

**SEQUOYAH COUNTY  
WATER ASSOCIATION  
AUDITED FINANCIAL STATEMENTS**

**MARCH 31, 2013 AND 2012**



**SEQUOYAH COUNTY WATER ASSOCIATION**  
**MARCH 31, 2013 AND 2012**

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PRZYBYSZ

& ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A Professional Corporation

## Independent Auditor's Report

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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 Authority) as of and for the years ended March 31, 2013 and 2012, and the related notes to the financial statements, which collectively, comprise the Authority'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 audits 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 Authority'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 Authority'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 account 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 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, 2013 and 2012, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

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 supplemental 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 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 performed for the purpose of forming an opinion on the financial statements of the Sequoyah County Water Association taken as a whole. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the other information such as the additional comments required by Rural Development are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures is fairly stated in all material respects in relation to the financial statements taken as a whole.

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 29, 2013, on our consideration of the Authority's internal control over financial reporting and 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 the 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 the **Sequoyah County Water Association's** internal control over financial reporting and compliance.



**Przybysz & Associates, CPAs, P.C.**  
**Fort Smith, Arkansas**  
**May 29, 2013**

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

**SEQUOYAH COUNTY WATER ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2013**

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, 2013. 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, 2013 with a net asset balance of \$9,269,020.
- Net income of \$1,448,770 plus member contributions of \$4,031 resulted in a change of net assets for the Association of \$1,452,801.
- The Association had capital asset additions totaling \$3,947,451.
- The statement of cash flows identifies sources and uses of cash activity for the fiscal year. For fiscal year 2013, cash and cash equivalents increased by \$87,446. Cash provided from the day to day operations totaled \$556,954. Cash used by capital and related financing activities netted \$226,033. This was a combination of cash used to acquire property, plant, & equipment of \$3,658,227 and cash used to service debt of \$1,175,234, netted with loan and grant proceeds of \$4,607,428. Cash used by noncapital and related financing activities netted \$11,967. This was a result of processing fees charged to interest expense of \$15,998 over member contributions of \$4,031. Furthermore, cash used by investing activities totaled \$231,508. This was primarily the result of restricted checking accounts be funded.

**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, 2013. 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 Statements 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, 2013**

**CONDENSED FINANCIAL INFORMATION**

Condensed financial information from the statement of net position as of March 31, 2013 and 2012 and the statement of revenues, expenses and changes in net position for the years then ended are as follows:

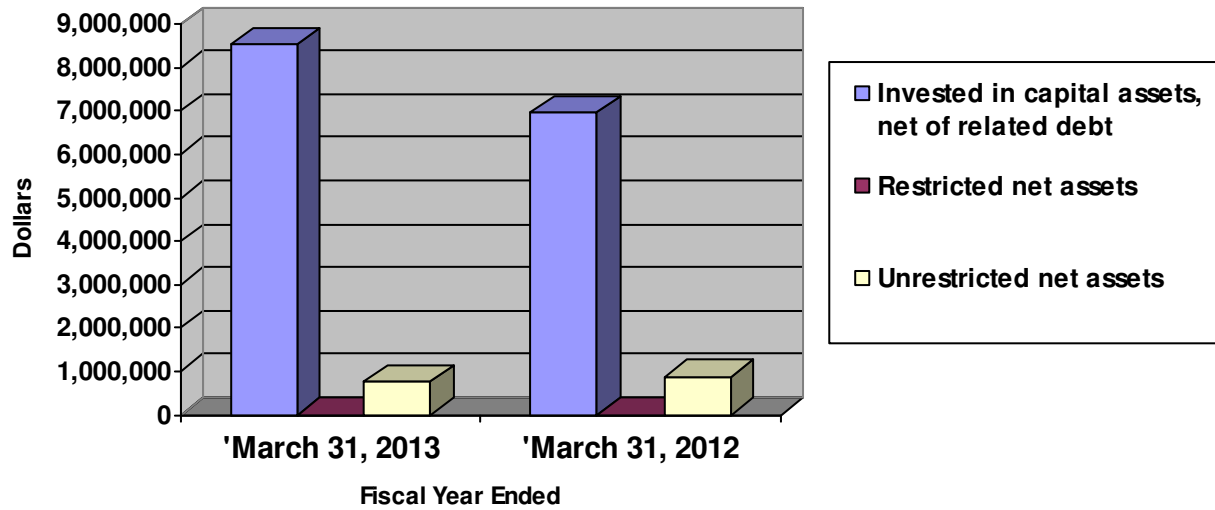
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
Current assets	\$ 1,390,492	\$ 1,044,246
Other Noncurrent Assets	9,975	10,562
Capital assets, net	<u>15,039,454</u>	<u>11,378,002</u>
Total assets	<u>16,439,921</u>	<u>12,432,810</u>
Current liabilities	541,897	1,051,909
Long-term debt	<u>6,629,004</u>	<u>3,564,682</u>
Total liabilities	<u>7,170,901</u>	<u>4,616,591</u>
Net position:		
Net investment in capital assets	8,518,828	6,949,209
Restricted	0	0
Unrestricted	<u>750,192</u>	<u>867,010</u>
Total net position	<u>\$ 9,269,020</u>	<u>\$ 7,816,219</u>
Operating revenues	<u>\$ 3,168,502</u>	<u>\$ 3,222,701</u>
Operating expenses, excluding depreciation	2,555,753	2,710,124
Depreciation	<u>285,999</u>	<u>270,429</u>
Total operating expenses, including depreciation	<u>2,841,752</u>	<u>2,980,553</u>
Operating income	326,750	242,148
Nonoperating revenues and (expenses)	1,122,020	(241,378)
Member contributions	<u>4,031</u>	<u>9,999</u>
Change in net position	1,452,801	10,769
Beginning of year net position	<u>7,816,219</u>	<u>7,805,450</u>
End of year net position	<u>\$ 9,269,020</u>	<u>\$ 7,816,219</u>



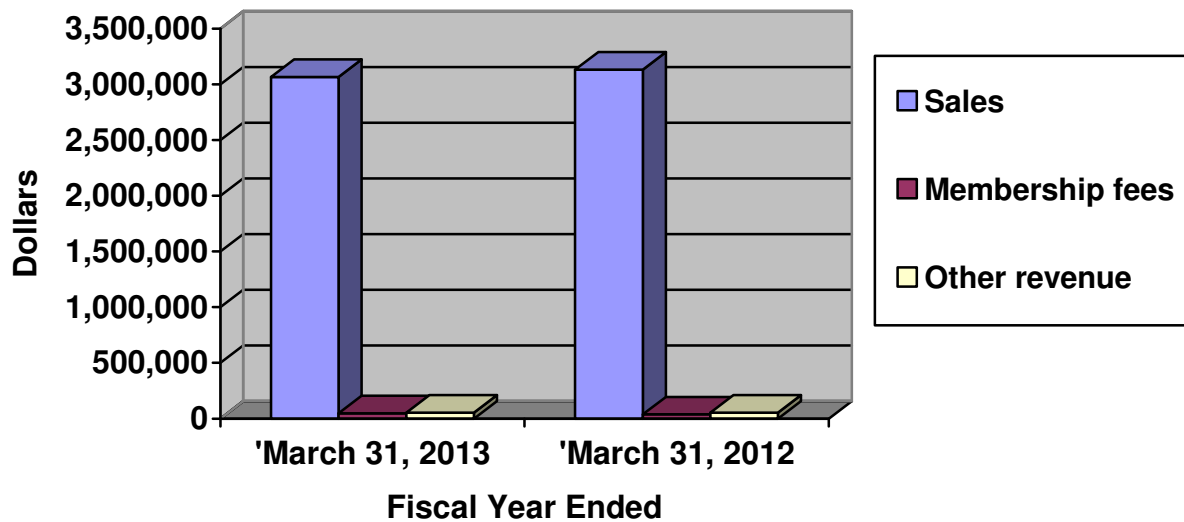
**SEQUOYAH COUNTY WATER ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2013**

**CONDENSED FINANCIAL INFORMATION (CONTINUED)**

**Classifications of net assets presented in a graph format**

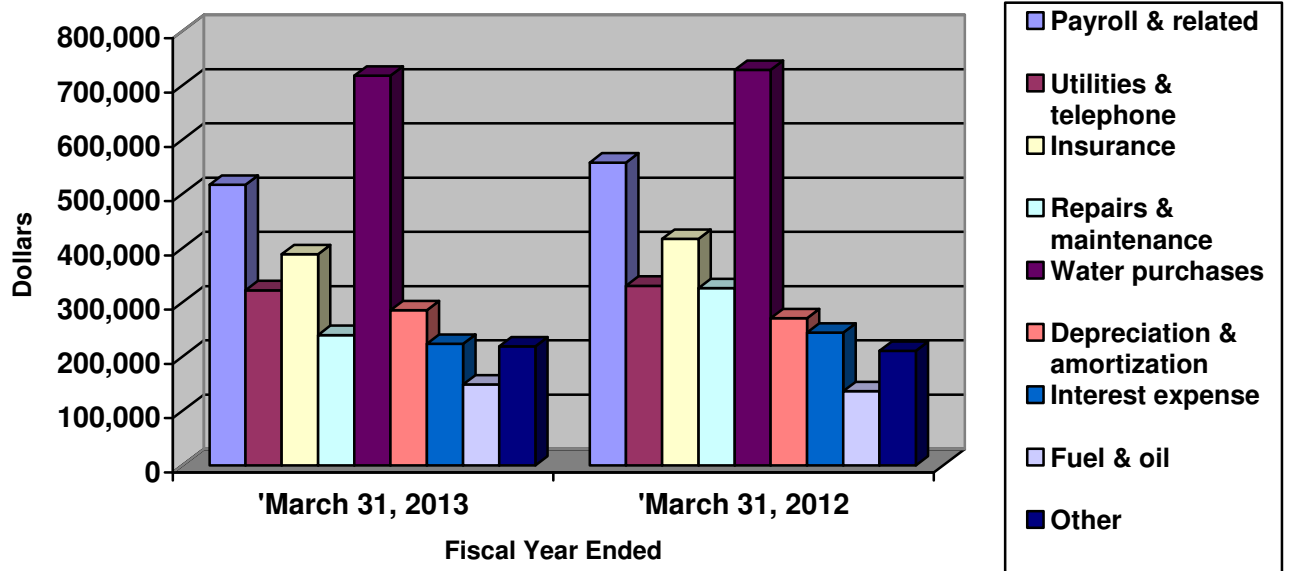


**Operating revenues presented in a graph format**



**SEQUOYAH COUNTY WATER ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2013**

**Operating income, net loss before transfers & decrease in net assets presented in a graph format**



**CAPITAL ASSETS**

The Association's capital assets as of March 31, 2013 and 2012 amounted to \$15,039,454 and \$11,378,002 (net of accumulated depreciation) respectively. This investment in capital assets includes land, water system, the office building, machinery and equipment, office furniture and fixtures, and transportation equipment.

Major additions to capital assets for the year ended March 31, 2013 included the completion of the ODOT weigh station project for \$317,328, the Rural Development project for \$3,497,221, as well as minor additions to the system for \$75,745. These major additions were funded with the Rural Development loan and grant proceeds totaling \$3,942,600, a CDBG grant for \$237,500 and monies provided by the Oklahoma Department of Transportation for \$317,328. Other additions included acquiring land for future sludge pond for \$10,500, minor equipment additions of \$19,957 and a four wheel drive dump truck for \$87,498. The Association also acquired a new loader/backhoe right after the end of the fiscal year.

**SEQUOYAH COUNTY WATER ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2013**

**LONG-TERM DEBT**

As of March 31, 2013, the Association had \$6,775,040 in outstanding debt compared to \$4,439,355 as of March 31, 2012. Major loan activity consisted of paying off the interest only loan at Armstrong Bank of \$789,581 and the issuance of the Rural Development project loan totaling \$3,155,000. In the last month of the fiscal year, the Association took out a loan with Armstrong Bank for \$110,000 was used to acquire the dump truck and will be used to acquire the loader/backhoe.

The decrease in long-term debt consisted primarily of scheduled debt service payments on existing Rural Development loans. This totaled \$139,734.

**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 the Sequoyah County Water Association, 3320 W. Cherokee, Sallisaw, Oklahoma.

***FINANCIAL STATEMENTS***

# SEQUOYAH COUNTY WATER ASSOCIATION

## STATEMENTS OF NET POSITION

AS OF MARCH 31,	2013	2012
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 88,230	\$ 784
Restricted checking and savings accounts	706,338	474,226
Certificate of deposit	20,000	20,000
Restricted investments	77,477	74,374
Accounts receivable, less allowance for doubtful accounts of \$62,238 and \$59,639 respectively	217,857	239,507
Prepaid insurance	36,940	32,483
Inventory	243,650	202,872
<b>Total Current Assets</b>	<b>1,390,492</b>	<b>1,044,246</b>
<b>Noncurrent Assets</b>		
<b>Capital Assets</b>		
Land	81,439	70,939
Water and sewer system	18,422,012	14,531,718
Office building	378,081	378,081
Machinery and equipment	937,000	846,750
Furniture, fixtures, and radio	328,197	308,240
Construction in process	-	63,550
Total	20,146,729	16,199,278
Less accumulated depreciation	5,107,275	4,821,276
<b>Net Capital Assets</b>	<b>15,039,454</b>	<b>11,378,002</b>
<b>Other Noncurrent Assets</b>		
Loan origination fees, net of accumulated amortization of \$12,913 and \$12,326 respectively	9,975	10,562
<b>Total Other Noncurrent Assets</b>	<b>9,975</b>	<b>10,562</b>
<b>Total Assets</b>	<b>16,439,921</b>	<b>12,432,810</b>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Bank overdraft	-	2,828
Accounts payable	360,243	122,223
Payroll taxes payable	367	363
Accrued interest	15,284	11,399
Accrued wages	-	17,178
Accrued compensated absences	19,967	23,245
Current portion of long-term debt	146,036	874,673
<b>Total Current Liabilities</b>	<b>541,897</b>	<b>1,051,909</b>
<b>Long-term Debt</b>	<b>6,629,004</b>	<b>3,564,682</b>
<b>Total Liabilities</b>	<b>7,170,901</b>	<b>4,616,591</b>
<b>Net Position</b>		
Net investment in capital assets	8,518,828	6,949,209
Restricted	-	-
Unrestricted	750,192	867,010
<b>Total Net Position</b>	<b>\$ 9,269,020</b>	<b>\$ 7,816,219</b>

See accompanying notes to financial statements.

# SEQUOYAH COUNTY WATER ASSOCIATION

## STATEMENT REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED MARCH 31,	2013	2012
<b>Operating Revenue</b>		
Sales and charges, net of bad debts	\$ 3,067,097	\$ 3,133,304
Membership fees	46,923	38,162
Other revenue	54,482	51,235
<b>Total Revenue</b>	<b>3,168,502</b>	<b>3,222,701</b>
<b>Operating Expenses</b>		
Salaries	469,812	507,627
Taxes-other than income	38,254	39,425
Outside services	64,801	62,867
Pension plan expense	8,950	11,065
Office expense	33,317	32,640
Professional fees	9,214	8,700
Utilities and telephone	322,787	331,036
Fuel and oil	149,117	136,576
Insurance	389,161	417,311
Miscellaneous	6,676	10,215
Repairs and maintenance	194,349	298,422
Telementary services	45,955	28,183
Chemicals	52,600	47,134
Water testing	24,121	21,866
Water purchases	717,969	728,760
Equipment rental	879	1,004
Mileage reimbursements	27,204	26,706
Depreciation	285,999	270,429
Amortization	587	587
<b>Total Operating Expenses</b>	<b>2,841,752</b>	<b>2,980,553</b>
<b>Operating Income</b>	<b>326,750</b>	<b>242,148</b>
<b>Nonoperating Activities</b>		
Interest income	3,707	3,292
Capital grants	1,342,428	-
Interest expense	(224,115)	(244,670)
<b>Total Nonoperating Activities</b>	<b>1,122,020</b>	<b>(241,378)</b>
<b>Net Income Before Contributions</b>	<b>1,448,770</b>	<b>770</b>
<b>Member Contributions</b>	<b>4,031</b>	<b>9,999</b>
<b>Change in Net Position</b>	<b>1,452,801</b>	<b>10,769</b>
Beginning of Year Net Position	7,816,219	7,805,450
<b>End of Year Net Position</b>	<b>\$ 9,269,020</b>	<b>\$ 7,816,219</b>

See accompanying notes to financial statements.

# SEQUOYAH COUNTY WATER ASSOCIATION

## STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2013	2012
<b>Cash Flows From Operating Activities</b>		
Cash receipts from customers	\$ 3,190,152	\$ 3,208,863
Cash payments to suppliers for goods and services	(2,104,677)	(2,186,085)
Cash payments to employees for services	(528,521)	(516,291)
<b>Net Cash Provided By Operating Activities</b>	<b>556,954</b>	<b>506,487</b>
<b>Cash Flows From Investing Activities</b>		
Net restricted checking and savings account activity	(232,112)	19,010
Reinvestment of investment earnings	(3,103)	(2,170)
Interest income	3,707	3,292
<b>Net Cash Provided (Used) By Investing Activities</b>	<b>(231,508)</b>	<b>20,132</b>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Additions to property, plant, and equipment	(3,658,227)	(116,741)
Advances on long-term debt	3,265,000	-
Capital grants	1,342,428	-
Principal paid on long-term debt	(929,315)	(253,319)
Interest paid on long-term debt	(245,919)	(233,012)
<b>Net Cash Used By Capital and Related Financing Activities</b>	<b>(226,033)</b>	<b>(603,072)</b>
<b>Cash Flows From Noncapital and Related Financing Activities</b>		
Member contributions	4,031	9,999
Processing fees paid	(15,998)	(13,264)
<b>Net Cash Used By Noncapital and Related Financing Activities</b>	<b>(11,967)</b>	<b>(3,265)</b>
<b>Net Increase (Decrease) In Cash and Cash Equivalents</b>	<b>87,446</b>	<b>(79,718)</b>
<b>Cash and Cash Equivalents At Beginning of Year</b>	<b>784</b>	<b>80,502</b>
<b>Cash and Cash Equivalents At End of Year</b>	<b>\$ 88,230</b>	<b>\$ 784</b>

See accompanying notes to financial statements.

# SEQUOYAH COUNTY WATER ASSOCIATION

## STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2013	2012
<b>Reconciliation Of Operating Income to Net Cash Provided By Operating Activities</b>		
Net income from operations	\$ 326,750	\$ 242,148
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	285,999	270,429
Amortization	587	587
Changes in:		
Accounts receivable	21,650	(13,837)
Prepaid insurance	(4,457)	(14,593)
Inventory	(40,778)	9,071
Bank overdraft	(2,828)	2,828
Trade accounts payable	(9,517)	7,424
Payroll taxes payable	4	28
Accrued wages	(17,178)	1,718
Accrued compensated absences	(3,278)	684
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 556,954</b>	<b>\$ 506,487</b>

See accompanying notes to financial statements.



# SEQUOYAH COUNTY WATER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013 AND 2012

### Nature of Operations

The Sequoyah County Water Association ("The Authority") 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 Authority 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 Authority have been prepared in accordance with generally accepted accounting principals (GAAP) in the United States. GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Authority 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	20-75
Office building	40
Machinery and equipment	5-10
Furniture, fixtures and radio	5-10

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

# SEQUOYAH COUNTY WATER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013 AND 2012

### 1. Summary of Significant Accounting Policies (continued)

#### c. Cash Flows

For purposes of the statement of cash flows, the Authority 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 \$62,238 and \$59,639, respectively, as of March 31, 2013 and 2012.

#### e. Inventory

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

#### f. Compensated Absences

Employees of the Authority 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.

#### h. Advertising

The Authority expenses advertising costs as they are incurred.

#### i. Loan Origination Fees

Loan origination fees are being amortized using the straight-line method over the life of the loans.

# SEQUOYAH COUNTY WATER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013 AND 2012

### 2. Cash Deposits

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

<b>As Of March 31, 2013</b>	<b>Book Value</b>	<b>Bank Value</b>
FDIC Insured	\$ 338,147	\$ 338,147
Insured/collateralized	475,638	476,795
<b>Total</b>	<b>\$ 813,785</b>	<b>\$ 814,942</b>

<b>As Of March 31, 2012</b>	<b>Book Value</b>	<b>Bank Value</b>
FDIC Insured	\$ 332,024	\$ 332,023
Insured/collateralized	159,374	166,009
<b>Total</b>	<b>\$ 491,398</b>	<b>\$ 498,032</b>

### 3. Restricted Assets

Restricted checking and savings accounts consists of the following:

<b>As Of March 31,</b>	<b>2013</b>	<b>2012</b>
RUS Construction account	\$ 244,438	\$ -
Debt reserve fund	449,126	454,524
Emergency reserve funds	48,120	42,016
Construction depreciation fund	25,049	25,023
Insurance account	1,006	11,004
CDBG account	36,076	36,033
<b>Total</b>	<b>\$ 803,815</b>	<b>\$ 568,600</b>

### 4. Long-Term Debt

Long-term debt of the Authority consists of:

<b>As Of March 31,</b>	<b>2013</b>	<b>2012</b>
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.	\$ 693,039	\$ 724,117
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.	2,058,048	2,098,437

# SEQUOYAH COUNTY WATER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013 AND 2012

### 4. Long-Term Debt (continued)

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.

811,276 827,220

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.

3,102,677 -

Armstrong Bank - Payments are made monthly in the amount of \$1,675 inclusive of 2.99% interest. The note is secured by equipment.

110,000 -

Armstrong Bank - interest only loan, monthly payments of accrued interest at 6.00%. Principal balance due April 16, 2012. Secured by real estate, all accounts and other rights to payment, inventory and equipment.

- 789,581

Total long-term debt	6,775,040	4,439,355
Less: current maturities	146,036	874,673
Total long-term debt	\$ 6,629,004	\$ 3,564,682

Debt is scheduled to be repaid as follows:

March 31,	Principal	Interest	Total
2014	\$ 146,036	\$ 276,326	\$ 422,362
2015	152,515	269,847	422,362
2016	159,095	263,267	422,362
2017	165,970	256,392	422,362
2018	173,152	249,210	422,362
2019-2023	899,876	1,131,440	2,031,316
2024-2028	1,097,904	913,416	2,011,320
2029-2033	1,048,988	674,428	1,723,416
2034-2038	1,258,098	431,801	1,689,899
2039-2043	599,201	226,443	825,644
2044-2048	585,239	134,101	719,340
2049-2053	488,966	31,126	520,092
Total	\$ 6,775,040	\$ 4,857,797	\$ 11,632,837

# SEQUOYAH COUNTY WATER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013 AND 2012

### 4. Long-Term Debt (continued)

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

As Of	April 1, 2012	Debt Additions	Debt Retirements	March 31, 2013
Rural Development	\$ 3,649,774	\$ 3,155,000	\$ 139,734	\$ 6,665,040
Armstrong Bank	789,581	110,000	789,581	110,000
<b>Total</b>	<b>\$ 4,439,355</b>	<b>\$ 3,265,000</b>	<b>\$ 929,315</b>	<b>\$ 6,775,040</b>

As Of	April 1, 2011	Debt Additions	Debt Retirements	March 31, 2012
Rural Development	\$ 3,892,835	\$ -	\$ 243,061	\$ 3,649,774
Armstrong Bank	799,839	-	10,258	789,581
<b>Total</b>	<b>\$ 4,692,674</b>	<b>\$ -</b>	<b>\$ 253,319</b>	<b>\$ 4,439,355</b>

### 5. Property, Plant and Equipment

Activity of capital assets consists of the following:

As Of	April 1, 2012	Additions	Retirements	March 31, 2013
Land	\$ 70,939	\$ 10,500	\$ -	\$ 81,439
Water and sewer system	14,531,718	3,890,294	-	18,422,012
Office building	378,081	-	-	378,081
Machinery and equipment	846,750	90,250	-	937,000
Furniture, fixtures, and radio	308,240	19,957	-	328,197
Construction in process	63,550	-	63,550	-
<b>Total</b>	<b>\$ 16,199,278</b>	<b>\$ 4,011,001</b>	<b>\$ 63,550</b>	<b>\$ 20,146,729</b>

As Of	April 1, 2011	Additions	Retirements	March 31, 2012
Land	\$ 70,939	\$ -	\$ -	\$ 70,939
Water and sewer system	14,458,305	73,413	-	14,531,718
Office building	378,081	-	-	378,081
Machinery and equipment	832,305	14,445	-	846,750
Furniture, fixtures, and radio	305,406	2,834	-	308,240
Construction in process	25,000	38,550	-	63,550
<b>Total</b>	<b>\$ 16,070,036</b>	<b>\$ 129,242</b>	<b>\$ -</b>	<b>\$ 16,199,278</b>

# SEQUOYAH COUNTY WATER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013 AND 2012

### 6. Capitalized Interest

The Authority 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, 2013, total interest incurred was \$265,802 of which \$41,687 was capitalized, and \$224,115 was charged to operations. For the year ended March 31, 2012, total interest incurred was \$244,670, all of which was charged to operations.

### 7. Pension Plan

Employees of the Authority 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 Authority. 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.

The authority contributed \$8,950 and \$11,065 for the years ended March 31, 2013 and 2012 respectively.

### 8. Concentrations Of Risk

#### a. Revenues and Receivables

Financial instruments that potentially subject the Authority to credit risk consist primarily of accounts receivable. The Authority sells only to its members within a defined geographic region.

#### b. Water Supply System

The Authority 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 Authority to have to obtain water from other suppliers was to occur, this may have an effect on the Authority's ability to continue in its current state.

### 9. Risk Management

The Authority 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 Authority carries commercial insurance and workers compensation insurance through Brown Hiller Clark and Associates of Oklahoma.

# **SEQUOYAH COUNTY WATER ASSOCIATION**

## **NOTES TO FINANCIAL STATEMENTS**

**MARCH 31, 2013 AND 2012**

### **9. Risk Management (continued)**

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

### **10. Subsequent Events**

The Authority has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended March 31, 2013 through May 29, 2013, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

***ADDITIONAL REPORT***





**PRZYBYSZ**  
**& ASSOCIATES**

CERTIFIED PUBLIC ACCOUNTANTS

A Professional Corporation

**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***

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Independent Auditor's Report

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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Sequoyah County Water Association as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, and have issued our report thereon dated May 29, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 that are required to be reported under *Government Auditing Standards*.

### Purpose of this Report

This 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 Authority's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Przybysz & Associates, CPAs, P.C.**  
**Fort Smith, Arkansas**  
**May 29, 2013**



PRZYBYSZ

& ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A Professional Corporation

**Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

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Independent Auditor's Report

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

**Report on Compliance for Each Major Federal Program**

We have audited the Sequoyah County Water Association's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Sequoyah County Water Association's major federal programs for the year ended March 31, 2013. The Authority'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 laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Sequoyah County Water Association's major federal programs based on our audit of the types of compliance requirements referred to above. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Authority'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 Authority's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Sequoyah County Water Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2013.

### ***Report on Internal Control Over Compliance***

Management of the Sequoyah County Water Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Sequoyah County Water 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 considered to be material weaknesses. However, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the Sequoyah County Water Association as of and for the year ended March 31, 2013, and have issued our report thereon dated May 29, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole



**Przybysz & Associates, CPAs, P.C.**  
**Fort Smith, Arkansas**  
**May 29, 2013**

***SUPPLEMENTAL INFORMATION***

# SEQUOYAH COUNTY WATER ASSOCIATION

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**FOR THE YEAR ENDED MARCH 31, 2013**

<u>Federal Grantor/Program Title</u>	<u>Agency or Pass-Through Entity</u>	<u>Federal CFDA Number</u>	<u>Federal Expen- ditures</u>
<b>U.S. Department of Agriculture</b>			
Water & Waste Disposal Systems for Rural Communities	Received directly	10.760	\$ <u>3,942,600</u>
<b>Total U.S. Department of Agriculture</b>			<u>3,942,600</u>
<b>U.S. Department of Housing and Urban Development</b>			
Community Development Block Grants	East. Okla. Dev. Dist.	14.218	\$ <u>237,500</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>237,500</u>
<b>Total Federal Awards</b>			\$ <u><u>4,180,100</u></u>

Notes to Schedule:

1. This schedule includes the federal awards activity of Sequoyah County Water Association and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See independent auditor's report.

# SEQUOYAH COUNTY WATER ASSOCIATION

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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FOR THE YEAR ENDED MARCH 31, 2013

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### Section I - Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of **Sequoyah County Water Association**.
2. No significant deficiencies were reported during the audit of the financial statements. Accordingly, no reportable conditions are reported in the *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*
3. No instances of noncompliance material to the financial statements of **Sequoyah County Water Association** which would be required to be reported in accordance with *Government Auditing Standards* was disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the *Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs for **Sequoyah County Water Association** expresses an unqualified opinion on the major federal program.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule. However, there are no audit findings to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program included:  
**Water & Waste Disposal Systems For Rural Communities - 10.760**
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. **Sequoyah County Water Association** was determined not to be a low-risk auditee.

### Section II - Findings-Financial Statements Audit

No findings.

### Section III - Federal Award Findings and Questioned Costs

No findings.

See independent auditor's report.



# **SEQUOYAH COUNTY WATER ASSOCIATION**

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

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**FOR THE YEAR ENDED MARCH 31, 2013**

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Not applicable, no single audit in prior year.

See independent auditor's report.

# SEQUOYAH COUNTY WATER ASSOCIATION

## ADDITIONAL COMMENTS REQUIRED BY RURAL DEVELOPMENT

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**MARCH 31, 2013**

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### Water Rate Schedule

0 - 2,000	\$ 27.00
2,001 - 4,000	\$4.55/1000
4,001 - 6,000	\$4.95/1000
6,001 - 8,000	\$5.10/1000
8,001 - 10,000	\$5.25/1000
10,001 - 12,500	\$5.40/1000
12,501 - 15,000	\$5.65/1000
15,501 - 20,000	\$5.85/1000
20,001 and above	\$6.00/1000

### Board Of Directors

<u>Name</u>	<u>Title</u>
Garner Garrison	President
Dan Ollie	Vice President
Morgan Newman	Secretary/Treasurer
John Ellis	Board Member
Bill 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 authority 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.