

**SEQUOYAH COUNTY
WATER ASSOCIATION
AUDITED FINANCIAL STATEMENTS**

MARCH 31, 2018 AND 2017



SEQUOYAH COUNTY WATER ASSOCIATION
MARCH 31, 2018 AND 2017

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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, 2018 and 2017, 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 Sequoyah County Water Association as of March 31, 2018 and 2017, and the changes in financial position and 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

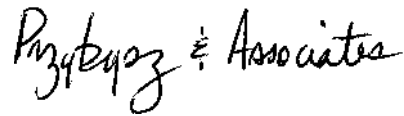
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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 May 25, 2018, 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
May 25, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

**SEQUOYAH COUNTY WATER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018**

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, 2018. 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, 2018 with a net position balance of \$10,414,358.
- Net income of \$621,351 plus construction contributions of \$6,217 resulted in a change of net position for the Association of \$627,568.
- The Association had net capital asset additions totaling \$1,172,599.
- The statement of cash flows identifies sources and uses of cash activity for the fiscal year. For fiscal year 2018, cash, cash equivalents and restricted cash increased by \$601,270. Cash provided from the day to day operations totaled \$1,242,185. Cash used by capital and related financing activities netted \$876,778. This was a combination of cash used to acquire property, plant, & equipment of \$1,058,787, cash used for service debt of \$807,686 and cash paid for water storage rights of \$100,290, netted with loan proceeds of \$1,089,985. Cash proceeds by noncapital and related financing activities was \$235,294 which was Department of Transportation reimbursements of \$229,077 plus \$6,217 from member contributions. Furthermore, cash provided by investing activities of interest income totaled \$569.

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, 2018. 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, 2018**

CONDENSED FINANCIAL INFORMATION

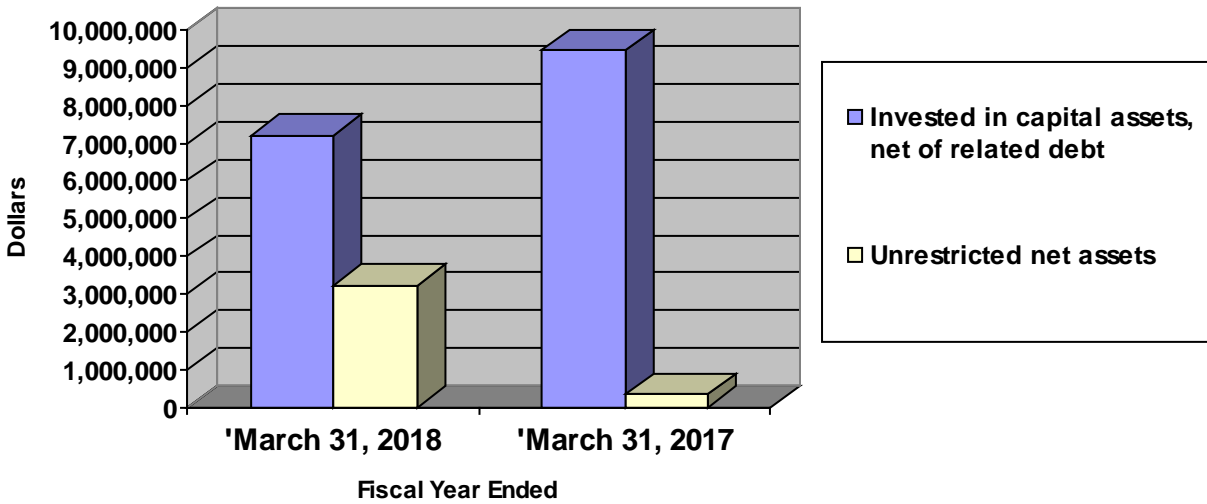
Condensed financial information from the statements of net position as of March 31, 2018 and 2017 and the statements of revenues, expenses and changes in net position for the years then ended are as follows:

	March 31,	
	2018	2017
Current assets	\$ 1,478,263	\$ 791,839
Capital assets, net	21,460,684	20,853,448
Total assets	<u>22,938,947</u>	<u>21,645,287</u>
Deferred Outflows of Resources	<u>2,091,812</u>	<u>0</u>
Current liabilities	582,929	798,862
Construction loan	8,127,823	0
Long-term debt	<u>5,905,649</u>	<u>11,059,635</u>
Total liabilities	<u>14,616,401</u>	<u>11,858,497</u>
Net assets:		
Net investment in capital assets	7,195,831	9,446,008
Unrestricted	<u>3,218,527</u>	<u>340,782</u>
Total net assets	<u>\$ 10,414,358</u>	<u>\$ 9,786,790</u>
Operating revenues	<u>\$ 4,351,846</u>	<u>\$ 3,974,355</u>
Operating expenses, excluding depreciation & amortization	3,067,220	3,122,813
Depreciation & amortization	<u>625,129</u>	<u>506,660</u>
Total operating expenses, including depreciation and amortization	<u>3,692,349</u>	<u>3,629,473</u>
Operating income	659,497	344,882
Nonoperating revenues and (expenses)	(38,146)	(19,210)
Member contributions	<u>6,217</u>	<u>17,072</u>
Change in position	627,568	342,744
Beginning of year net position	<u>9,786,790</u>	<u>9,444,046</u>
End of year net position	<u>\$ 10,414,358</u>	<u>\$ 9,786,790</u>

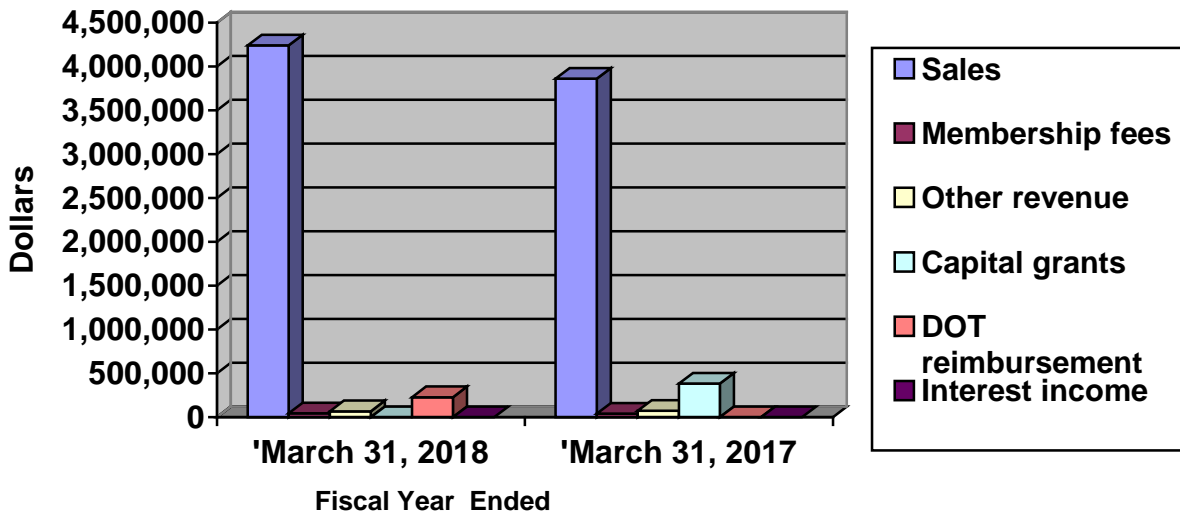
**SEQUOYAH COUNTY WATER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018**

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Classifications of net assets presented in a graph format

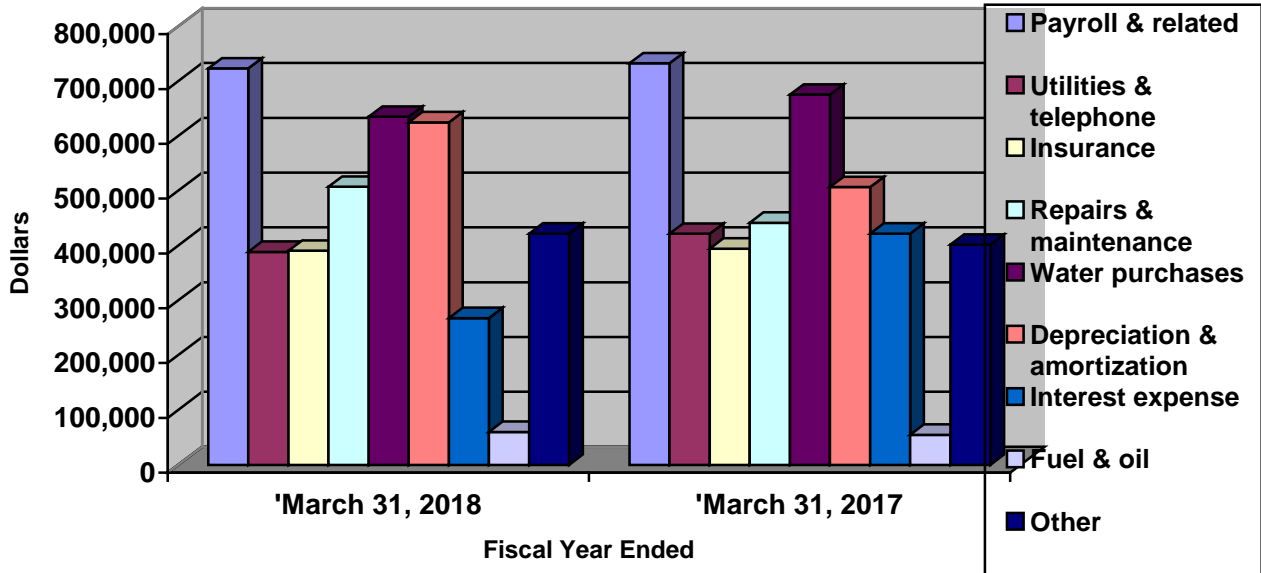


Operating revenues presented in a graph format



**SEQUOYAH COUNTY WATER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018**

**Operating expenses presented in a graph
format**



CAPITAL ASSETS

The Association's capital assets as of March 31, 2018 and 2017 amounted to \$28,591,059, and \$27,418,460 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, 2018 included new trucks totaling \$118,015 and two excavators for \$80,100. Construction in process consists of \$1,482,678 in engineering fees relating to the 24" line to Vian and Expanded Water treatment plant.

WATER STORAGE RIGHTS

In 2018, the Association acquired permanent water storage rights on Tenkiller Ferry Lake for \$2,151,578. \$2,051,288 of the cost was financed. These rights are reflected on the statement of net position as deferred storage rights related to water storage and will be amortized over thirty years. Amortization for the fiscal year ended March 31, 2018 was \$59,766.

**SEQUOYAH COUNTY WATER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018**

LONG-TERM DEBT

As of March 31, 2018, the Association had \$14,264,853 in outstanding debt compared to \$11,407,440 as of March 31, 2017. The Association received interim financing of \$8,127,823 that was used to pay off the principal balances of loans with Armstrong and Central National Bank totaling \$5,100,165, to acquire water storage rights for \$2,051,288 and pay other expenses of interest and bond fees totaling \$50,363. The Association also received \$163,978 in financing for new trucks and excavators. Total payments of \$807,686 were made to Rural Development, Armstrong Bank, and Central National Bank. Of this amount, \$334,223 was applied to principal. For the upcoming year, \$480,247 is schedule to be paid with \$231,381 being applied to principal.

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,	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 179,851	\$ 68,527
Restricted checking and savings accounts	645,810	155,864
Accounts receivable, less allowance for doubtful accounts	400,344	322,171
Prepaid insurance	19,702	25,522
Inventory	232,556	219,755
Total Current Assets	1,478,263	791,839
Noncurrent Assets		
Capital Assets		
Land	105,953	105,953
Water and sewer system	24,846,876	24,773,489
Office building	426,017	426,017
Machinery and equipment	1,355,200	1,143,746
Furniture, fixtures, and radio	374,335	371,831
Construction in process	1,482,678	597,424
Total	28,591,059	27,418,460
Less accumulated depreciation	7,130,375	6,565,012
Net Capital Assets	21,460,684	20,853,448
Total Assets	22,938,947	21,645,287
Deferred Outflows		
Deferred charges related to storage rights, net	2,091,812	-
Total Deferred Outflows	2,091,812	-
Liabilities and Net Position		
Current Liabilities		
Accounts payable	130,165	250,026
Accrued wages	10,423	11,779
Accrued interest	14,142	21,632
Accrued compensated absences	17,503	24,638
Employee deductions payable	3,378	3,096
Customer meter deposits	175,937	139,886
Current portion of long-term debt	231,381	347,805
Total Current Liabilities	582,929	798,862
Construction Loan	8,127,823	-
Long-Term Debt	5,905,649	11,059,635
Total Liabilities	14,616,401	11,858,497
Net Position		
Net investment in capital assets	7,195,831	9,446,008
Unrestricted	3,218,527	340,782
Total Net Position	\$ 10,414,358	\$ 9,786,790

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,	2018	2017
Operating Revenue		
Sales and charges, net of bad debts	\$ 4,239,957	\$ 3,861,088
Membership fees	44,097	40,650
Other revenue	67,792	72,617
Total Operating Revenue	4,351,846	3,974,355
Operating Expenses		
Salaries	658,381	667,643
Payroll taxes	50,730	50,891
Outside services	63,527	62,518
Employee benefits	14,342	14,143
Office expense	44,379	46,538
Professional fees	82,213	120,483
Utilities and telephone	388,595	421,726
Fuel and oil	60,024	54,916
Insurance	390,540	394,345
Miscellaneous	13,564	17,999
Repairs and maintenance	507,394	440,439
Telemetry services	1,474	1,346
Chemicals	63,982	61,295
Water testing	31,758	34,317
Water purchases	635,282	675,517
Equipment rental	4,287	3,939
Mileage reimbursements	24,084	27,228
Bank Fees	32,664	27,530
Depreciation	565,363	506,660
Water storage expense	59,766	-
Total Operating Expenses	3,692,349	3,629,473
Operating Income	659,497	344,882
Nonoperating Activities		
Interest income	569	1,415
Capital grants	-	383,386
Department of Transportation reimbursements	229,077	-
Interest expense	(267,792)	(422,015)
Gain on disposal of asset	-	18,004
Total Nonoperating Activities	(38,146)	(19,210)
Net Income Before Contributions	621,351	325,672
Member Contributions	6,217	17,072
Change in Net Position	627,568	342,744
Beginning of Year Net Position	9,786,790	9,444,046
End of Year Net Position	\$ 10,414,358	\$ 9,786,790

See accompanying notes to financial statements.

SEQUOYAH COUNTY WATER ASSOCIATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31,	2018	2017
Cash Flows From Operating Activities		
Cash receipts from customers	\$ 4,309,724	\$ 3,974,532
Cash payments to suppliers for goods and services	(2,400,667)	(2,322,749)
Cash payments to employees for services	(666,872)	(658,044)
Net Cash Provided By Operating Activities	1,242,185	993,739
Cash Flows From Investing Activities		
Redemption of certificate of deposit	-	20,000
Interest income	569	1,415
Net Cash Provided By Investing Activities	569	21,415
Cash Flows From Capital and Related Financing Activities		
Cash paid for property, plant, and equipment	(1,058,787)	(1,597,786)
Proceeds from disposition of assets	-	383,386
Capital grants	-	18,004
Advances on long-term debt and interim financing	1,089,985	80,199
Principal paid on long-term debt	(334,223)	(316,142)
Interest paid on long-term debt	(473,463)	(423,363)
Cash paid for water rights	(100,290)	-
Net Cash Used By Capital and Related Financing Activities	(876,778)	(1,855,702)
Cash Flows From Noncapital and Related Financing Activities		
Department of Transportation reimbursements	229,077	-
Member contributions	6,217	17,072
Net Cash Provided By Noncapital and Related Financing Activities	235,294	17,072
Net Increase (Decrease) In Cash, Cash Equivalents and Restricted Cash		
Restricted Cash	601,270	(823,476)
Cash, Cash Equivalents and Restricted Cash At Beginning of Year	224,391	1,047,867
Cash, Cash Equivalents and Restricted Cash At End of Year	\$ 825,661	\$ 224,391
Reconciliation to the Statement of Net Position		
Cash and cash equivalents	\$ 179,851	\$ 68,527
Restricted checking and savings accounts	645,810	155,864
Total Cash, Cash Equivalents and Restricted Cash	\$ 825,661	\$ 224,391

See accompanying notes to financial statements.

SEQUOYAH COUNTY WATER ASSOCIATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31,	2018	2017
Reconciliation Of Operating Income to Net Cash Provided By Operating Activities		
Net income from operations	\$ 659,497	\$ 344,882
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	565,363	506,660
Amortization of water storage rights	59,766	-
Changes in:		
Accounts receivable	(78,173)	(41,523)
Prepaid insurance	5,820	12,868
Inventory	(12,801)	69,749
Trade accounts payable	14,871	55,748
Payroll taxes payable	282	(1,016)
Accrued wages	(1,356)	3,749
Accrued compensated absences	(7,135)	2,754
Customer meter deposits	36,051	41,700
Net Cash Provided By Operating Activities	\$ 1,242,185	\$ 995,571
Supplemental Schedule of Noncash Investing Activities		
Total cost of property, plant, and equipment acquired	\$ 1,172,599	\$ 1,624,201
Less: current year construction payables	-	(91,441)
Plus: prior year construction payables	91,441	65,026
Less: capitalized interest	(205,253)	-
Net cash expended on property, plant, and equipment	\$ 1,058,787	\$ 1,597,786
Total loan borrowings	\$ 8,291,801	\$ -
Less: principal paid on extinguished loans	(5,100,165)	-
Less: payment for water storage rights	(2,051,288)	-
Less: interest paid on extinguished loans	(7,072)	-
Less: direct payment of bond counsel fees	(43,291)	-
Net cash received on advances on long-term debt and interim financing	\$ 1,089,985	\$ -

See accompanying notes to financial statements.

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

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. 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.

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

1. Summary of Significant Accounting Policies (continued)

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 \$89,685 and \$79,829, respectively, as of March 31, 2018 and 2017.

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. Deferred Outflows of Resources

In addition to assets, the statement of net position has a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. The Association recognizes deferred outflows of resources related to water storage rights.

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

1. Summary of Significant Accounting Policies (continued)

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 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.

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.

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

1. Summary of Significant Accounting Policies (continued)

p. Reclassifications

Certain 2017 amounts have been reclassified in order to conform with the 2018 financial statement presentation. Net position and changes in net position are unchanged due to these reclassifications.

2. 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, 2018 and 2017, the Association had uninsured deposits of \$989,431 and \$5,123, respectively. 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.

3. 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,	2018	2017
Debt reserve fund	\$ 463,489	\$ 4,642
Emergency reserve funds	3,007	3,004
Construction/depreciation fund	5,046	4,886
RUS construction account	-	618
Insurance account	53	3,453
CDBG account	66	66
Customer meter deposits	174,149	139,196
Total	\$ 645,810	\$ 155,865

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

4. Property, Plant and Equipment

Activity of capital assets consists of the following:

As Of	April 1, 2017	Additions	Retirements	March 31, 2018
Land	\$ 105,953	\$ -	\$ -	\$ 105,953
Water and sewer system	24,773,489	73,387	-	24,846,876
Office building	426,017	-	-	426,017
Machinery and equipment	1,143,746	211,454	-	1,355,200
Furniture, fixtures, and radio	371,831	2,504	-	374,335
Construction in process	597,424	885,254	-	1,482,678
Total	\$ 27,418,460	\$ 1,172,599	\$ -	\$ 28,591,059

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

Construction in process consists of expenditures incurred for the water treatment plant expansion. The total cost for the project is estimated to be \$11,100,000. The anticipated completion date is August 2019.

5. 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, 2018, total interest incurred was \$473,045, of which \$205,253 was capitalized and \$267,792 was charged to operations. For the year ended March 31, 2017, total interest incurred was \$422,015, all of which was charged to operations.

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

6. Long-Term Debt

Long-term debt of the Association consists of:

As Of March 31,	2018	2017
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.	\$ 525,160	\$ 562,167
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.	1,824,714	1,875,907
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.	719,166	739,375
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.	2,889,826	2,935,313
Armstrong Bank - Payments are made monthly in the amount of \$1,675 inclusive of 2.99% interest. The note is secured by equipment.	19,772	38,962
Armstrong Bank - Payments are made monthly in the amount of \$1,804 inclusive of 2.99% interest. The note is secured by equipment.	19,486	40,196
Armstrong Bank - Payments are made monthly in the amount of \$5,842 inclusive of 2.99% interest. The note is unsecured.	-	543,986
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
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.	138,906	-
Total long-term debt	6,137,030	11,407,440
Less: current maturities	231,381	347,805
Total long-term debt	\$ 5,905,649	\$ 11,059,635

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

6. Long-Term Debt (continued)

Debt is scheduled to be repaid as follows:

March 31,	Principal	Interest	Total
2019	\$ 231,381	\$ 248,866	\$ 480,247
2020	200,639	237,867	438,506
2021	209,540	228,966	438,506
2022	218,845	219,661	438,506
2023	197,958	210,346	408,304
2024-2028	1,097,904	913,416	2,011,320
2029-2033	1,049,038	674,428	1,723,466
2034-2038	1,258,098	431,802	1,689,900
2039-2043	599,347	226,443	825,790
2044-2048	585,239	134,101	719,340
2049-2052	489,041	31,051	520,092
Total	\$ 6,137,030	\$ 3,556,947	\$ 9,693,977

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

As Of	April 1, 2017	Debt Additions	Debt Retirements	March 31, 2018
Rural Development	\$ 6,112,762	\$ -	\$ 153,896	\$ 5,958,866
Armstrong Bank	623,144	-	583,886	39,258
US Army Corps of Engineers	-	2,151,578	2,151,578	-
Central National Bank	4,671,534	163,978	4,696,606	138,906
Total	\$ 11,407,440	\$ 2,315,556	\$ 7,585,966	\$ 6,137,030

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

In December 2017, the Association obtained interim financing with BancFirst to finance the water plan expansion until permanent financing from RUS can be obtained. The first draw of the loan paid off existing loans with Armstrong Bank, Central National Bank, and the Corps of Engineers, 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 .70 less prime. The loan has an aggregate principal amount of \$18,640,000 and will be due December 29, 2019. Total draws on the loan as of March 31, 2018 were \$8,127,823.

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

7. Deferred Outflows of Resources

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 3, 2018 for a total of \$2,151,578 using financing from FirstBanc. These rights are shown as deferred charges related to storage rights on the statement of net position and will be amortized over a period of thirty years. Water storage rights amortization expense for the fiscal year ended March 31, 2018 were \$59,766.

8. Operating Lease

The Association leases office equipment under an operating leases. Total lease expense was \$4,287 and \$3,939 for the years ended March 31, 2018 and 2017, respectively. Future minimum annual rental commitments under the non-cancellable operating lease at March 31, 2018 is as follows:

Year ending March 31,		
2019	\$	3,907
2020		1,628
Total	\$	5,535

9. Benefit Plan

The Association has adopted an IRA plan which covers substantially all employees. Employees can make pre-tax salary contributions to the plan with up to a 3% company matching provision. Employer contributions to this plan for the years ended March 31, 2018 were \$14,342 and \$14,143, respectively.

10. 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.

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

11. 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.

12. Subsequent Events

The Association has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended March 31, 2018 through May 25, 2018, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

SEQUOYAH COUNTY WATER ASSOCIATION

ADDITIONAL COMMENTS REQUIRED BY RURAL DEVELOPMENT

MARCH 31, 2018

Water Rate Schedule

0 - 2,000	\$ 41.00
2,001 - 4,000	\$5.25/1000
4,001 - 6,000	\$5.50/1000
6,001 - 10,000	\$5.75/1000
10,001 - 12,500	\$6.00/1000
12,501 - 15,000	\$6.25/1000
15,001 - 20,000	\$6.50/1000
20,001 and above	\$6.75/1000

Board Of Directors

<u>Name</u>	<u>Title</u>
Garner Garrison	President
Dan Ollie	Vice President
Morgan Newman	Secretary/Treasurer
John Ellis	Board Member
Bruce Tabor	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, 2018, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated May 25, 2018.

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 2018-001 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
May 25, 2018

SEQUOYAH COUNTY WATER ASSOCIATION

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED MARCH 31, 2018

Findings - Financial Statement Audit - Current Year

2018-001

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.