

**SEQUOYAH COUNTY
WATER ASSOCIATION
AUDITED FINANCIAL STATEMENTS
MARCH 31, 2024**

SEQUOYAH COUNTY WATER ASSOCIATION
MARCH 31, 2024

Contents

Independent Auditor's Report..... 1

Management's Discussion & Analysis.....3

Financial Statements

Statements of Net Position.....5

Statements of Revenue, Expenses and Changes in Net Position.....6

Statements of Cash Flows.....7

Notes to Financial Statements.....8

Supplemental Information

Additional Comments Required By Rural Development.....14

Additional Required Reports

Independent Auditor's 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* 15

Independent Auditor's Report on Compliance for Each Major Program and
on Internal Controls over Compliance Required by the Uniform Guidance..... 17

Schedule of Expenditures of Federal Awards19

Schedule of Findings and Questioned Costs.....20

Statement of Prior Year Findings.....21

AUDIT REPORT

DREW KIMBLE
Certified Public Accountant
104 S. Muskogee Ave
Tahlequah, OK 74464
(918) 575 - 1873

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sequoyah County Water Association
Sallisaw, Oklahoma

Opinions

We have audited the accompanying financial statements of Sequoyah County Water Association, as of and for the year ended March 31, 2024, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sequoyah County Water Association, as of March 31, 2024, and the changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Sequoyah County Water Association, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Sequoyah County Water Association's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, and Government Auditing Standards we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Sequoyah County Water Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Sequoyah County Water Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sequoyah County Water Association's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated July 19, 2024, on our consideration of Sequoyah County Water Association's internal control over financial reporting and on 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Sequoyah County Water Association's internal control over financial reporting and compliance.

Drew Kimble CPA



Tahlequah, Oklahoma

July 19, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

**SEQUOYAH COUNTY WATER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR
THE YEAR ENDED MARCH 31, 2024**

This section of the Sequoyah County Water Association annual financial report presents the analysis of the Association's financial performance during the fiscal year ended March 31, 2024. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Association ended the year March 31, 2024 with a net position balance of \$15,927,383.
- Net loss from operations of \$61,162 before non-operating activities income of \$485,942 resulted in an increase in net position for the Association of \$424,780.
- The Association had net capital asset additions totaling \$12,282,305.
- The statement of cash flows identifies sources and uses of cash activity for the fiscal year. For fiscal year 2024, cash, cash equivalents and restricted cash decreased by \$104,541. Cash provided from the day to day operations totaled \$1,351,808.
- Cash used by capital and related financing activities netted \$(1,477,859). This was a combination of cash used to acquire property, plant, & equipment of \$12,282,305, and cash provided by new borrowing of \$10,338,547. Furthermore, cash provided by investing activities of interest income totaled \$21,510.
- The Association received capital grants totaling \$1,253,354.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of the following parts: Management's Discussion and Analysis and Financial Statements. The financial statements include notes which explain in detail some of the information included in the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the Association report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statement of Net Position includes information on the Association's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Association creditors (liabilities). The Statement of Revenue, Expenses and Changes in Net Position identifies the Association's revenues and expenses for the fiscal year ended March 31, 2024. This statement provides information on the Association's operations over the past fiscal year and can be used to determine whether the Association has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statement of Cash Flows. This statement provides information on the Association's cash receipts, cash payments, and changes in cash resulting from operations, investments and financing activities. The net result of these activities added to the beginning of the year cash balance total to the cash equivalent balance at the end of the current fiscal year.

**SEQUOYAH COUNTY WATER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2024**

CONDENSED FINANCIAL INFORMATION

Condensed financial information from the statements of net position as of March 31, 2024 the statements of revenues, expenses and changes in net position for the years then ended are as follows:

CAPITAL ASSETS

The Association's capital assets as of March 31, 2024 amounted to \$66,469,274. This investment in capital assets includes land, water system, office building, machinery and equipment, furniture and fixtures, and transportation equipment.

Major additions to capital assets for the year ended March 31, 2024 consisted construction in process consists of \$14,511,956 for a new water system improvement project.

WATER STORAGE RIGHTS

In 2018, the Association acquired permanent water storage rights on Tenkiller Lake for \$2,151,578 of this cost \$2,051,288 was financed. These rights are reflected on the statement of net position as other assets related to water storage and will be amortized over thirty six years. Total Amortization to date is \$418,338 and for the fiscal year ended March 31, 2024 was \$59,760.

LONG-TERM DEBT

As of March 31, 2024, the Association had \$42,815,091 in outstanding debt compared to \$32,476,544 as of March 31, 2023.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the Association's customers, investors and other interested parties with an overview of the Association's financial operations and financial condition. Should the reader have questions regarding the information included in this report or need additional financial information, please contact Sequoyah County Water Association, 3520 W. Cherokee, Sallisaw, Oklahoma.

FINANCIAL STATEMENTS

SEQUOYAH COUNTY WATER ASSOCIATION
Statement of Net Position
March 31st, 2024

Assets

Current Assets	
Cash and cash equivalents	\$ 676,325
Restricted checking and savings accounts	2,498,927
Accounts receivable, less allowance for doubtful accounts	220,314
Prepaid insurance	16,528
Inventory	471,564
Total Current Assets	<u>3,883,658</u>
Capital Assets	
Land	113,953
Water and sewer system	49,272,569
Office building	613,607
Machinery and equipment	1,525,795
Furniture, fixtures, and radio	431,394
Construction in process	14,511,956
Total Capital Assets	<u>66,469,274</u>
Less accumulated depreciation	<u>(13,154,994)</u>
Net Capital Assets	<u>53,314,280</u>
Other Assets	
Water storage rights	2,151,578
Total Other Assets	<u>2,151,578</u>
Total Assets	<u><u>\$ 59,349,516</u></u>

Liabilities and Net Position

Current Liabilities	
Accounts payable	\$ 192,932
Accrued wages	2,031
Accrued interest	37,552
Accrued compensated absences	143,901
Employee deductions payable	15,993
Customer meter deposits	214,633
Current portion of long-term debt	996,191
Total Current Liabilities	<u>1,603,233</u>
Long-Term Debt	<u>41,818,900</u>
Total Liabilities	<u>43,422,133</u>
Net Position	
Net investment in capital assets	10,499,189
Restricted	2,498,927
Unrestricted	2,929,267
Total Net Position	<u>15,927,383</u>
Total Liabilities and Net Position	<u><u>\$ 59,349,516</u></u>

See accompanying notes to financial statements.

SEQUOYAH COUNTY WATER ASSOCIATION
Statement of Revenues, Expenses,
and Changes in Net Position
March 31st, 2024

Operating Revenue

Sales and charges, net of bad debts	\$ 5,228,615
Membership and Meter fees	121,915
Other revenue	205,283
Total Operating Revenue	<u>5,555,813</u>

Operating Expenses

Salaries	847,569
Payroll taxes	64,503
Employee benefits	424,639
Office expense	118,709
Professional fees	30,605
Utilities and telephone	416,515
Fuel and oil	103,863
Insurance	143,789
Miscellaneous	13,593
Repairs and maintenance	1,234,186
Chemicals	169,300
Water testing	39,176
Water purchases	647,199
Bad Debt expense	41,521
Mileage reimbursements	2,344
Bank Fees	45,858
Depreciation	1,213,846
Water storage expense	59,760
Total Operating Expenses	<u>5,616,975</u>
Operating Income	<u>(61,162)</u>

Nonoperating Activities

Interest income	21,510
Capital grants	1,253,354
Interest expense	(788,922)
Payroll Protection Forgiveness	-
Total Nonoperating Activities	<u>485,942</u>

Change in Net Position 424,780

Beginning of Year Net Position 15,502,603

End of Year Net Position \$ 15,927,383

See accompanying notes to financial statements.

SEQUOYAH COUNTY WATER ASSOCIATION
Statement of Cash Flows
March 31st, 2024

Cash Flows From Operating Activities	
Cash receipts from customers and other sources	\$ 5,687,998
Cash payments to suppliers for goods and services	(3,462,217)
Cash payments to employees for services	(873,973)
Net Cash Provided By Operating Activities	<u>1,351,808</u>
Cash Flows From Investing Activities	
Interest income	21,510
Net Cash Provided By Investing Activities	<u>21,510</u>
Cash Flows From Capital and Related Financing Activities	
Cash paid for property, plant, and equipment net of retirement	(12,282,305)
Capital Grants	1,253,354
Advances on long-term debt and interim financing net of retirement	10,338,547
Interest paid on long-term debt	(787,455)
Net Cash Used By Capital and Related Financing Activities	<u>(1,477,859)</u>
Net Increase (Decrease) In Cash, Cash Equivalents and Restricted Cash	(104,541)
Cash, Cash Equivalents and Restricted Cash At Beginning of Year	<u>3,279,793</u>
Cash, Cash Equivalents and Restricted Cash At End of Year	<u><u>\$ 3,175,252</u></u>
Reconciliation Of Operating Income to Net Cash Provided By Operating Activities	
Net loss from operations	\$ (61,162)
Adjustments to reconcile net income to net cash from operating activities:	
Depreciation	1,213,846
Amortization of water storage rights	59,760
Changes in:	
Accounts receivable	132,185
Prepaid insurance	(1)
Inventory	20,079
Trade accounts payable	13,505
Employee deductions payable	6,622
Accrued wages	(2)
Accrued compensated absences	20,530
Customer meter deposits	(53,554)
Net Cash Provided By Operating Activities	<u><u>\$ 1,351,808</u></u>
Reconciliation to Statement of Net Position	
Cash and cash equivalents	\$ 676,325
Restricted checking and savings accounts	2,498,927
Total Cash, Cash Equivalents and Restricted Cash	<u><u>\$ 3,175,252</u></u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

SEQUOYAH COUNTY WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2024

1. Nature of Operations

The Sequoyah County Water Association (the Association) was originally incorporated October 25, 1967 as the Eastern Sequoyah County Water Association. Amended Articles of Incorporation, which were filed and approved on April 23, 1968, established the Association as an agency of the State of Oklahoma for the purpose of providing water to Sequoyah County in the State of Oklahoma.

2. Summary of Significant Accounting Policies

A. Basis of Presentation

The Association accounts for its operations as an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

B. Financial Reporting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

C. Income Tax Status

The Association is exempt from income taxes as a governmental agency.

D. Fair Value of Financial Instruments

The Association's financial instruments include cash and cash equivalents, certificates of deposit, accounts receivable and accounts payable. The Association's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximate fair value because of the short maturity of these investments.

E. Cash Flows

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents, excluding restricted cash.

F. Accounts Receivable

Accounts receivable consists of water fees and surcharges billed to residential and commercial/Industrial customers based on consumption. Management establishes an allowance for uncollectible accounts receivable based on historical collection experience and management's evaluation of the collectability of outstanding accounts receivable. The allowance for doubtful accounts was \$328,113 as of March 31, 2024.

G. Prepaid Expenses

Payments made to vendors for services that will benefit future periods are recorded as prepaid expenses using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expense in the year which services are consumed.

H. Inventory

Inventory consists of parts and supplies for maintenance of the water system and is valued at cost using the first-in, first-out method.

I. Capital Outlays and Depreciation

Fixed assets are stated at cost depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

	<u>YEARS</u>
Water and sewer system	15-75
Office building	10-40
Machinery and equipment	5-10
Furniture, fixtures and radio	5-10

It is the Association's policy to capitalize all asset purchases greater than \$500. It is the Association's policy to expense all asset purchases under \$500.

J. Other Assets

In addition to assets, the statement of net position has a separate section for other assets. This separate financial statement element, represents a consumption of net position that applies to a future period(s) and will not be recognized as an expense until that time. The Association recognizes the expense related to water storage rights using the straight line method over a period of 36 years.

K. Compensated Absences

Employees of the Association are given, based upon their length of employment, 1 to 3 weeks of vacation at the beginning of the calendar year. The vacation time is not allowed to carry over to the next year; therefore, all employees will utilize the vacation time. The amounts are reflected as accrued compensated absences represents unused vacation time as of March 31st, 2024.

L. Customer Meter Deposits

Unless a letter of credit is provided by the customer to the Association, customers are required to make a meter deposit before being connected to the water system. These deposits are refundable to customers when the Association no longer serves the customer. The Association uses the customer deposits to pay the customers' final bill and refunds directly to the customer the balance remaining, if any, of the deposit.

M. Net Position

Net position of the Association are classified in three components. Net investment in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors, or donors external to the Association, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

N. Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the System. Operating revenues consist primarily of water sales. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities.

O. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

3. Cash Deposits

The Association maintains its operating bank accounts in several local financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures accounts at each institution up to \$250,000. The Association's cash balances may, at times, exceed these insured limits. At March 31, 2022 all cash balances were covered by FDIC insurance or secured by pledged collateral. The Association does not believe that there is any significant risk associated with the concentrations of credit nor has the Association experienced any losses in such accounts.

4. Restricted Assets

Restricted checking and savings are restricted by the various board ordinances of the Board, and laws. Expenditures from these accounts are restricted to improvements and betterments to the distribution system, paying the principal and interest on the notes, construction or purchase of capital assets, and Customer deposits.

Restricted checking, savings consists of the following:

	As Of March 31, 2024	2024
Debt reserve fund		\$ 1,123,807
Emergency reserve funds		-
Construction/depreciation fund		826,836
RUS construction account		309,217
Customer meter deposits		239,067
Total		<u>\$ 2,498,927</u>

5. Property, Plant and Equipment

Activity of capital assets consists of the following:

As Of	April 1st, 2023	Additions	Retirements	March 31st, 2024
Land	\$ 113,953	\$ -	\$ -	\$ 113,953
Water and sewer system	48,581,774	710,795	-	49,272,569
Office building	613,607	-	-	613,607
Machinery and equipment	1,406,343	119,452	-	1,525,795
Furniture, fixtures, and radio	431,394	-	-	431,394
Construction in process	3,059,898	11,963,804	511,746	14,511,956
Total	\$ 54,186,969	\$ 12,794,051	\$ 511,746	\$ 66,469,274

Construction in process consists of expenditures incurred for the water system improvement project and other system improvements.

6. Capitalized Interest

The Association follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. For the year ended March 31, 2024 total interest incurred was \$788,823 of total interest paid \$ 0 was capitalized and \$788,823 was charged to operations.

7. Long-Term Debt

Long-term debt of the Association consists of:

As Of March 31, 2024	2024
Rural Development 91-09 - Payments are made monthly in the amount of \$5,357 inclusive of 5% interest. The note is secured by the water system and revenues.	\$ 259,789
Rural Development 91-10 - Payments are made monthly in the amount of \$11,601 inclusive of 4.75% interest. The note is secured by the water system and revenues.	1,460,931
Rural Development 91-12 - Payments are made monthly in the amount of \$4,575 inclusive of 5% interest. The note is secured by the water system and revenues.	575,562
Rural Development 91-13 - Payments are made monthly in the amount of \$11,989 inclusive of 3.375% interest. The note is secured by the water system and revenues.	2,582,227
Rural Development 91-16 - Payments are made monthly in the amount of \$26,730 inclusive of 1.875% interest. The note is secured by the water system and revenues.	8,327,517
Rural Development 91-15 - Payments are made monthly in the amount of \$28,631 inclusive of 1.875% interest. The note is secured by the water system and revenues.	8,919,686
Rural Development 91-18 - Payments are made monthly in the amount of \$21,771 inclusive of 1.875% interest. The note is secured by the water system and revenues.	6,826,968
Rural Development 91-20 - Payments are made monthly in the amount of \$26,100 inclusive of 1.750% interest. The note is secured by the water system and revenues.	8,921,224
Rural Development 91-21 - Payments are made monthly in the amount of \$9,739 inclusive of 1.750% interest. The note is secured by the water system and revenues.	3,324,130
Rural Development 91-22 - Payments are made monthly in the amount of \$6,970 inclusive of 2.625% interest. The note is secured by the water system and revenues.	1,474,226
Central National Bank 3226946 - Payments are made monthly in the amount \$3,502 inclusive of interest of 8.25%. The loan is secured by equipment.	142,831
Total long-term debt	\$42,815,091
Less: current maturities	\$ 996,191
Total long-term debt	\$ 41,818,900

7. Long-Term Debt (continued)

Principal payments of long term debt is scheduled to be repaid as follows:

March 31,	Principal
2025	996,191
2026	1,022,833
2027	1,050,428
2028	1,079,128
2029	1,034,108
2030	1,024,651
Thereafter	36,607,752
Less Current Portion	(996,191)
Total	41,818,900

8. Other Assets

On June 28, 2017, the Association entered into a contract with the Department of the Army for permanent water and water storage rights. The contract gave the Association the right to utilize a portion of the usable conservation space of Tenkiller Ferry Lake to supply and store water. The Association prepaid these rights during the year ended March 31st, 2018 for a total of \$2,151,578. These rights are shown as other assets related to storage rights on the statement of net position and will be amortized over a period of thirty six years. Water storage rights amortization expense for the fiscal year ended March 31, 2024 were \$59,760.

10. Benefit Plan

The Association has adopted an IRA plan which covers substantially all employees. Employees can make pre-tax salary contributions to the plan and Association will match up to 3% of the employee's contributions. Employer contributions to this plan for the years ended March 31, 2024 were \$17,514.

11. Concentrations of Risk

A. Revenues and Receivables

Another financial instrument that potentially subjects the Association to credit risk consist of accounts receivable. The Association sells only to its members within a defined geographic region.

B. Water Supply System

The Association purchases its water from the Cities of Van Buren and Roland Utility Authority as well as utilizing Tenkiller Lake as a source of water for treatment. If the cost of the water were to increase or the possibility of the Association to have to obtain water from other suppliers was to occur, this may have an effect on the Association's ability to continue in its current state.

12. Risk Management

The Association is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Association carries commercial insurance and workers compensation insurance through various Insurance Company's.

There has been no significant reduction in the Association's insurance coverage from the previous year. In addition, there have been no settlements in excess of the Association's coverage in any of the prior three fiscal years.

13. Subsequent Events

The Association has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended March 31, 2024, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

SEQUOYAH COUNTY WATER ASSOCIATION
ADDITIONAL COMMENTS REQUIRED BY RURAL DEVELOPMENT

Water Rate Schedule

0 - 2,000	\$45.00
2,001 - 4,000	5.65/1000
4,001 - 6,000	\$5.80/1000
6,001 - 10,000	\$6.10/1000
10,001 - 12,500	\$6.30/1000
12,501 - 15,000	\$6.55/1000
15,001 - 20,000	\$6.85/1000
20,001 and above	\$7.20/1000

Board Of Directors

<u>Name</u>	<u>Title</u>
Dan Ollie	President
Bruce Tabor	Vice President
R E Anglen	Secretary/Treasurer
John Ellis	Board Member
John Prewett	Board Member
Charles Garrison	Board Member
Lyndon Emberton	Board Member

Accounting Records and Control Over Physical Assets

The Association's accounting records, with the exception of normal adjusting entries, are in agreement with these financial statements. The accounting records of the Association are adequate. The Association's control over physical assets is adequate.

Material Or Unusual Adjustments

The accounting records of the Association incurred no unusual adjustments. Material adjustments, however not unusual in nature, included adjusting for depreciation expense and interest expense of the long-term debt.

See independent auditor's report.

ADDITIONAL REQUIRED REPORTS

DREW KIMBLE
Certified Public Accountant
104 S. Muskogee Ave
Tahlequah, OK 74464
(918) 575 - 1873

INDEPENDENT AUDITOR'S 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
Sequoyah County Water Association

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, the financial statements of the business-type activities of Sequoyah County Water Association, as of and for the year ended March 31, 2024, and the related notes to the financial statements, which collectively comprise Sequoyah County Water Association's basic financial statements, and have issued our report thereon dated July 19, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sequoyah County Water Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sequoyah County Water Association's internal control. Accordingly, we do not express an opinion on the effectiveness of Sequoyah County Water Association'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 a 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.

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. 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sequoyah County Water Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

The purpose of this report is 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.

A handwritten signature in black ink that reads "Drew Kimble". The signature is written in a cursive, slightly stylized font.

Drew Kimble CPA

Tahlequah, Oklahoma

July 19, 2024

DREW KIMBLE
Certified Public Accountant

104 S. Muskogee Ave
Tahlequah, OK 74464
(918) 575 – 1873

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

July 19, 2024

Board of Directors

Sequoyah County Water Association

Sallisaw, Oklahoma

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Sequoyah County Water Association's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Sequoyah County Water Association's major federal programs for the year ended March 31, 2024. Sequoyah County Water Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Sequoyah County Water Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Sequoyah County Water Association and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Sequoyah County Water Association's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Sequoyah County Water Association federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Sequoyah County Water Association's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is

higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Sequoyah County Water Association's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Sequoyah County Water Association's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Sequoyah County Water Association's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Sequoyah County Water Association's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Drew Kimble CPA
Tahlequah, Oklahoma
July 19, 2024

**SEQUOYAH COUNTY WATER ASSOCIATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31ST, 2024**

<u>Grant: Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Entity</u>	<u>Year</u>	<u>Amount of Expenditures</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Water & Waste Water Disposal Systems for Rural Communities	10.760	Direct Award	3/31/2024	\$ 13,719,835
Water & Waste Water Disposal Systems for Rural Communities Emergency Grant	10.763	Direct Award	3/31/2024	<u>150,000</u>
Total Federal Grants and Assistance				<u>\$ 13,869,835</u>

Notes to Schedules:

There were no amounts passed to subrecipients.

The expenditures are presented using the cash basis of accounting.

Grantor provides adequate insurance coverage against loss on assets purchased with Federal Awards.

Indirect Cost Rate The Association has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

The notes to the financial statements are an integral part of this statement.

**SEQUOYAH COUNTY WATER ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31ST, 2024**

Section I - Summary of Auditor's Results:

Financial Statements

Type of Auditor's Report issued: UNMODIFIED

Internal Control Over Financial Reporting:

Material weaknesses identified? NO
Reportable conditions identified not considered to be
material weaknesses? NONE REPORTED
Noncompliance material to financial statements noted? NONE REPORTED

Federal Awards

Internal Control Over Major Programs:

Material weaknesses identified? NO
Reportable conditions identified not considered to be
material weaknesses? NONE REPORTED
Any audit finding disclosed that are required to be
Reported in accordance with The Uniform Guidance NONE REPORTED
Type of Auditor's Report Issued on
Compliance for Major Programs: UNMODIFIED

Identification of Major Programs:

Water and Waste Water Disposal
Systems for Rural Communities CFDA # 10.760

The dollar threshold used to distinguish between type A and type B programs was \$750,000.00. The percentage of coverage of rule was used to achieve 40% of Federal program expenditures.

YES NO

Auditee qualified as low-risk auditee? X

Section II - Financial Statement Findings:

No matters were reported.

Section III - Federal Award Findings and Questioned Costs - Current Year:

No questioned costs were identified.

Section IV - Federal Award Findings and Questioned Costs - Prior Year:

No questioned costs were identified.

The notes to the financial statements are an integral part of this statement.