

SEQUOYAH COUNTY WATER ASSOCIATION

AUDITED FINANCIAL STATEMENTS

MARCH 31, 2012 AND 2011



SEQUOYAH COUNTY WATER ASSOCIATION
MARCH 31, 2012 AND 2011

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PRZYBYSZ

& ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A Professional Corporation

Independent Auditor's Report

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

We have audited the accompanying basic financial statements of the **Sequoyah County Water Association**, as of and for the years ended **March 31, 2012 and 2011**, as listed in the table of contents. These basic financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these basic 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the **Sequoyah County Water Association** as of **March 31, 2012 and 2011**, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated **May 24, 2012**, on our consideration of the **Sequoyah County Water Association'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* and should be considered in assessing the results of our audit.

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 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.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The additional comments required by Rural Development are presented for purposes of additional analysis and are not a required part of the financial statements. Additionally, the schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on the schedule.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
May 24, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

**SEQUOYAH COUNTY WATER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2012**

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, 2012. 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, 2012 with a net asset balance of \$7,816,219.
- Net income of \$770 plus member contributions of \$9,999 resulted in a change of net assets for the Association of \$10,769.
- The Association had capital asset additions totaling \$129,242.
- The statement of cash flows identifies sources and uses of cash activity for the fiscal year. For fiscal year 2012, cash and cash equivalents decreased by \$79,718. Cash provided from the day to day operations totaled \$506,487. Additionally, cash provided by non-capital and related financing activities resulted in an increase of \$9,999 which was the result of new member contributions. Cash used by capital and related financing activities totaled \$616,336. Of this amount, a total of \$499,595 was used to service debt. Furthermore, cash provided by investing activities totaled \$20,132. This was primarily the result of restricted checking accounts funding the operating by a net amount of \$16,840, and net interest earnings of \$3,292.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of the following parts: Management's Discussion and Analysis and Basic 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 Assets include information on the Association's assets and liabilities and provide 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 Assets identify the Association's revenues and expenses for the fiscal year ended March 31, 2012. 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, 2012**

CONDENSED FINANCIAL INFORMATION

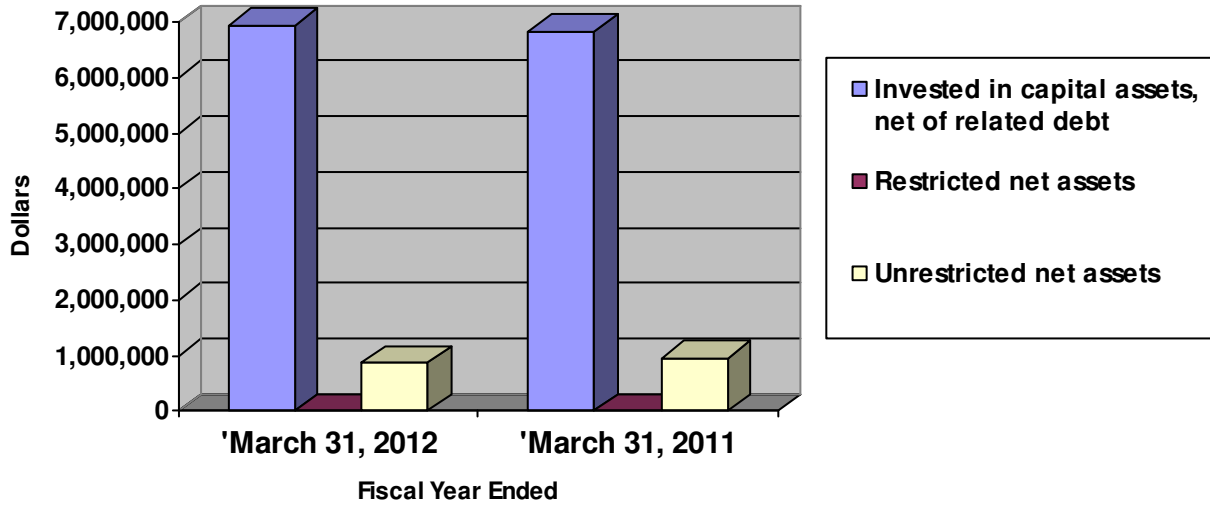
Condensed financial information from the statement of net assets as of March 31, 2012 and 2011 and the statement of revenues, expenses and changes in net assets for the years then ended are as follows:

	March 31,	
	2012	2011
Current assets	\$ 1,044,246	\$ 1,121,445
Other Noncurrent Assets	10,562	11,149
Capital assets, net	<u>11,378,002</u>	<u>11,519,190</u>
Total assets	<u>12,432,810</u>	<u>12,651,784</u>
Current liabilities	1,051,909	1,072,537
Long-term debt	<u>3,564,682</u>	<u>3,773,797</u>
Total liabilities	<u>4,616,591</u>	<u>4,846,334</u>
Net assets:		
Invested in capital assets, net of related debt	6,949,209	6,837,665
Restricted	0	0
Unrestricted	<u>867,010</u>	<u>967,785</u>
Total net assets	<u>\$ 7,816,219</u>	<u>\$ 7,805,450</u>
Operating revenues	<u>\$ 3,222,701</u>	<u>\$ 3,085,115</u>
Operating expenses, excluding depreciation	2,710,124	2,410,340
Depreciation	<u>270,429</u>	<u>291,571</u>
Total operating expenses, including depreciation	<u>2,980,553</u>	<u>2,701,911</u>
Operating income	242,148	383,204
Nonoperating revenues and (expenses)	(241,378)	(259,074)
Member contributions	<u>9,999</u>	<u>4,822</u>
Change in net assets	10,769	128,952
Beginning of year net assets	<u>7,805,450</u>	<u>7,676,498</u>
End of year net assets	<u>\$ 7,816,219</u>	<u>\$ 7,805,450</u>

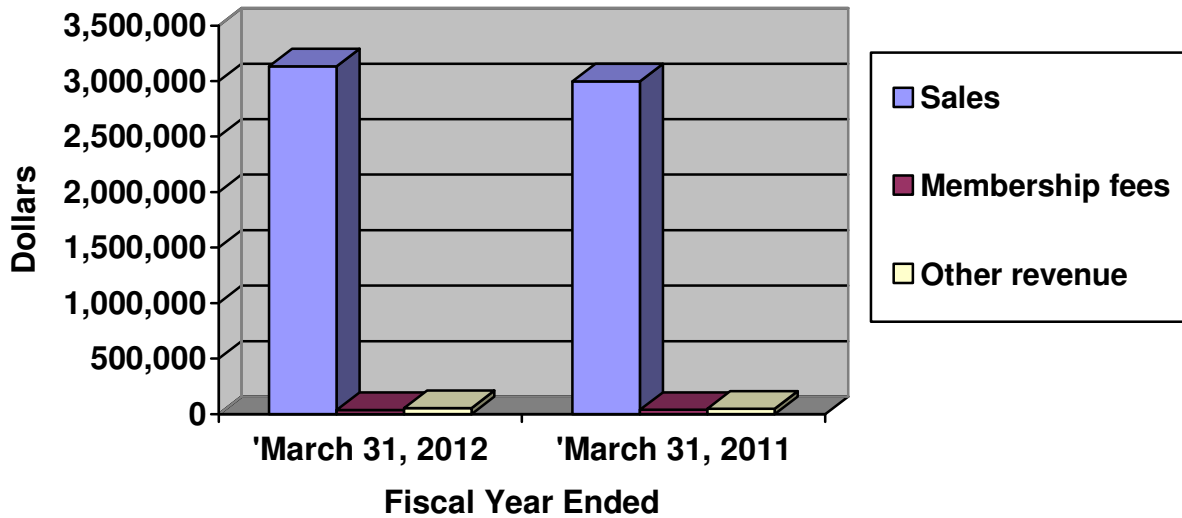
**SEQUOYAH COUNTY WATER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2012**

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Classifications of net assets presented in a graph format

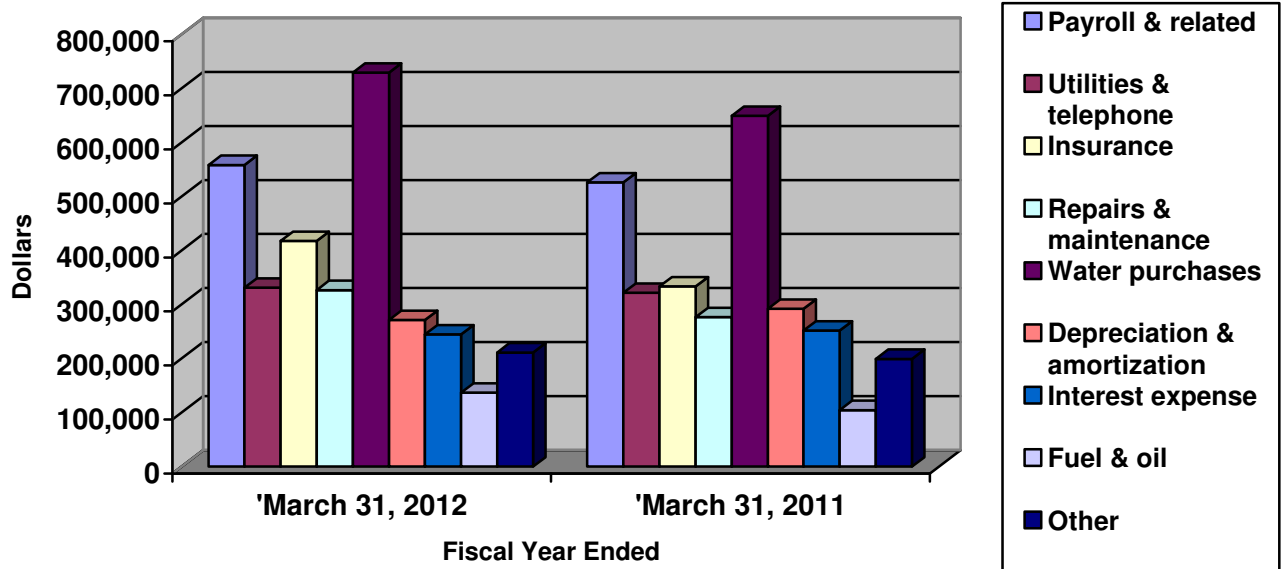


Operating revenues presented in a graph format



**SEQUOYAH COUNTY WATER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2012**

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, 2012 and 2011 amounted to \$11,378,002 and \$11,519,190 (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, 2012 included a cutoff saw and two trailers totaling \$12,770. Payments to EDM Consultants for work toward the County-Wide project totaled \$38,550. Other minor equipment additions and normal additions to the system totaled \$77,922.

LONG-TERM DEBT

As of March 31, 2012, the Association had \$4,439,355 in outstanding debt compared to \$4,692,674 as of March 31, 2011. The decrease in long-term debt consisted primarily of scheduled debt service payments on existing Rural Development loans. The Association also made more than the contractual payments on the loans with Rural Development. The result was the retirement of three loans that totaled \$162,013. The loan at Armstrong Bank, while interest only, did have \$10,258 of principal paid. This loan is scheduled for renewal in April 2012, however, was paid off shortly after year end with the issuance of project funds from Rural Development.

**SEQUOYAH COUNTY WATER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2012**

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

STATEMENT OF NET ASSETS

AS OF MARCH 31,	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	\$ 784	\$ 80,502
Restricted checking and savings accounts	399,852	493,236
Certificates of deposits	94,374	92,204
Restricted investments	74,374	-
Accounts receivable, less allowance for doubtful accounts of \$59,639 and \$58,347 respectively	239,507	225,670
Prepaid insurance	32,483	17,890
Inventory	202,872	211,943
Total Current Assets	1,044,246	1,121,445
Noncurrent Assets		
Capital Assets		
Land	70,939	70,939
Water and sewer system	14,531,718	14,458,305
Office building	378,082	378,082
Machinery and equipment	846,750	832,305
Furniture, fixtures, and radio	308,240	305,406
Construction in process	63,550	25,000
Total	16,199,279	16,070,037
Less accumulated depreciation	4,821,277	4,550,847
Net Capital Assets	11,378,002	11,519,190
Other Noncurrent Assets		
Loan origination fees, net of accumulated amortization of \$12,913 and \$12,326 respectively	10,562	11,149
Total Other Noncurrent Assets	10,562	11,149
Total Assets	12,432,810	12,651,784
Liabilities and Net Assets		
Current Liabilities		
Bank overdraft	2,828	-
Accounts payable	122,223	102,299
Payroll taxes payable	363	335
Accrued interest	11,399	13,005
Accrued wages	17,178	15,460
Accrued compensated absences	23,245	22,561
Current portion of long-term debt	874,673	918,877
Total Current Liabilities	1,051,909	1,072,537
Long-term Debt	3,564,682	3,773,797
Total Liabilities	4,616,591	4,846,334
Net Assets		
Invested in capital assets, net of related debt	6,949,209	6,837,665
Restricted	-	-
Unrestricted	867,010	967,785
Total Net Assets	\$ 7,816,219	\$ 7,805,450

See accompanying notes to financial statements.

SEQUOYAH COUNTY WATER ASSOCIATION

STATEMENT REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED MARCH 31,	2012	2011
Operating Revenue		
Sales and charges, net of bad debts	\$ 3,133,304	\$ 2,998,988
Membership fees	38,162	39,550
Other revenue	51,235	46,577
Total Revenue	3,222,701	3,085,115
Operating Expenses		
Salaries	507,627	477,043
Taxes-other than income	39,425	37,010
Outside services	62,867	63,075
Pension plan expense	11,065	11,680
Office expense	32,640	31,383
Professional fees	8,700	9,616
Utilities and telephone	331,036	321,364
Fuel and oil	136,576	104,532
Insurance	417,311	333,515
Miscellaneous	10,021	9,861
Repairs and maintenance	298,422	241,544
Telementary services	28,183	34,810
Chemicals	47,134	40,331
Water testing	21,866	17,871
Water purchases	728,760	649,024
Freight	194	840
Equipment rental	1,004	699
Mileage reimbursements	26,706	25,555
Depreciation	270,429	291,571
Amortization	587	587
Total Operating Expenses	2,980,553	2,701,911
Operating Income	242,148	383,204
Nonoperating Activities		
Interest income	3,292	1,936
Interest expense	(244,670)	(251,764)
Loss on disposal of asset	-	(9,246)
Total Nonoperating Activities	(241,378)	(259,074)
Net Income Before Contributions	770	124,130
Member Contributions	9,999	4,822
Change in Net Assets	10,769	128,952
Beginning of Year Net Assets	7,805,450	7,676,498
End of Year Net Assets	\$ 7,816,219	\$ 7,805,450

See accompanying notes to financial statements.

SEQUOYAH COUNTY WATER ASSOCIATION

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2012	2011
Cash Flows From Operating Activities		
Cash receipts from customers	\$ 3,208,863	\$ 3,068,317
Cash payments to suppliers for goods and services	(2,186,085)	(1,922,619)
Cash payments to employees for services	(516,291)	(490,229)
Net Cash Provided By Operating Activities	506,487	655,469
Cash Flows From Investing Activities		
Net restricted checking and savings account activity	91,214	(32,538)
Acquisition of restricted investments	(74,374)	-
Interest income	3,292	1,936
Net Cash Provided (Used) By Investing Activities	20,132	(30,602)
Cash Flows From Capital and Related Financing Activities		
Additions to property, plant, and equipment	(116,741)	(210,927)
Principal paid on long-term debt	(253,319)	(254,906)
Interest paid on long-term debt	(246,276)	(253,016)
Net Cash Used By Capital and Related Financing Activities	(616,336)	(718,849)
Cash Flows From Noncapital and Related Financing Activities		
Member contributions	9,999	4,822
Net Cash Provided By Noncapital and Related Financing Activities	9,999	4,822
Net Decrease In Cash and Cash Equivalents	(79,718)	(89,160)
Cash and Cash Equivalents At Beginning of Year	80,502	169,662
Cash and Cash Equivalents At End of Year	\$ 784	\$ 80,502

See accompanying notes to financial statements.

SEQUOYAH COUNTY WATER ASSOCIATION

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2012	2011
Reconciliation Of Operating Income to Net Cash Provided By Operating Activities		
Net income from operations	\$ 242,148	\$ 383,204
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	270,429	291,571
Amortization	587	587
Changes in:		
Accounts receivable	(13,837)	22,129
Prepaid insurance	(14,593)	(17,890)
Inventory	9,071	(15,985)
Bank overdraft	2,828	-
Trade accounts payable	7,424	(6,278)
Payroll taxes payable	28	(362)
Accrued wages	1,718	(1,718)
Accrued compensated absences	684	211
Net Cash Provided By Operating Activities	\$ 506,487	\$ 655,469

See accompanying notes to financial statements.

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2012 AND 2011

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.

Under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting, the entity has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989, that do not conflict with or contradict GASB pronouncements. Only GASB pronouncements issued after this date will be followed.

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.

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.

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2012 AND 2011

1. Summary of Significant Accounting Policies (continued)

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 \$59,639 and \$58,347, respectively, as of March 31, 2012 and 2011.

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, 2012 AND 2011

2. Cash Deposits

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

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

As Of March 31, 2011	Book Value	Bank Value
FDIC Insured	\$ 411,225	\$ 411,231
Insured/collateralized	255,352	253,928
Total	\$ 666,577	\$ 665,159

3. Restricted Assets

Restricted checking and savings accounts consists of the following:

As Of March 31,	2012	2011
Debt reserve fund	\$ 454,524	\$ 442,373
Emergency reserve funds	42,016	29,017
Construction depreciation fund	25,023	57,017
Insurance account	11,004	22,016
CDBG account	36,033	35,017
Total	\$ 568,600	\$ 585,440

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2012 AND 2011

4. Long-Term Debt

Long-term debt of the Association consists of:

As Of March 31,	2012	2011
Rural Development - Payments are made monthly in the amount of \$1,228 inclusive of 5% interest. The note is secured by the water system and revenues.	\$ -	\$ 51,063
Rural Development - Payments are made monthly in the amount of \$1,228 inclusive of 5% interest. The note is secured by the water system and revenues.	-	51,064
Rural Development - Payments are made monthly in the amount of \$1,310 inclusive of 5% interest. The note is secured by the water system and revenues.	-	59,886
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.	724,117	751,440
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.	2,098,437	2,136,957
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.	827,220	842,425
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	799,839
Total long-term debt	4,439,355	4,692,674
Less: current maturities	874,673	918,877
Total long-term debt	\$ 3,564,682	\$ 3,773,797

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2012 AND 2011

4. Long-Term Debt (continued)

Debt is scheduled to be repaid as follows:

March 31,	Principal	Interest	Total
2013	\$ 874,673	179,145	\$ 1,053,818
2014	89,298	169,098	258,396
2015	93,713	164,684	258,397
2016	98,345	160,051	258,396
2017	103,207	155,189	258,396
2018-2022	597,805	694,175	1,291,980
2023-2027	760,948	531,031	1,291,979
2028-2032	730,995	342,465	1,073,460
2033-2037	801,432	169,128	970,560
2038-2042	288,939	29,601	318,540
Total	\$ 4,439,355	\$ 2,594,567	\$ 7,033,922

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

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
Total	\$ 4,692,674	\$ -	\$ 253,319	\$ 4,439,355

As Of	April 1, 2010	Debt Additions	Debt Retirements	March 31, 2011
Rural Development	\$ 4,147,741	\$ -	\$ 254,906	\$ 3,892,835
Armstrong Bank	799,839	-	-	799,839
Total	\$ 4,947,580	\$ -	\$ 254,906	\$ 4,692,674

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2012 AND 2011

5. Property, Plant and Equipment

Activity of capital assets consists of the following:

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	378,082	-	-	378,082
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
Total	\$ 16,070,037	\$ 129,242	\$ 0	\$ 16,199,279

As Of	April 1, 2010	Additions	Retirements	March 31, 2011
Land	\$ 70,939	\$ -	\$ -	\$ 70,939
Water and sewer system	14,363,728	94,577	-	14,458,305
Office building	378,082	-	-	378,082
Machinery and equipment	792,507	86,309	46,511	832,305
Furniture, fixtures, and radio	300,365	5,041	-	305,406
Furniture, fixtures, and radio	-	25,000	-	25,000
Total	\$ 15,905,621	\$ 210,927	\$ 46,511	\$ 16,070,037

6. 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 \$11,065 and \$11,680 for the years ended March 31, 2012 and 2011 respectively.

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2012 AND 2011

7. 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.

8. 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.

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

9. Subsequent Events

Since the year end of March 31, 2012, the Authority has started two new projects. The first is the ODOT project in conjunction with the State of Oklahoma. The project has a total budget of \$351,000 and is approximately 2% complete. The other project is the Rural Development project, which has a budget of \$4,192,600, and is approximately 5% complete. Also, as of the report date, the Authority had extinguished the debt agreement with Armstrong Bank.

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***

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

We have audited the financial statements of the **Sequoyah County Water Association** as of and for the year ended **March 31, 2012**, and have issued our report thereon dated May 24, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sequoyah County Water Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting.

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.

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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sequoyah County Water Association 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*.

This report is intended solely for the information and use of the Board of Directors, management and various lending agencies and is not intended to be and should not be used by anyone other than these specified parties.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
May 24, 2012

SUPPLEMENTAL INFORMATION

SEQUOYAH COUNTY WATER ASSOCIATION

ADDITIONAL COMMENTS REQUIRED BY RURAL DEVELOPMENT

MARCH 31, 2012

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.