public Accountant

October 24, 2011

EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
STATEMENT OF NET ASSETS  
JUNE 30, 2011

<u>ASSETS</u>	<u>2011</u>	<u>Memo Only 2010</u>
<b><u>Current Assets:</u></b>		
Cash and cash equivalents	\$ 47,315	\$ 33,171
Accounts Receivable	9,673	14,985
Prepaid Insurance	1,541	1,517
Total Current Assets	<u>58,529</u>	<u>49,672</u>
<b><u>Capital Assets:</u></b>		
Water System	951,451	945,954
Extension System	107,992	107,992
Less: Accumulated Depreciation	(308,207)	(280,696)
Total Fixed Assets	<u>751,236</u>	<u>773,250</u>
<b><u>Other Assets:</u></b>		
Restricted - Loan reserve (Note 2)	16,264	17,369
Restricted - Interest reserve (Note 2)	900	655
Loan fees, net of accumulated amortization	1,443	1,623
Total Other Assets	<u>18,607</u>	<u>19,647</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 828,372</u></u>	<u><u>\$ 842,569</u></u>
<b><u>LIABILITIES &amp; NET ASSETS</u></b>		
<b><u>Current Liabilities:</u></b>		
Accounts Payable	\$ 8,368	\$ 6,016
Accrued interest payable	160	188
Current Portion of Long-Term Debt	6,250	5,800
Total Current Liabilities	<u>14,777</u>	<u>12,004</u>
<b><u>Long-Term Liabilities:</u></b>		
Notes Payable	139,900	145,700
Less: Current Portion of Long-Term Debt	(6,250)	(5,800)
Total Long-Term Debt	<u>133,650</u>	<u>139,900</u>
<b>TOTAL LIABILITIES</b>	<u>148,427</u>	<u>151,904</u>
<b><u>NET ASSETS:</u></b>		
Invested in capital assets, net of related debt	611,336	627,550
Restricted for debt service	17,165	18,024
Unrestricted	51,444	45,091
<b>TOTAL NET ASSETS</b>	<u>679,945</u>	<u>690,665</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 828,372</u></u>	<u><u>\$ 842,569</u></u>

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 ASSETS  
FOR THE TWELVE MONTHS ENDED JUNE 30, 2011

	2011	Memo Only 2010
<b><u>Operating Revenues:</u></b>		
Water sales	\$ 99,645	\$ 96,378
Penalties	1,898	4,695
Transfer fees	185	265
Miscellaneous	200	1,000
Total Operating Revenues	<u>101,928</u>	<u>102,338</u>
<b><u>Operating Expenses:</u></b>		
Water purchases	39,400	38,756
Trustee fees	750	750
Insurance	1,532	1,658
Postage and bank charges	4	49
Management fees	33,600	30,600
Transfer charges	295	240
Utilities	1,529	916
Maintenance and repair	3,191	4,202
Accounting	850	2,390
Membership fees	240	239
Miscellaneous	130	82
Bad Debt Expense	6,064	-
Depreciation Expense	27,511	27,621
Amortization expense	180	180
Total Operating Expenses	<u>115,276</u>	<u>107,684</u>
Net Operating Income (Loss)	<u>(13,348)</u>	<u>(5,346)</u>
<b><u>Non-operating Income (Expense):</u></b>		
Interest Income	3	9
Interest Expense	(2,125)	(2,605)
Benefit Units	4,750	2,900
Total Non-operating Income (Expense)	<u>2,628</u>	<u>304</u>
Net Income (Loss)	(10,720)	(5,042)
Capital Contributions	-	-
Total Net Assets, Beginning of Year	690,665	695,707
Total Net Assets, Prior Year Adjustment	-	-
Total Net Assets, End of Year	<u>\$ 679,945</u>	<u>\$ 690,665</u>

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, 2011

	2011	Memo Only 2010
<b><u>Net Cash Flows from Operating Activities:</u></b>		
Cash Receipts from Customers & Others	\$ 107,240	\$ 99,220
Payments to Suppliers for Goods & Services	(85,257)	(81,363)
Net Cash Provided (Used) by Operating Activities	<u>21,983</u>	<u>17,857</u>
<b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions to Capital Assets	(5,497)	(1,500)
Proceeds from Sale of Capital Assets	-	-
(Increase)Decrease in reserve funds	859	78
Issuance of benefit units	4,750	2,900
Loan Proceeds	-	-
Principal paid on long-term debt	(5,800)	(5,400)
Interest paid on Debt	(2,154)	(2,706)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(7,841)</u>	<u>(6,628)</u>
<b><u>Net Cash Flows from Investing Activities:</u></b>		
Interest Income	3	9
Net Cash Provided (Used) by Investing Activities	<u>3</u>	<u>9</u>
Net Increase (Decrease) in Cash and Cash Equivalents	14,144	11,239
Cash & Cash Equivalents, Beginning of Year	33,171	21,932
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 47,315</u>	<u>\$ 33,171</u>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>		
Operating Income (Loss)	\$ (13,348)	\$ (5,346)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation & Amortization	27,691	27,801
(Increase)Decrease in Accounts Receivable	5,312	(3,118)
(Increase)Decrease in Prepaid Insurance	(24)	119
Increase(Decrease) in Accounts Payable & other liabilities	2,352	(1,599)
Net Cash Provided (Used) by Operating Activities	<u>\$ 21,983</u>	<u>\$ 17,857</u>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid (cash basis)	<u>\$ 2,154</u>	<u>\$ 2,706</u>
Interest incurred (accrual basis)	<u>\$ 2,125</u>	<u>\$ 2,605</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, 2011

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 polices 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, 2011, 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. Capital Structure and Operations:

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.

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.

EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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.

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.

EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

H. 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.”

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.

EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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 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, 2011, the District held deposits of approximately \$47,315 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.

EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended June 30, 2011, was as follows:

	Balance at June 30, 2010	Additions	Deductions	Balance at June 30, 2011
Water System	\$ 945,954	\$ 5,497	\$ -	\$ 951,451
Extension System	107,992	-	-	107,992
Subtotal	1,053,946	5,497	-	1,059,443
Less: Accum. Depr.	(280,696)	(27,511)	-	(308,207)
Total Capital Assets (Net of Depreciation)	<u>\$ 773,250</u>	<u>\$ (22,014)</u>	<u>\$ -</u>	<u>\$ 751,236</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.

EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

	Balance at June 30, 2010	Additions	Deductions	Balance at June 30, 2011
Note Payable - OWRB	\$ 145,700	\$ -	\$ (5,800)	\$ 139,900
Total Long-Term Debt	<u>\$ 145,700</u>	<u>\$ -</u>	<u>\$ (5,800)</u>	<u>\$ 139,900</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal only, for long-term debt, as of June 30, 2011, are as follows:

Long-Term Note - OWRB

Year Ending June 30,	Principal
2012	\$ 6,250
2013	6,800
2014	7,350
2015	7,950
2016	8,600
2017-2021	54,450
2022-2025	48,500
Total	<u>\$ 139,900</u>

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

Restricted net assets are described in Note 2 above.

NOTE 8 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at June 30, 2011, which would have a material effect on the financial statements.

EVERGREEN RURAL WATER DISTRICT #18  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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 October 24, 2011, 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, 2011.

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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  
Evergreen Rural Water District #18  
Osage County, Oklahoma

I have audited the financial statements of the Evergreen Rural Water District #18, as of June 30, 2011, and have issued my report thereon dated October 24, 2011. Also, the District 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. Except as discussed in the preceding sentences, I conducted my 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

In planning and performing my audit, I considered the Evergreen Rural Water District #18 internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my 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 over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Evergreen Rural Water District #18'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.

My 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. I did not identify any deficiencies in internal control over financial reporting that I 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 Evergreen Rural Water District #18's financial statements are free of material misstatement, I 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 my audit, and accordingly I do not express such an opinion. The results of my 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 Evergreen Rural Water District #18, Osage County, Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw, CPA

October 24, 2011

