

**SEQUOYAH COUNTY
WATER ASSOCIATION
AUDITED FINANCIAL STATEMENTS**

MARCH 31, 2017 AND 2016



SEQUOYAH COUNTY WATER ASSOCIATION
MARCH 31, 2017 AND 2016

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Sequoyah County Water Association (the Association) as of and for the years ended March 31, 2017 and 2016, 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 in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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. Those standards require that we 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 Association'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 Association's internal

control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Sequoyah County Water Association as of March 31, 2017 and 2016, and the changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

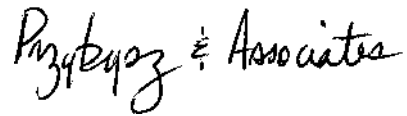
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of 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.

Other Information

Our 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, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2017, on our 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 our 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.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
June 28, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

**SEQUOYAH COUNTY WATER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2017**

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, 2017. 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, 2017 with a net position balance of \$9,446,008.
- Net income of \$342,744 plus construction contributions of \$17,072 resulted in a change of net position for the Association of \$359,816.
- The Association had net capital asset additions totaling \$1,624,201.
- The statement of cash flows identifies sources and uses of cash activity for the fiscal year. For fiscal year 2016, cash and cash equivalents increased by \$67,543. Cash provided from the day to day operations totaled \$993,739. Cash used by capital and related financing activities netted \$1,855,702. This was a combination of cash used to acquire property, plant, & equipment of \$1,597,786 and cash used to service debt of \$739,505, netted with loan proceeds of \$80,199 and capital grants of \$383,386. Cash proceeds by noncapital and related financing activities was \$17,072 from member contributions. Furthermore, cash provided by investing activities totaled \$912,434. This was primarily the result of transferring funds from restricted checking and savings accounts.

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, 2017. 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, 2017**

CONDENSED FINANCIAL INFORMATION

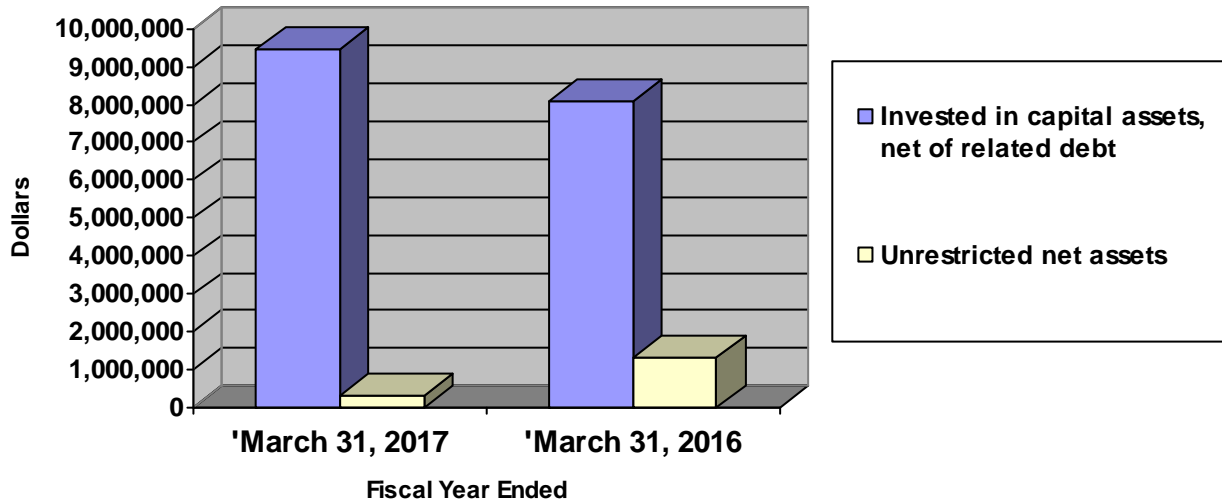
Condensed financial information from the statements of net position as of March 31, 2017 and 2016 and the statements of revenues, expenses and changes in net position for the years then ended are as follows:

	March 31,	
	2017	2016
Current assets	\$ 791,839	\$ 1,674,576
Capital assets, net	20,853,448	19,735,907
Total assets	<u>21,645,287</u>	<u>21,410,483</u>
Current liabilities	798,862	5,178,943
Long-term debt	11,059,635	6,787,494
Total liabilities	<u>11,858,497</u>	<u>11,966,437</u>
Net position:		
Net investment in capital assets	9,446,008	8,092,524
Unrestricted	340,782	1,351,522
Total net position	<u>\$ 9,786,790</u>	<u>\$ 9,444,046</u>
Operating revenues	<u>\$ 3,974,355</u>	<u>\$ 3,481,229</u>
Operating expenses, excluding depreciation	3,122,813	2,772,583
Depreciation	506,660	397,400
Total operating expenses, including depreciation	<u>3,629,473</u>	<u>3,169,983</u>
Operating income	344,882	311,246
Nonoperating revenues and (expenses)	(19,210)	(251,422)
Member contributions	<u>17,072</u>	<u>10,482</u>
Change in net position	342,744	70,306
Beginning of year net position	<u>9,444,046</u>	<u>9,373,740</u>
End of year net position	<u>\$ 9,786,790</u>	<u>\$ 9,444,046</u>

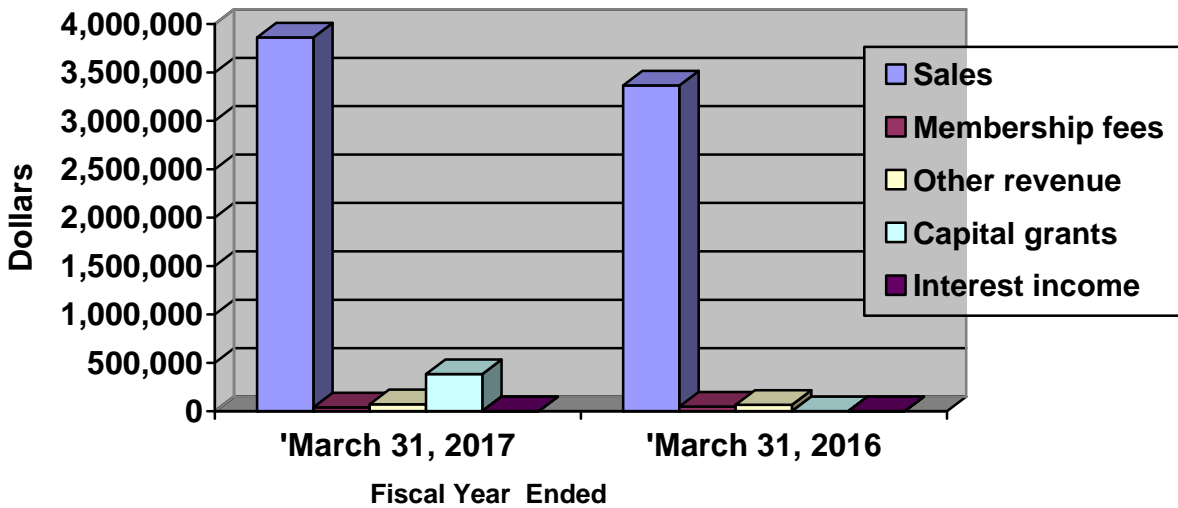
**SEQUOYAH COUNTY WATER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2017**

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Classifications of net assets presented in a graph format

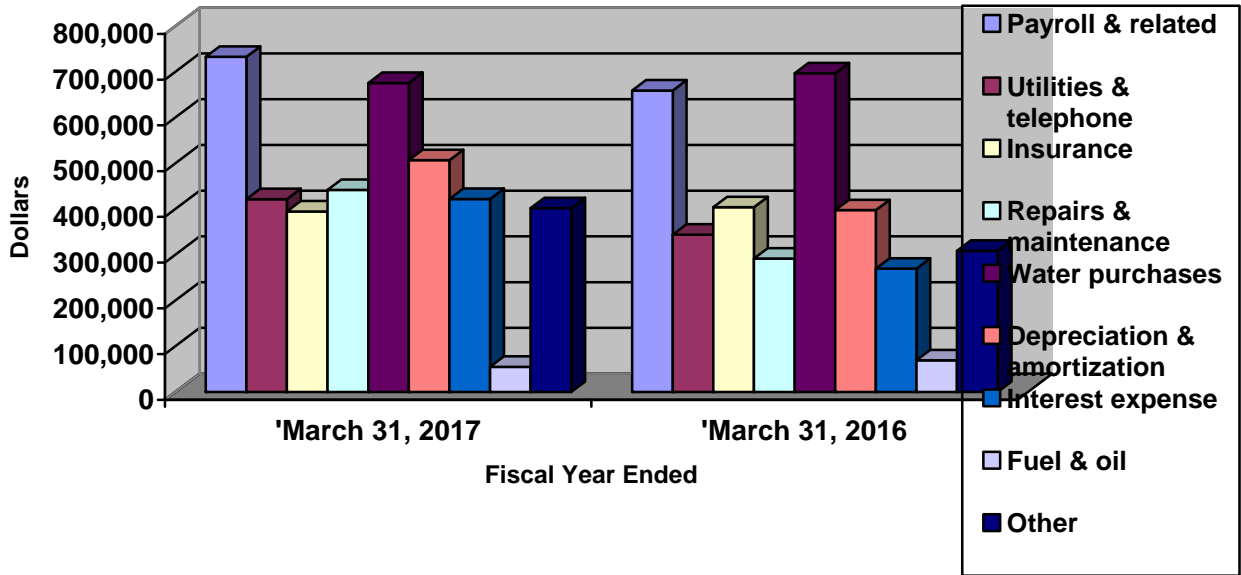


Operating revenues presented in a graph format



**SEQUOYAH COUNTY WATER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2017**

**Operating expenses presented in a graph
format**



CAPITAL ASSETS

The Association's capital assets as of March 31, 2017 and 2016 amounted to \$27,418,460, and \$25,794,259 respectively. 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, 2017 included a new telemetry and SCADA system for \$397,266, completion of the Tower Road and Akins pump station for \$476,889, and a mapping system for \$63,533. Construction in process consists of \$597,424 in engineering fees relating to the 24" line to Vian and Expanded Water treatment plant.

LONG-TERM DEBT

As of March 31, 2017, the Association had \$11,407,440 in outstanding debt compared to \$11,643,383 as of March 31, 2016. Remaining loan proceeds of \$80,199 was advanced to the Association in May of 2016 from Central National Bank. Total payments of \$739,495 was made to Rural Development, Armstrong Bank, and Central National Bank. Of this amount, \$316,142 was applied to principal. For the upcoming year, \$757,976 is schedule to be paid with \$347,805 being applied to principal.

**SEQUOYAH COUNTY WATER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2017**

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

STATEMENTS OF NET POSITION

AS OF MARCH 31,	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 68,527	\$ 984
Restricted checking and savings accounts	155,864	1,046,883
Restricted certificate of deposit	-	20,000
Accounts receivable, less allowance for doubtful accounts of \$71,825 and \$71,163, respectively	322,171	280,648
Prepaid insurance	25,522	38,390
Inventory	219,755	287,671
Total Current Assets	791,839	1,674,576
Noncurrent Assets		
Capital Assets		
Land	105,953	105,953
Water and sewer system	24,773,489	23,701,857
Office building	426,017	426,017
Machinery and equipment	1,143,746	1,124,601
Furniture, fixtures, and radio	371,831	371,831
Construction in process	597,424	64,000
Total	27,418,460	25,794,259
Less accumulated depreciation	6,565,012	6,058,352
Net Capital Assets	20,853,448	19,735,907
Total Assets	21,645,287	21,410,483
Liabilities and Net Position		
Current Liabilities		
Accounts payable	250,026	167,862
Accrued Wages	11,779	8,030
Accrued interest	21,632	22,980
Accrued compensated absences	24,638	21,884
Employee deductions payable	3,096	4,112
Customer meter deposits	139,886	98,186
Current portion of long-term debt	347,805	4,855,889
Total Current Liabilities	798,862	5,178,943
Long-Term Debt	11,059,635	6,787,494
Total Liabilities	11,858,497	11,966,437
Net Position		
Net investment in capital assets	9,446,008	8,092,524
Unrestricted	340,782	1,351,522
Total Net Position	\$ 9,786,790	\$ 9,444,046

See accompanying notes to financial statements.

SEQUOYAH COUNTY WATER ASSOCIATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED MARCH 31,	2017	2016
Operating Revenue		
Sales and charges, net of bad debts	\$ 3,861,088	\$ 3,365,878
Membership fees	40,650	48,531
Other revenue	72,617	66,820
Total Operating Revenue	3,974,355	3,481,229
Operating Expenses		
Salaries	667,643	597,914
Taxes-other than income	50,891	47,786
Outside services	62,518	63,373
Pension plan expense	14,143	13,419
Office expense	46,538	55,855
Professional fees	120,483	26,020
Utilities and telephone	421,726	343,791
Fuel and oil	54,916	69,170
Insurance	394,345	403,834
Miscellaneous	17,999	11,190
Repairs and maintenance	440,439	276,192
Telemetry services	1,346	15,353
Chemicals	61,295	65,110
Water testing	34,317	23,692
Water purchases	675,517	696,657
Equipment rental	3,939	3,670
Mileage reimbursements	27,228	23,007
Bank Fees	27,530	36,550
Depreciation	506,660	397,400
Total Operating Expenses	3,629,473	3,169,983
Operating Income	344,882	311,246
Nonoperating Activities		
Interest income	1,415	1,366
Capital grants	383,386	-
Interest expense	(422,015)	(269,529)
Gain on disposal of asset	18,004	16,741
Total Nonoperating Activities	(19,210)	(251,422)
Net Income Before Contributions	325,672	59,824
Member Contributions	17,072	10,482
Change in Net Position	342,744	70,306
Beginning of Year Net Position	9,444,046	9,373,740
End of Year Net Position	\$ 9,786,790	\$ 9,444,046

See accompanying notes to financial statements.

SEQUOYAH COUNTY WATER ASSOCIATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31,	2017	2016
Cash Flows From Operating Activities		
Cash receipts from customers	\$ 3,974,532	\$ 3,511,042
Cash payments to suppliers for goods and services	(2,322,749)	(2,213,566)
Cash payments to employees for services	(658,044)	(586,370)
Net Cash Provided By Operating Activities	993,739	711,106
Cash Flows From Investing Activities		
Net restricted checking and savings account activity	911,019	(619,134)
Net restricted investment account activity	-	79,246
Interest income	1,415	1,366
Net Cash Provided (Used) By Investing Activities	912,434	(538,522)
Cash Flows From Capital and Related Financing Activities		
Cash paid for property, plant, and equipment	(1,597,786)	(2,757,793)
Proceeds from disposition of assets	383,386	-
Capital grants	18,004	-
Advances on long-term debt	80,199	3,101,327
Principal paid on long-term debt	(316,142)	(182,862)
Interest paid on long-term debt	(423,363)	(374,382)
Net Cash Used By Capital and Related Financing Activities	(1,855,702)	(213,710)
Cash Flows From Noncapital and Related Financing Activities		
Member contributions	17,072	10,482
Net Cash Provided By Noncapital and Related Financing Activities	17,072	10,482
Net Increase (Decrease) In Cash and Cash Equivalents	67,543	(30,644)
Cash and Cash Equivalents At Beginning of Year	984	31,628
Cash and Cash Equivalents At End of Year	\$ 68,527	\$ 984

See accompanying notes to financial statements.

SEQUOYAH COUNTY WATER ASSOCIATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31,	2017	2016
Reconciliation Of Operating Income to Net Cash Provided By Operating Activities		
Net income from operations	\$ 344,882	\$ 311,246
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	506,660	397,400
Changes in:		
Accounts receivable	(41,523)	(15,140)
Prepaid insurance	12,868	7,190
Inventory	67,916	(17,849)
Trade accounts payable	55,749	(28,238)
Payroll taxes payable	(1,016)	4,112
Accrued wages	3,749	8,030
Accrued compensated absences	2,754	(598)
Customer meter deposits	41,700	44,953
Net Cash Provided By Operating Activities	\$ 993,739	\$ 711,106
Supplemental Schedule of Noncash Investing Activities		
Total cost of property, plant, and equipment acquired	\$ 1,624,201	\$ 2,710,280
Less: current year construction payables	(91,441)	(65,026)
Plus: prior year construction payables	65,026	255,897
Less: trade-in value of vehicles	-	(34,000)
Less: capitalized interest	-	(109,358)
Net cash expended on property, plant, and equipment	\$ 1,597,786	\$ 2,757,793

See accompanying notes to financial statements.

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017 AND 2016

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.

1. Summary of Significant Accounting Policies

a. Financial Reporting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Board. The Authority accounts for its operations as an enterprise fund.

The financial statements of the Association have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States. GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Association implemented GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in *Pre-November 30, 1989, FASB and AICPA Pronouncements*. This pronouncement incorporates the FASB, APB, and ARB pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The implementation of this pronouncement had no significant affect on the financial statements.

b. 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.

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017 AND 2016

1. Summary of Significant Accounting Policies (continued)

c. 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.

d. Accounts Receivable

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 \$79,829 and \$1,825, respectively, as of March 31, 2017 and 2016.

e. Inventory

Inventory is valued at cost using the first-in, first-out method.

f. 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 carryover to the next year; therefore, all employees will utilize the vacation time. The amounts reflected as accrued compensated absences represents the unused vacation time at March 31.

g. 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.

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017 AND 2016

2. Cash Deposits

The Association had deposits in several area banks and were secured as follows:

As Of March 31, 2017	Book Value	Bank Value
FDIC Insured	\$ 257,796	\$ 223,409
Uninsured/uncollateralized	5,123	-
Total	\$ 262,919	\$ 223,409

As Of March 31, 2016	Book Value	Bank Value
FDIC Insured	\$ 277,790	\$ 277,790
Uninsured/uncollateralized	808,348	838,518
Total	\$ 1,086,138	\$ 1,116,308

The above deposits do not include petty cash on hand of \$983 as of March 31, 2017 and 2016 respectively.

3. Restricted Assets

Restricted checking and savings accounts consists of the following:

As Of March 31,	2017	2016
Debt reserve fund	\$ 4,642	\$ 341,583
Emergency reserve funds	3,004	3,001
Construction/depreciation fund	4,886	614,080
RUS construction account	618	-
Insurance account	3,453	3,006
CDBG account	66	5,760
Customer meter deposits	139,196	99,453
Total	\$ 155,865	\$ 1,066,883

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017 AND 2016

4. Long-Term Debt

Long-term debt of the Association consists of:

As Of March 31,	2017	2016
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.	\$ 562,167	\$ 597,373
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.	1,875,907	1,924,729
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.	739,375	758,648
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.	2,935,313	2,979,292
Armstrong Bank - Payments are made monthly in the amount of \$1,675 inclusive of 2.99% interest. The note is secured by equipment.	38,962	57,560
Armstrong Bank - Payments are made monthly in the amount of \$1,804 inclusive of 2.99% interest. The note is secured by equipment.	40,196	60,289
Armstrong Bank - Payments are made monthly in the amount of \$5,842 inclusive of 2.99% interest. The note is unsecured.	543,986	595,691
Central National Bank - The loan is for an amount up to \$4,750,000 with interest of 3.124% accruing once the first draw is made. The loan is due May 15, 2016 and is secured by real estate, all accounts and other rights to payment, inventory and equipment.	4,671,534	4,669,801
Total long-term debt	11,407,440	11,643,383
Less: current maturities	347,805	4,855,889
Total long-term debt	\$ 11,059,635	\$ 6,787,494

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017 AND 2016

4. Long-Term Debt (continued)

Debt is scheduled to be repaid as follows:

March 31,	Principal	Interest	Total
2018	\$ 347,805	\$ 410,171	\$ 757,976
2019	358,838	399,138	757,976
2020	331,799	384,436	716,235
2021	344,481	371,754	716,235
2022	4,497,532	249,431	4,746,963
2023-2027	1,306,814	976,569	2,283,383
2028-2032	1,067,603	720,097	1,787,700
2033-2037	1,205,346	484,554	1,689,900
2038-2042	767,287	252,469	1,019,756
2043-2047	565,843	153,497	719,340
2048-2052	614,092	49,868	663,960
Total	\$ 11,407,440	\$ 4,451,984	\$ 15,859,424

Activity of the long-term debt consists of the following:

As Of	April 1, 2016	Debt Additions	Debt Retirements	March 31, 2017
Rural Development	\$ 6,260,043	\$ -	\$ 147,281	\$ 6,112,762
Armstrong Bank	713,539	-	90,395	623,144
Central National Bank	4,669,801	80,199	78,466	4,671,534
Total	\$ 11,643,383	\$ 80,199	\$ 316,142	\$ 11,407,440

As Of	April 1, 2015	Debt Additions	Debt Retirements	March 31, 2016
Rural Development	\$ 6,401,000	\$ -	\$ 140,957	\$ 6,260,043
Armstrong Bank	155,295	600,149	41,905	713,539
Central National Bank	2,168,623	2,501,178	-	4,669,801
Total	\$ 8,724,918	\$ 3,101,327	\$ 182,862	\$ 11,643,383

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017 AND 2016

5. Property, Plant and Equipment

Activity of capital assets consists of the following:

As Of	April 1, 2016	Additions	Retirements	March 31, 2017
Land	\$ 105,953	\$ -	\$ -	\$ 105,953
Water and sewer system	23,701,857	1,071,632	-	24,773,489
Office building	426,017	-	-	426,017
Machinery and equipment	1,124,601	19,145	-	1,143,746
Furniture, fixtures, and radio	371,831	-	-	371,831
Construction in process	64,000	597,424	64,000	597,424
Total	\$ 25,794,259	\$ 1,688,201	\$ 64,000	\$ 27,418,460

As Of	April 1, 2015	Additions	Retirements	March 31, 2016
Land	\$ 90,953	\$ 15,000	\$ -	\$ 105,953
Water and sewer system	20,811,638	2,890,219	-	23,701,857
Office building	420,847	5,170	-	426,017
Machinery and equipment	1,058,187	113,159	46,745	1,124,601
Furniture, fixtures, and radio	329,943	41,888	-	371,831
Construction in process	419,156	64,000	419,156	64,000
Total	\$ 23,130,724	\$ 3,129,436	\$ 465,901	\$ 25,794,259

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, 2017, total interest incurred was \$422,015, all of which was charged to operations. For the year ended March 31, 2016, total interest incurred was \$378,887, of which \$109,358 was capitalized and \$269,529 was charged to operations.

7. Pension Plan

Employees of the Association may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457, Deferred Compensation Plans With Respect To Service For State and Local Governments.

The deferred compensation plan is available to all employees of the Association. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017 AND 2016

7. Pension Plan (continued)

The Association contributed \$14,143 and \$13,419 for the years ended March 31, 2017 and 2016, respectively.

8. Concentrations Of Risk

a. Financial Instruments

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of bank balances that at times exceed federally insured limits of \$250,000. At December 31, 2016, the Association's uninsured cash balances totaled approximately \$5,123. Management believes it is not exposed to any significant credit risk on its balances.

b. 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.

c. 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.

9. 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 Oklahoma Rural Water Association which offers Compusource Mutual Insurance Company.

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.

10. Subsequent Events

The Association has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended March 31, 2017 through June 28, 2017, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

SEQUOYAH COUNTY WATER ASSOCIATION

ADDITIONAL COMMENTS REQUIRED BY RURAL DEVELOPMENT

MARCH 31, 2017

Water Rate Schedule

0 - 2,000	\$ 35.00
2,001 - 4,000	\$4.85/1000
4,001 - 6,000	\$5.25/1000
6,001 - 8,000	\$5.40/1000
8,001 - 10,000	\$5.55/1000
10,001 - 12,500	\$5.70/1000
12,501 - 15,000	\$5.95/1000
15,001 - 20,000	\$6.15/1000
20,001 and above	\$6.30/1000

Board Of Directors

<u>Name</u>	<u>Title</u>
Garner Garrison	President
Dan Ollie	Vice President
Morgan Newman	Secretary/Treasurer
John Ellis	Board Member
Jason O'Neal	Board Member
John Prewett	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.

ADDITIONAL REPORT



**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 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, 2017, 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 28, 2017.

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 (internal control) to determine the 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 the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify finding 2017-001 as being a deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Sequoyah County Water Association' Response to Findings

Sequoyah County Water Association's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Association's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 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.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
June 28, 2017

SEQUOYAH COUNTY WATER ASSOCIATION

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED MARCH 31, 2017

Findings - Financial Statement Audit - Current Year

2017-001

Condition:

The Association does not have sufficient internal controls over the preparation and review of the Generally Accepted Accounting Principles (GAAP) based financial statements and footnote disclosures. Management may fail to prevent or detect financial statement and footnote disclosure errors.

Criteria:

The Association is required to maintain systems of controls and have trained personnel with the knowledge and expertise concerning Governmental Accounting Standards Board (GASB) pronouncements to prepare and/or review GAAP based financial statements and footnote disclosures.

Cause and Effect:

The Association does not maintain systems of controls over the preparation of financial statements and footnote disclosures in accordance with GAAP. Management may fail to prevent or detect financial statement and footnote disclosure errors.

Recommendation:

The Association should implement systems of internal controls, to the extent possible, regarding the preparation and/or review of GAAP based financial statements and footnote disclosures by trained personnel with knowledge of GASB pronouncements which ensures the statements and disclosures are free from errors.

Responsible Official's Comments and Plan of Action

Management will monitor the systems of internal controls relating to the preparation of the GAAP based financial statements and footnote disclosures and implement the corrective procedures to the extent possible.