

**SEQUOYAH COUNTY
WATER ASSOCIATION
AUDITED FINANCIAL STATEMENTS
MARCH 31, 2021**

SEQUOYAH COUNTY WATER ASSOCIATION
MARCH 31, 2021

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AUDIT REPORT

DREW KIMBLE
Certified Public Accountant
104 S. Muskogee Ave
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of the Sequoyah County Water Association (the Association) as of and for the year ended March 31, 2021, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements. Management is also responsible 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.

Auditor's Responsibility

My responsibility is to express opinions 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Sequoyah County Water Association as of March 31, 2021 and the respective changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 and 4 be presented to supplement the basic financial statements. Such information, 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during our audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Association's financial statements. The additional comments required by Rural Development are presented for purposes of additional analysis and are not a required part of the basic financial statements and have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated June 24, 2021, on my consideration of the 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
June 24, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

**SEQUOYAH COUNTY WATER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR
THE YEAR ENDED MARCH 31, 2021**

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, 2021. 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, 2021 with a net position balance of \$15,195,569.
- Net income from operations of \$658,680 before non-operating activities income of \$2,237,697 resulted in an increase in net position for the Association of \$2,896,377.
- The Association had net capital asset additions totaling \$3,130,674.
- The statement of cash flows identifies sources and uses of cash activity for the fiscal year. For fiscal year 2021, cash, cash equivalents and restricted cash increased by \$508,916. Cash provided from the day to day operations totaled \$1,723,363.
- Cash used by capital and related financing activities netted \$(1,225,529). This was a combination of cash used to acquire property, plant, & equipment of \$3,130,674, cash used by of debt retirement of \$310,062. Furthermore, cash provided by investing activities of interest income totaled \$11,082.
- The Association received capital grants totaling \$2,842,077.

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, 2021. 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, 2021**

CONDENSED FINANCIAL INFORMATION

Condensed financial information from the statements of net position as of March 31, 2021 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, 2021 amounted to \$50,526,335. 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, 2021 consisted construction in process consists of \$13,868,054 for a new water treatment facility and other system improvements.

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 for the fiscal years ended March 31, 2021 was \$239,058.

LONG-TERM DEBT

As of March 31, 2021, the Association had \$31,197,047 in outstanding debt compared to \$31,507,109 as of March 31, 2020. The Association retired \$7,241,442 in interim financing for construction on a new 24" water to Vian.

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, 3320 W. Cherokee, Sallisaw, Oklahoma.

FINANCIAL STATEMENTS

SEQUOYAH COUNTY WATER ASSOCIATION
Statement of Net Position
March 31st, 2021

Assets

Current Assets	
Cash and cash equivalents	\$ 746,732
Restricted checking and savings accounts	2,310,469
Accounts receivable, less allowance for doubtful accounts	313,733
Prepaid insurance	13,210
Inventory	254,555
Total Current Assets	<u>3,638,699</u>
Capital Assets	
Land	105,953
Water and sewer system	34,348,873
Office building	426,017
Machinery and equipment	1,403,103
Furniture, fixtures, and radio	374,335
Construction in process	13,868,054
Total Capital Assets	<u>50,526,335</u>
Less accumulated depreciation	<u>(9,123,013)</u>
Net Capital Assets	<u>41,403,322</u>
Other Assets	
Water storage rights, net	1,912,520
Total Other Assets	<u>1,912,520</u>
Total Assets	<u>\$ 46,954,541</u>

Liabilities and Net Position

Current Liabilities	
Accounts payable	\$ 136,662
Accrued wages	21,440
Accrued interest	37,925
Accrued compensated absences	93,561
Employee deductions payable	16,359
Customer meter deposits	255,978
Current portion of long-term debt	814,515
Total Current Liabilities	<u>1,376,440</u>
Long-Term Debt	<u>30,382,532</u>
Total Liabilities	<u>31,758,972</u>
Net Position	
Net investment in capital assets	10,206,275
Restricted	2,310,469
Unrestricted	2,678,825
Total Net Position	<u>15,195,569</u>
Total Liabilities and Net Position	<u>\$ 46,954,541</u>

See accompanying notes to financial statements.

SEQUOYAH COUNTY WATER ASSOCIATION
Statement of Revenues, Expenses,
and Changes in Net Position
March 31st, 2021

Operating Revenue	
Sales and charges, net of bad debts	\$ 4,781,221
Membership and Meter fees	139,992
Other revenue	299,937
Total Operating Revenue	<u>5,221,150</u>
Operating Expenses	
Salaries	758,790
Payroll taxes	54,797
Outside services	-
Employee benefits	13,058
Office expense	34,484
Professional fees	86,517
Utilities and telephone	399,300
Fuel and oil	53,978
Insurance	420,518
Miscellaneous	41,528
Repairs and maintenance	778,612
Chemicals	112,832
Water testing	29,334
Water purchases	777,895
Bad Debt expense	18,539
Mileage reimbursements	3,280
Bank Fees	52,392
Depreciation	866,856
Water storage expense	59,760
Total Operating Expenses	<u>4,562,470</u>
Operating Income	<u>658,680</u>
Nonoperating Activities	
Interest income	18,925
Capital grants	2,842,077
Interest expense	(615,462)
Gain on disposal of asset	(7,843)
Total Nonoperating Activities	<u>2,237,697</u>
Change in Net Position	2,896,377
Beginning of Year Net Position	12,299,192
End of Year Net Position	<u>\$ 15,195,569</u>

See accompanying notes to financial statements.

SEQUOYAH COUNTY WATER ASSOCIATION

Statement of Cash Flows

March 31st, 2021

Cash Flows From Operating Activities	
Cash receipts from customers	\$ 5,330,185
Cash payments to suppliers for goods and services	(2,839,772)
Cash payments to employees for services	(767,050)
Net Cash Provided By Operating Activities	<u>1,723,363</u>
Cash Flows From Investing Activities	
Interest income	11,082
Net Cash Provided By Investing Activities	<u>11,082</u>
Cash Flows From Capital and Related Financing Activities	
Cash paid for property, plant, and equipment	(3,130,674)
Capital Grants	2,842,077
Principal paid on long-term debt	(310,062)
Interest paid on long-term debt	(626,870)
Net Cash Used By Capital and Related Financing Activities	<u>(1,225,529)</u>
Net Increase (Decrease) In Cash, Cash Equivalents and Restricted Cash	508,916
Cash, Cash Equivalents and Restricted Cash At Beginning of Year	<u>2,548,285</u>
Cash, Cash Equivalents and Restricted Cash At End of Year	<u><u>\$ 3,057,201</u></u>
Reconciliation Of Operating Income to Net Cash Provided By Operating Activities	
Net income from operations	\$ 658,680
Adjustments to reconcile net income to net cash from operating activities:	
Depreciation	866,856
Amortization of water storage rights	59,760
Changes in:	
Accounts receivable	75,820
Prepaid insurance	4,607
Inventory	(21,873)
Trade accounts payable	(13,297)
Employee deductions payable	10,364
Accrued wages	-
Accrued compensated absences	49,231
Customer meter deposits	33,215
Net Cash Provided By Operating Activities	<u><u>\$ 1,723,363</u></u>
Reconciliation to Statement of Net Position	
Cash and cash equivalents	\$ 746,732
Restricted checking and savings accounts	2,310,469
Total Cash, Cash Equivalents and Restricted Cash	<u><u>\$ 3,057,201</u></u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

SEQUOYAH COUNTY WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2021

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 \$176,062 as of March 31, 2021.

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, 2021.

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, 2021 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, 2021	2021
Debt reserve fund		\$ 1,083,499
Emergency reserve funds		3,016
Construction/depreciation fund		965,524
RUS construction account		24
Customer meter deposits		258,406
Total		<u>\$ 2,310,469</u>

5. Property, Plant and Equipment

Activity of capital assets consists of the following:

As Of	April 1st, 2020	Additions	Retirements	March 31st, 2021
Land	\$ 105,953	\$ -	\$ -	\$ 105,953
Water and sewer system	26,444,799	7,904,074	-	34,348,873
Office building	426,016	-	-	426,016
Machinery and equipment	1,384,704	113,082	94,683	1,403,103
Furniture, fixtures, and radio	374,335	-	-	374,335
Construction in process	18,722,020	3,050,108	7,904,074	13,868,054
Total	\$ 47,457,827	\$ 11,067,264	\$ 7,998,757	\$ 50,526,334

Construction in process consists of expenditures incurred for the water treatment plant expansion 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, 2021 total interest incurred was \$794,737, of total interest paid \$179,275 was capitalized and \$615,462 was charged to operations.

7. Long-Term Debt

Long-term debt of the Association consists of:

As Of March 31, 2021	2021
Rural Development - Payments are made monthly in the amount of \$5,357 inclusive of 5% interest. The note is secured by the water system and revenues.	\$ 402,387
Rural Development - 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.	1,655,735
Rural Development - Payments are made monthly in the amount of \$4,575 inclusive of 5% interest. The note is secured by the water system and revenues.	652,461
Rural Development - 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.	2,743,795
Rural Development - 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.	8,807,327
Rural Development - 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.	9,433,623
Rural Development - 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.	7,215,337
Payroll Protection Loan - Loan is expected this loan is expected to be forgiven. This loan is unsecured.	150,000
Central National Bank - Payments are made monthly in the amount \$3,175 inclusive of interest of 4.00%. The loan is secured by equipment.	136,382
Total long-term debt	\$31,197,047
Less: current maturities	\$ 814,515
Total long-term debt	\$ 30,382,532

7. Long-Term Debt (continued)

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

March 31,	Principal
2022	814,515
2023	685,160
2024	703,871
2025	723,202
2026	712,281
2027	725,597
Thereafter	26,832,421
Less Current Portion	(814,515)
Total	30,382,532

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, 2021 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, 2021 were \$13,258.

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, 2021, the date the financial statements were available to be issued.

13. Paycheck Protection Loan

The Association received loan proceeds in the amount of \$150,000 under the Paycheck Protection Program as part of the Coronavirus Aid, Relief and Economic Security Act, it provides qualifying businesses up to 2.5 times of the average monthly payroll expenses. The loans and accrued interest are forgivable after eight weeks if borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, Sequoyah County Water Association expects this loan to be fully forgiven.

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
Sallisaw, Oklahoma

We have audited, 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, the accompanying financial statements of the Sequoyah County Water Association (the Association), Sallisaw, Oklahoma, as of and for the year ended March 31, 2021, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements and have issued our report thereon dated June 24, 2021.

Internal Control Over Financial Reporting

Management of the Association is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting in order to determine our auditing procedures that are appropriate 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 Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph 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. We identified no deficiencies in the internal controls that we considered to be material weaknesses.

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 Association'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.

Compliance

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards. 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 Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Drew Kimble, CPA
Tahlequah, Oklahoma
June 24, 2021

DREW KIMBLE
Certified Public Accountant

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Tahlequah, OK 74464
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited Sequoyah County Water Association, (The Association) compliance with the types of compliance requirements described in *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (The Uniform Guidance) that could have a direct and material effect on each of the Association's major federal programs for the year ended March 31, 2021. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and terms and conditions of federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Association's major federal programs based on our audit. 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 *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (The Uniform Guidance). Those standards and requirements of *Title 2 U.S. Code of Federal Regulation (CFR) Part 200, Uniform Administration Requirements, Cost Principles and Audit Requirements for Federal Awards*, (The Uniform Guidance) require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Association's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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, 2021.

Report on Internal Control Over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance referred to above. In planning and performing our audit of compliance, we considered the Association's internal control over compliance with the types requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with *Title 2 U.S. Code of Federal Regulation (CFR) Part 200, Uniform Administrative Requirements, Cost Principals and Audit Requirements for Federal Awards (The Uniform Guidance)*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified. 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 *Title 2 U.S. Code of Federal Regulation (CFR) Part 200, Uniform Administration Requirements, Cost Principals and Audit Requirements for Federal Awards, (The Uniform Guidance)*. Accordingly, this report is not suitable for any other purpose.



Drew Kimble, CPA
Tahlequah, Oklahoma
June 24, 2021

**SEQUOYAH COUNTY WATER ASSOCIATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31ST, 2021**

<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	3/31/2021	\$ 10,030,077
Water & Waste Water Disposal Systems for Rural Communities Emergency Grant	10.763	Direct Award	3/31/2021	<u>142,000</u>
Total Federal Grants and Assistance				<u>\$ 10,172,077</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.

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, 2021**

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:	\$ 10,030,077
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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 50% of Federal program expenditures.

YES NO

Auditee qualified as low-risk auditee?	X
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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.

**SEQUOYAH COUNTY WATER ASSOCIATION
STATEMENT OF PRIOR YEAR FINDINGS
MARCH 31ST, 2021**

PRIOR YEAR FINDINGS:

None

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