

**SEQUOYAH COUNTY  
WATER ASSOCIATION  
AUDITED FINANCIAL STATEMENTS  
MARCH 31, 2020**

**Drew Kimble CPA  
104 S. Muskogee Ave.  
Tahlequah, OK 74464**

**SEQUOYAH COUNTY WATER ASSOCIATION**  
**MARCH 31, 2020**

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**AUDIT REPORT**

**DREW KIMBLE**  
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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, 2020, 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, 2020 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 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, 2020, 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, 2020

***MANAGEMENT'S DISCUSSION AND ANALYSIS***

**SEQUOYAH COUNTY WATER ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR  
THE YEAR ENDED MARCH 31, 2020**

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, 2020. 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, 2020 with a net position balance of \$12,299,192.
- Net income from operations of \$904,028 before non-operating activities income of \$779,483 resulted in an increase in net position for the Association of \$1,683,511.
- The Association had net capital asset additions totaling \$9,343,223.
- The statement of cash flows identifies sources and uses of cash activity for the fiscal year. For fiscal year 2020, cash, cash equivalents and restricted cash increased by \$1,534,458. Cash provided from the day to day operations totaled \$1,642,351.
- Cash used by capital and related financing activities netted \$(114,013). This was a combination of cash used to acquire property, plant, & equipment of \$9,343,223, cash provided by loan proceeds net of debt retirement of \$8,455,847. Furthermore, cash provided by investing activities of interest income totaled \$6,120.
- The Association received capital grants totaling \$1,079,184.

**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, 2020. 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, 2020**

**CONDENSED FINANCIAL INFORMATION**

Condensed financial information from the statements of net position as of March 31, 2020 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, 2020 amounted to \$47,457,750. 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, 2020 consisted construction in process consists of \$18,721,943 for a new water treatment facility and a new 24" line to Vian.

**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. Amortization for the fiscal year ended March 31, 2020 was \$179,298.

**LONG-TERM DEBT**

As of March 31, 2020, the Association had \$31,507,108 in outstanding debt compared to \$23,051,261 as of March 31, 2019. The Association owes \$7,241,442 in interim financing for construction on a new 24" water to Vian and has \$24,265,666 in long term debt.

**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, 2020**

**Assets**

<b>Current Assets</b>	
Cash and cash equivalents	\$ 404,537
Restricted checking and savings accounts	2,143,748
Accounts receivable, less allowance for doubtful accounts	389,553
Prepaid insurance	17,817
Inventory	232,681
<b>Total Current Assets</b>	<u>3,188,336</u>
<b>Capital Assets</b>	
Land	105,953
Water and sewer system	26,444,799
Office building	426,016
Machinery and equipment	1,384,704
Furniture, fixtures, and radio	374,335
Construction in process	18,721,943
<b>Total Capital Assets</b>	<u>47,457,750</u>
Less accumulated depreciation	<u>(8,318,246)</u>
<b>Net Capital Assets</b>	<u>39,139,504</u>
<b>Other Assets</b>	
Water storage rights, net	1,972,280
<b>Total Other Assets</b>	<u>1,972,280</u>
<b>Total Assets</b>	<u>\$ 44,300,120</u>

**Liabilities and Net Position**

<b>Current Liabilities</b>	
Accounts payable	\$ 149,959
Accrued wages	21,440
Accrued interest	49,333
Accrued compensated absences	44,330
Employee deductions payable	5,995
Customer meter deposits	222,763
Current portion of long-term debt	528,165
<b>Total Current Liabilities</b>	<u>1,021,985</u>
<b>Construction Loan</b>	<u>7,241,442</u>
<b>Long-Term Debt</b>	<u>23,737,501</u>
<b>Total Liabilities</b>	<u>32,000,928</u>
<b>Net Position</b>	
Net investment in capital assets	7,632,396
Unrestricted	4,666,796
<b>Total Net Position</b>	<u>12,299,192</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 44,300,120</u>

See accompanying notes to financial statements.

**SEQUOYAH COUNTY WATER ASSOCIATION**  
**Statement of Revenues, Expenses,**  
**and Changes in Net Position**  
**March 31st, 2020**

<b>Operating Revenue</b>	
Sales and charges, net of bad debts	\$ 4,661,781
Membership and Meter fees	96,685
Other revenue	70,724
<b>Total Operating Revenue</b>	<u>4,829,190</u>
<b>Operating Expenses</b>	
Salaries	677,355
Payroll taxes	50,491
Outside services	48,010
Employee benefits	14,543
Office expense	45,970
Professional fees	49,405
Utilities and telephone	365,444
Fuel and oil	62,219
Insurance	404,736
Miscellaneous	27,993
Repairs and maintenance	531,024
Telemetry services	1,626
Chemicals	64,925
Water testing	29,161
Water purchases	778,105
Bad Debt expense	-
Mileage reimbursements	19,556
Bank Fees	39,579
Depreciation	655,254
Water storage expense	59,766
<b>Total Operating Expenses</b>	<u>3,925,162</u>
<b>Operating Income</b>	<u>904,028</u>
<b>Nonoperating Activities</b>	
Interest income	6,120
Capital grants	1,079,194
Interest expense	(305,831)
<b>Total Nonoperating Activities</b>	<u>779,483</u>
<b>Change in Net Position</b>	1,683,511
Beginning of Year Net Position	10,615,681
<b>End of Year Net Position</b>	<u>\$ 12,299,192</u>

See accompanying notes to financial statements.

**SEQUOYAH COUNTY WATER ASSOCIATION**  
**Statement of Cash Flows**  
**March 31st, 2020**

<b>Cash Flows From Operating Activities</b>	
Cash receipts from customers	\$ 4,809,278
Cash payments to suppliers for goods and services	(2,452,322)
Cash payments to employees for services	(714,605)
<b>Net Cash Provided By Operating Activities</b>	<u>1,642,351</u>
<b>Cash Flows From Investing Activities</b>	
Interest income	6,120
<b>Net Cash Provided By Investing Activities</b>	<u>6,120</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Cash paid for property, plant, and equipment	(9,343,223)
Grant Income	1,079,194
Advances on long-term debt and interim financing net of retirement	8,455,847
Interest paid on long-term debt	(305,831)
<b>Net Cash Used By Capital and Related Financing Activities</b>	<u>(114,013)</u>
<b>Net Increase (Decrease) In Cash, Cash Equivalents and Restricted Cash</b>	1,534,458
<b>Cash, Cash Equivalents and Restricted Cash At Beginning of Year</b>	<u>1,013,827</u>
<b>Cash, Cash Equivalents and Restricted Cash At End of Year</b>	<u><u>\$ 2,548,285</u></u>
<b>Reconciliation Of Operating Income to Net Cash Provided By Operating Activities</b>	
Net income from operations	\$ 904,028
Adjustments to reconcile net income to net cash from operating activities:	
Depreciation	655,254
Amortization of water storage rights	59,766
<b>Changes in:</b>	
Accounts receivable	(42,930)
Prepaid insurance	1,885
Inventory	7,380
Trade accounts payable	20,709
Payroll taxes payable	(8,752)
Accrued wages	11,017
Accrued compensated absences	10,976
Customer meter deposits	23,018
<b>Net Cash Provided By Operating Activities</b>	<u>\$ 1,642,351</u>
<b>Reconciliation to Statement of Net Position</b>	
Cash and cash equivalents	\$ 404,537
Restricted checking and savings accounts	2,143,748
<b>Total Cash, Cash Equivalents and Restricted Cash</b>	<u><u>\$ 2,548,285</u></u>

See accompanying notes to financial statements.

***NOTES TO FINANCIAL STATEMENTS***

**SEQUOYAH COUNTY WATER ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2020**

**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 \$157,523 as of March 31, 2020.

### **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 31<sup>st</sup>, 2020.

### **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, 2020 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:

<b>As Of March 31, 2020</b>	<b>2020</b>
Debt reserve fund	\$ 1,069,098
Emergency reserve funds	3,016
Construction fund reserve	166,248
RUS construction account	674,488
Maintance reserve fund	5,630
Customer meter deposits	225,268
Total	<u>\$ 2,143,748</u>



## 5. Property, Plant and Equipment

Activity of capital assets consists of the following:

As Of	April 1st, 2019	Additions	Retirements	March 31st, 2020
Land	\$ 105,953	\$ -	\$ -	\$ 105,953
Water and sewer system	24,846,876	1,597,923	-	26,444,799
Office building	426,017	-	-	426,017
Machinery and equipment	1,355,200	29,503	-	1,384,703
Furniture, fixtures, and radio	374,335	-	-	374,335
Construction in process	10,994,477	7,727,466	-	18,721,943
<b>Total</b>	<b>\$ 38,102,858</b>	<b>\$ 9,354,892</b>	<b>\$ -</b>	<b>\$ 47,457,750</b>

Construction in process consists of expenditures incurred for the water treatment plant expansion and new 24" water line.

## 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, 20120 total interest incurred was \$1,091,350, of which \$785,519 was capitalized and \$305,831 was charged to operations.

## 7. Long-Term Debt

Long-term debt of the Association consists of:

As Of March 31, 2020	2020
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.	\$ 445,369
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.	1,714,751
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.	675,758
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.	2,794,122
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.	8,961,364
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.	9,598,614
Central National Bank - Payments are made monthly in the amount \$3,020 inclusive of interest of interest of 4.00%. The loan is secured by equipment.	75,688
<b>Total long-term debt</b>	<b>24,265,666</b>
<b>Less: current maturities</b>	<b>528,165</b>
<b>Total long-term debt</b>	<b>\$ 23,737,501</b>

## 7. Long-Term Debt (continued)

Debt is scheduled to be repaid as follows:

March 31,	Principal	Interest	Total
2021	528,165	575,212	1,103,377
2022	544,008	559,369	1,103,377
2023	530,081	543,986	1,074,067
2024	538,068	528,528	1,066,596
2025	553,523	513,073	1,066,596
2026	569,519	497,077	1,066,596
Thereafter	21,002,302	7,605,368	28,607,670
Less Current Portion	(528,165)	(575,212)	(1,103,377)
Total	23,737,501	10,247,401	33,984,902

In February 2019 the Association obtained interim financing with Central National Bank to finance a 24" water line until permanent financing from Rural Development can be obtained. The first draw of the loan paid expenditures incurred by the Association towards the project, as well as various legal fees. Interest only is paid monthly at a floating variable rate of chase prime. The loan has an aggregate principal amount of \$7,330,000 and will be due August 12<sup>th</sup>. Total draws on the loan as of March 31, 2020 were \$7,241,442.

## 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 31<sup>st</sup>, 2018 for a total of \$2,151,578 using financing from First Banc. 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, 2020 were \$59,766.

## 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, 2020 were \$14,543.

## 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, 2020, 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
Morgan Newman	Secretary/Treasurer
John Ellis	Board Member
John Prewett	Board Member
Garner Garrison	Board Member
R E Anglen	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.

***OTHER 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, 2020, 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, 2020.

**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.

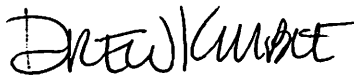
Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or 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, 2020



**DREW KIMBLE**  
*Certified Public Accountant*

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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, 2020. 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, 2020.

## **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, 2020

**SEQUOYAH COUNTY WATER ASSOCIATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED MARCH 31ST, 2020**

<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>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
Water & Waste Water Disposal Systems for Rural Communities	10.76	Direct Award	3/31/2020	<u>\$ 18,865,194.00</u>
<b>Total Federal Grants and Assistance</b>				<u><u>\$ 18,865,194.00</u></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, 2020**

**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: \$ 18,865,194

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

**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 31<sup>ST</sup>, 2020**

**PRIOR YEAR FINDINGS:**

Not applicable not single audit in prior year.

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