

**SEQUOYAH COUNTY  
WATER ASSOCIATION  
AUDITED FINANCIAL STATEMENTS**

**MARCH 31, 2014 AND 2013**



**SEQUOYAH COUNTY WATER ASSOCIATION**  
**MARCH 31, 2014 AND 2013**

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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 business-type activities of Sequoyah County Water Association (the Association) as of and for the years ended March 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Association's 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 Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Sequoyah County Water Association as of March 31, 2014 and 2013, and the changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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 basic 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 20, 2014, 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 20, 2014**

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

**SEQUOYAH COUNTY WATER ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2014**

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, 2014. 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, 2014 with a net position balance of \$9,306,780.
- Net income of \$36,416 plus construction contributions of \$1,344 resulted in a change of net position for the Association of \$37,760.
- The Association had capital asset additions totaling \$1,390,564.
- The statement of cash flows identifies sources and uses of cash activity for the fiscal year. For fiscal year 2014, cash and cash equivalents decreased by \$54,910. Cash provided from the day to day operations totaled \$655,324. Cash used by capital and related financing activities netted \$1,028,631. This was a combination of cash used to acquire property, plant, & equipment of \$1,592,801 and cash used to service debt of \$425,944, netted with loan proceeds of \$990,114. Cash used by noncapital and related financing activities netted \$17,631. This was a result of processing fees charged to interest expense of \$18,975 over member contributions of \$1,344. Furthermore, cash provided by investing activities totaled \$336,028. This was primarily the result of withdrawing restricted checking accounts to fund capital projects.

**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, 2014. 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, 2014**

**CONDENSED FINANCIAL INFORMATION**

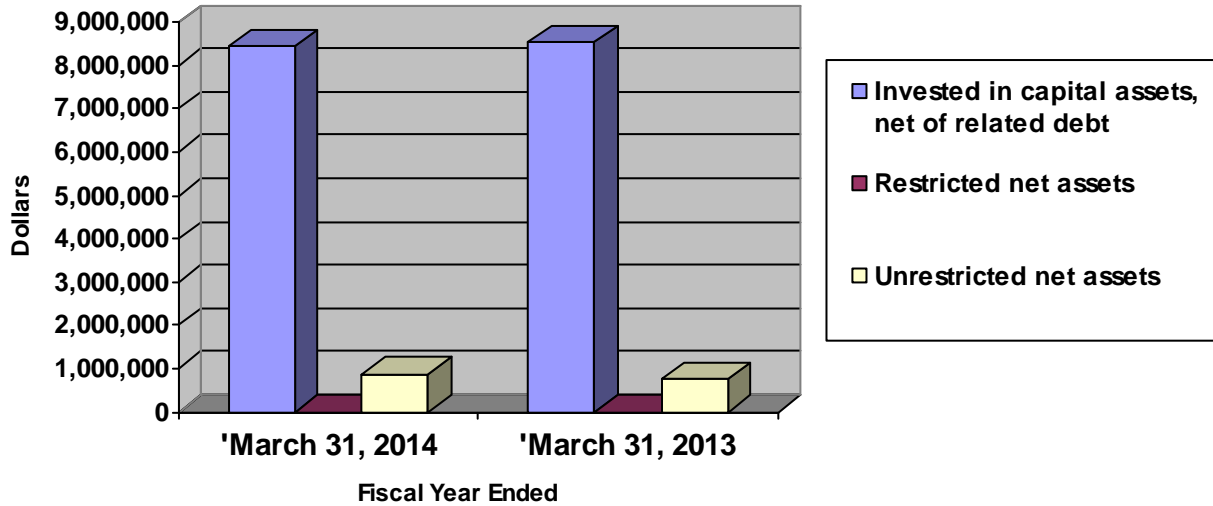
Condensed financial information from the statements of net position as of March 31, 2014 and 2013 and the statements of revenues, expenses and changes in net position for the years then ended are as follows:

	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
Current assets	\$ 1,036,124	\$ 1,390,492
Capital assets, net	16,059,773	15,039,454
Total assets	<u>17,095,897</u>	<u>16,429,946</u>
Deferred outflows	<u>0</u>	<u>9,975</u>
Current liabilities	1,232,873	541,897
Long-term debt	6,556,244	6,629,004
Total liabilities	<u>7,789,117</u>	<u>7,170,901</u>
Net position:		
Net investment in capital assets	8,441,949	8,518,828
Restricted	0	0
Unrestricted	864,831	750,192
Total net position	<u>\$ 9,306,780</u>	<u>\$ 9,269,020</u>
Operating revenues	<u>\$ 3,310,256</u>	<u>\$ 3,168,502</u>
Operating expenses, excluding depreciation	2,652,087	2,555,753
Depreciation	331,597	285,999
Total operating expenses, including depreciation	<u>2,983,684</u>	<u>2,841,752</u>
Operating income	326,572	326,750
Nonoperating revenues and (expenses)	(290,156)	1,122,020
Member contributions	<u>1,344</u>	<u>4,031</u>
Change in net position	37,760	1,452,801
Beginning of year net position	<u>9,269,020</u>	<u>7,816,219</u>
End of year net position	<u>\$ 9,306,780</u>	<u>\$ 9,269,020</u>

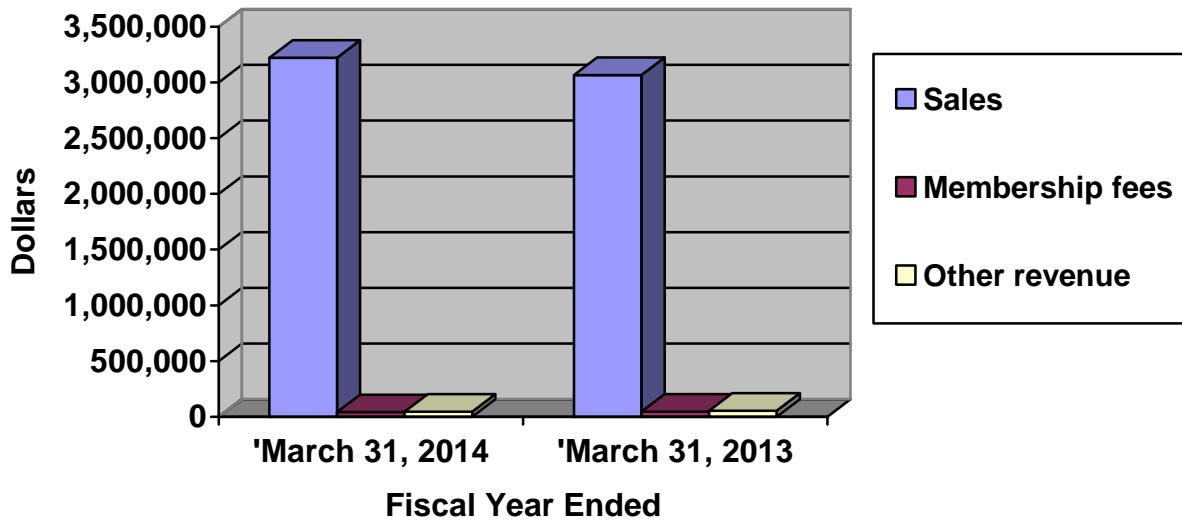
**SEQUOYAH COUNTY WATER ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2014**

**CONDENSED FINANCIAL INFORMATION (CONTINUED)**

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



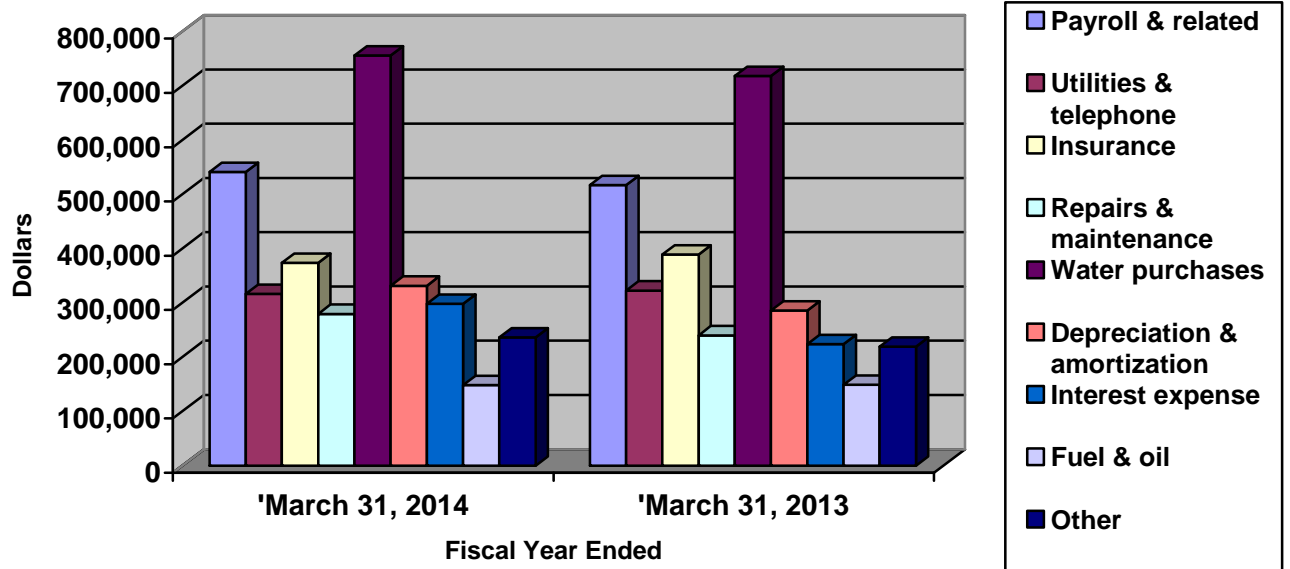
**Operating revenues presented in a graph format**





**SEQUOYAH COUNTY WATER ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2014**

**Operating expenses presented in a graph  
format**



**CAPITAL ASSETS**

The Association's capital assets as of March 31, 2014 and 2013 amounted to \$16,059,773 and \$15,039,454 (net of accumulated depreciation), 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, 2014 included the commencing of the "County-Wide" project with costs to date of \$890,035. Routine additions to the system totaled \$230,956. Other additions included two Case 580 Super N backhoes totaling \$143,000 while trading an older backhoe with a trade-in value of \$15,200 as well as purchasing four 2014 Ford F-250 heavy duty pickups plus accessories totaling \$126,573. Four older model pickups were traded in to acquire these new trucks and received trade-in values of \$30,100.

**SEQUOYAH COUNTY WATER ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2014**

**LONG-TERM DEBT**

As of March 31, 2014, the Association had \$7,617,824 in outstanding debt compared to \$6,775,040 as of March 31, 2013. Major loan activity consisted of taking out a loan from Central National Bank to fund the county-wide project until permanent financing can be obtained. Draws on this loan totaled \$890,114 through March 31, 2014. The Association took out a loan with Armstrong Bank for \$100,000 and was used to acquire one of the Case backhoes and one of the new trucks.

The decrease in long-term debt consisted of scheduled debt service payments on existing Rural Development loans and the Armstrong Bank equipment loans. This totaled \$147,330.

**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,	2014	2013
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 33,320	\$ 88,230
Restricted checking and savings accounts	370,779	706,338
Restricted certificate of deposit	20,000	20,000
Restricted investments	78,374	77,477
Accounts receivable, less allowance for doubtful accounts of \$68,876 and \$62,238, respectively	270,923	217,857
Prepaid insurance	19,291	36,940
Inventory	243,437	243,650
<b>Total Current Assets</b>	<b>1,036,124</b>	<b>1,390,492</b>
<b>Noncurrent Assets</b>		
<b>Capital Assets</b>		
Land	81,439	81,439
Water and sewer system	18,652,968	18,422,012
Office building	378,081	378,081
Machinery and equipment	1,058,187	937,000
Furniture, fixtures, and radio	328,197	328,197
Construction in process	890,035	-
Total	21,388,907	20,146,729
Less accumulated depreciation	5,329,134	5,107,275
<b>Net Capital Assets</b>	<b>16,059,773</b>	<b>15,039,454</b>
<b>Total Assets</b>	<b>17,095,897</b>	<b>16,429,946</b>
<b>Deferred Outflows</b>		
Loan origination fees, net of accumulated amortization	-	9,975
<b>Total Deferred Outflows</b>	<b>-</b>	<b>9,975</b>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	133,305	360,243
Payroll taxes payable	-	367
Accrued interest	15,869	15,284
Accrued compensated absences	22,119	19,967
Current portion of long-term debt	1,061,580	146,036
<b>Total Current Liabilities</b>	<b>1,232,873</b>	<b>541,897</b>
<b>Long-Term Debt</b>	<b>6,556,244</b>	<b>6,629,004</b>
<b>Total Liabilities</b>	<b>7,789,117</b>	<b>7,170,901</b>
<b>Net Position</b>		
Net investment in capital assets	8,441,949	8,518,828
Unrestricted	864,831	750,192
<b>Total Net Position</b>	<b>\$ 9,306,780</b>	<b>\$ 9,269,020</b>

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,	2014	2013
<b>Operating Revenue</b>		
Sales and charges, net of bad debts	\$ 3,222,712	\$ 3,067,097
Membership fees	41,315	46,923
Other revenue	46,229	54,482
<b>Total Operating Revenue</b>	<b>3,310,256</b>	<b>3,168,502</b>
<b>Operating Expenses</b>		
Salaries	490,320	469,812
Taxes-other than income	38,002	38,254
Outside services	64,141	64,801
Pension plan expense	12,878	8,950
Office expense	40,555	33,317
Professional fees	10,859	9,214
Utilities and telephone	316,663	322,787
Fuel and oil	148,364	149,117
Insurance	373,812	389,161
Miscellaneous	13,694	6,676
Repairs and maintenance	248,094	194,349
Telementary services	31,667	45,955
Chemicals	47,311	52,600
Water testing	21,568	24,121
Water purchases	755,727	717,969
Equipment rental	3,284	879
Mileage reimbursements	25,173	27,204
Depreciation	331,597	285,999
Amortization	9,975	587
<b>Total Operating Expenses</b>	<b>2,983,684</b>	<b>2,841,752</b>
<b>Operating Income</b>	<b>326,572</b>	<b>326,750</b>
<b>Nonoperating Activities</b>		
Interest income	1,366	3,707
Capital grants	-	1,342,428
Interest expense	(298,174)	(224,115)
Gain on disposal of asset	6,652	-
<b>Total Nonoperating Activities</b>	<b>(290,156)</b>	<b>1,122,020</b>
<b>Net Income Before Contributions</b>	<b>36,416</b>	<b>1,448,770</b>
<b>Member Contributions</b>	<b>1,344</b>	<b>4,031</b>
<b>Change in Net Position</b>	<b>37,760</b>	<b>1,452,801</b>
Beginning of Year Net Position	9,269,020	7,816,219
<b>End of Year Net Position</b>	<b>\$ 9,306,780</b>	<b>\$ 9,269,020</b>

See accompanying notes to financial statements.

# SEQUOYAH COUNTY WATER ASSOCIATION

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2014	2013
<b>Cash Flows From Operating Activities</b>		
Cash receipts from customers	\$ 3,257,191	\$ 3,190,152
Cash payments to suppliers for goods and services	(2,075,330)	(2,104,677)
Cash payments to employees for services	(526,537)	(528,521)
<b>Net Cash Provided By Operating Activities</b>	<b>655,324</b>	<b>556,954</b>
<b>Cash Flows From Investing Activities</b>		
Net restricted checking and savings account activity	335,559	(232,112)
Reinvestment of investment earnings	(897)	(3,103)
Interest income	1,366	3,707
<b>Net Cash Provided (Used) By Investing Activities</b>	<b>336,028</b>	<b>(231,508)</b>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Cash paid for property, plant, and equipment	(1,592,801)	(3,658,227)
Advances on long-term debt	990,114	3,265,000
Capital grants	-	1,342,428
Principal paid on long-term debt	(147,330)	(929,315)
Interest paid on long-term debt	(278,614)	(245,919)
<b>Net Cash Used By Capital and Related Financing Activities</b>	<b>(1,028,631)</b>	<b>(226,033)</b>
<b>Cash Flows From Noncapital and Related Financing Activities</b>		
Member contributions	1,344	4,031
Processing fees paid	(18,975)	(15,998)
<b>Net Cash Used By Noncapital and Related Financing Activities</b>	<b>(17,631)</b>	<b>(11,967)</b>
<b>Net Increase (Decrease) In Cash and Cash Equivalents</b>	<b>(54,910)</b>	<b>87,446</b>
<b>Cash and Cash Equivalents At Beginning of Year</b>	<b>88,230</b>	<b>784</b>
<b>Cash and Cash Equivalents At End of Year</b>	<b>\$ 33,320</b>	<b>\$ 88,230</b>

See accompanying notes to financial statements.

# SEQUOYAH COUNTY WATER ASSOCIATION

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2014	2013
<b>Reconciliation Of Operating Income to Net Cash Provided By Operating Activities</b>		
Net income from operations	\$ 326,572	\$ 326,750
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	331,597	285,999
Amortization	9,975	587
Changes in:		
Accounts receivable	(53,066)	21,650
Prepaid insurance	17,649	(4,457)
Inventory	213	(40,778)
Bank overdraft	-	(2,828)
Trade accounts payable	20,599	(9,517)
Payroll taxes payable	(367)	4
Accrued wages	-	(17,178)
Accrued compensated absences	2,152	(3,278)
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 655,324</b>	<b>\$ 556,954</b>

See accompanying notes to financial statements.

# SEQUOYAH COUNTY WATER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

### Nature of Operations

The Sequoyah County Water Association (the Association) was originally incorporated October 25, 1967 as The Eastern Sequoyah County Water Association. Amended Articles of Incorporation, which were filed and approved on April 23, 1968, established the Association as an agency of the State of Oklahoma for the purpose of providing water to Sequoyah County in the State of Oklahoma.

### 1. Summary of Significant Accounting Policies

#### a. Financial Reporting

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

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

#### b. Capital Outlays and Depreciation

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

	<u>YEARS</u>
Water and sewer system	15-75
Office building	10-40
Machinery and equipment	5-10
Furniture, fixtures and radio	5-10

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



# SEQUOYAH COUNTY WATER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

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

#### c. Cash Flows

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents, excluding restricted cash.

#### d. Accounts Receivable

Management establishes an allowance for uncollectible accounts receivable based on historical collection experience and management's evaluation of the collectability of outstanding accounts receivable. The allowance for doubtful accounts was \$68,876 and \$62,238, respectively, as of March 31, 2014 and 2013.

#### e. Inventory

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

#### f. Compensated Absences

Employees of the Association are given, based upon their length of employment, 1 to 3 weeks of vacation at the beginning of the calendar year. The vacation time is not allowed to carryover to the next year; therefore, all employees will utilize the vacation time. The amounts reflected as accrued compensated absences represents the unused vacation time at March 31.

#### g. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

#### h. Advertising

The Authority expenses advertising costs as they are incurred.

# SEQUOYAH COUNTY WATER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

### 2. Cash Deposits

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

<b>As Of March 31, 2014</b>	<b>Book Value</b>	<b>Bank Value</b>
FDIC Insured	\$ 315,011	\$ 315,011
Uninsured/uncollateralized	108,304	425,420
<b>Total</b>	<b>\$ 423,315</b>	<b>\$ 740,431</b>

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

### 3. Restricted Assets

Restricted checking and savings accounts consists of the following:

<b>As Of March 31,</b>	<b>2014</b>	<b>2013</b>
RUS Construction account	\$ -	\$ 244,438
Debt reserve fund	368,430	449,126
Emergency reserve funds	20,008	48,120
Construction depreciation fund	37,005	25,049
Insurance account	3,000	1,006
CDBG account	40,710	36,076
<b>Total</b>	<b>\$ 469,153</b>	<b>\$ 803,815</b>

### 4. Long-Term Debt

Long-term debt of the Association consists of:

<b>As Of March 31,</b>	<b>2014</b>	<b>2013</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.	\$ 662,728	\$ 693,039
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.	2,015,698	2,058,048

# SEQUOYAH COUNTY WATER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

### 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.	794,558	811,276
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.	3,062,927	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.	93,141	110,000
Armstrong Bank - Payments are made monthly in the amount of \$1,675 inclusive of 2.99% interest. The note is secured by equipment.	98,658	-
Central National Bank - The loan is for an amount up to \$3,500,000 with interest of 3.124% accruing once the first draw is made. The loan is due October 15, 2014 and is secured by real estate, all accounts and other rights to payment, inventory and equipment.	890,114	-
<b>Total long-term debt</b>	<b>7,617,824</b>	<b>6,775,040</b>
<b>Less: current maturities</b>	<b>1,061,580</b>	<b>146,036</b>
<b>Total long-term debt</b>	<b>\$ 6,556,244</b>	<b>\$ 6,629,004</b>

Debt is scheduled to be repaid as follows:

March 31,	Principal	Interest	Total
2015	\$ 1,061,580	\$ 272,539	\$ 1,334,119
2016	178,621	265,384	444,005
2017	186,088	257,917	444,005
2018	193,880	250,125	444,005
2019	199,885	242,316	442,201
2020-2024	919,898	1,091,422	2,011,320
2025-2029	1,116,605	894,715	2,011,320
2030-2034	1,060,261	629,639	1,689,900
2035-2039	1,224,651	465,249	1,689,900
2040-2044	511,430	314,215	825,645
2045-2049	605,299	114,041	719,340
2050-2054	359,626	160,466	520,092
<b>Total</b>	<b>\$ 7,617,824</b>	<b>\$ 4,958,028</b>	<b>\$ 12,575,852</b>

# SEQUOYAH COUNTY WATER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

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

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

As Of	April 1, 2013	Debt Additions	Debt Retirements	March 31, 2014
Rural Development	\$ 6,665,040	\$ -	\$ 129,129	\$ 6,535,911
Armstrong Bank	110,000	100,000	18,201	191,799
Central National Bank	-	890,114	-	890,114
<b>Total</b>	<b>\$ 6,775,040</b>	<b>\$ 990,114</b>	<b>\$ 147,330</b>	<b>\$ 7,617,824</b>

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>

### 5. Property, Plant and Equipment

Activity of capital assets consists of the following:

As Of	April 1, 2013	Additions	Retirements	March 31, 2014
Land	\$ 81,439	\$ -	\$ -	\$ 81,439
Water and sewer system	18,422,012	230,956	-	18,652,968
Office building	378,081	-	-	378,081
Machinery and equipment	937,000	269,573	148,386	1,058,187
Furniture, fixtures, and radio	328,197	-	-	328,197
Construction in process	-	890,035	-	890,035
<b>Total</b>	<b>\$ 20,146,729</b>	<b>\$ 1,390,564</b>	<b>\$ 148,386</b>	<b>\$ 21,388,907</b>

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>

# SEQUOYAH COUNTY WATER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

### 6. Capitalized Interest

The Association follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. For the year ended March 31, 2014, total interest incurred was \$298,174, all of which was charged to operations. 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.

### 7. Pension Plan

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

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

The authority contributed \$12,878 and \$8,950 for the years ended March 31, 2014 and 2013, respectively.

### 8. Concentrations Of Risk

#### a. Revenues and Receivables

Financial instruments that potentially subject the Association to credit risk consist primarily 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.

### 9. Risk Management

The Association is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Association carries commercial insurance and workers compensation insurance through Brown Hiller Clark and Associates of Oklahoma.

# **SEQUOYAH COUNTY WATER ASSOCIATION**

## **NOTES TO FINANCIAL STATEMENTS**

**MARCH 31, 2014 AND 2013**

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

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

### **10. Recently Issued Accounting Pronouncements**

In March 2012, the GASB issued Statement 65, Items Previously Reported as Assets and Liabilities. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The effect of GASB 65 to the Association was to fully expense the bond issue costs for prior year bond issue of \$9,975.

### **11. Subsequent Events**

The Association has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended March 31, 2014 through May 20, 2014, 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

**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***

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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, 2014, 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 20, 2014.

**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. 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 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*.

### **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 20, 2014**

***SUPPLEMENTAL INFORMATION***

# SEQUOYAH COUNTY WATER ASSOCIATION

## ADDITIONAL COMMENTS REQUIRED BY RURAL DEVELOPMENT

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**MARCH 31, 2014**

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### Water Rate Schedule

0 - 2,000	\$ 31.00
2,001 - 4,000	\$4.75/1000
4,001 - 6,000	\$5.15/1000
6,001 - 8,000	\$5.30/1000
8,001 - 10,000	\$5.45/1000
10,001 - 12,500	\$5.60/1000
12,501 - 15,000	\$5.85/1000
15,501 - 20,000	\$6.05/1000
20,001 and above	\$6.20/1000

### 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 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.