

**SEQUOYAH COUNTY
WATER ASSOCIATION
AUDITED FINANCIAL STATEMENTS**

MARCH 31, 2016 AND 2015



SEQUOYAH COUNTY WATER ASSOCIATION
MARCH 31, 2016 AND 2015

Contents

| | <u>Page</u> |
|---|-------------|
| Independent Auditor's Report | 1-3 |
| Management's Discussion & Analysis | 4-8 |
| Financial Statements | |
| Statements of Net Position..... | 9 |
| Statements of Revenue, Expenses and Changes in Net Position..... | 10 |
| Statements of Cash Flows..... | 11-12 |
| Notes to Financial Statements..... | 13-19 |
| Additional Required Report | |
| Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i> | 20-21 |
| Supplemental Information | |
| Additional Comments Required By Rural Development..... | 22 |



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Sequoyah County Water Association (the Association) as of and for the years ended March 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Sequoyah County Water Association as of March 31, 2016 and 2015, and the changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

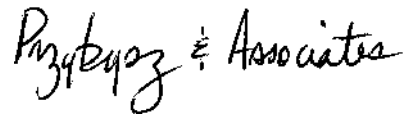
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Association's 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 25, 2016, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sequoyah County Water Association's internal control over financial reporting and compliance.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
May 25, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

**SEQUOYAH COUNTY WATER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2016**

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, 2016. 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, 2016 with a net position balance of \$9,444,046.
- Net income of \$59,824 plus construction contributions of \$10,482 resulted in a change of net position for the Association of \$70,306.
- The Association had net capital asset additions totaling \$2,710,280.
- The statement of cash flows identifies sources and uses of cash activity for the fiscal year. For fiscal year 2015, cash and cash equivalents decreased by \$30,644. Cash provided from the day to day operations totaled \$711,106. Cash used by capital and related financing activities netted \$213,710. This was a combination of cash used to acquire property, plant, & equipment of \$2,757,793 and cash used to service debt of \$557,244, netted with loan proceeds of \$3,101,327. Cash proceeds by noncapital and related financing activities was \$10,482 from member contributions. Furthermore, cash used by investing activities totaled \$538,522. This was primarily the result of transferring funds to restricted checking accounts.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of the following parts: Management's Discussion and Analysis and Financial Statements. The financial statements include notes which explain in detail some of the information included in the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the Association report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statement of Net Position includes information on the Association's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Association creditors (liabilities). The Statement of Revenue, Expenses and Changes in Net Position identifies the Association's revenues and expenses for the fiscal year ended March 31, 2016. 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, 2016**

CONDENSED FINANCIAL INFORMATION

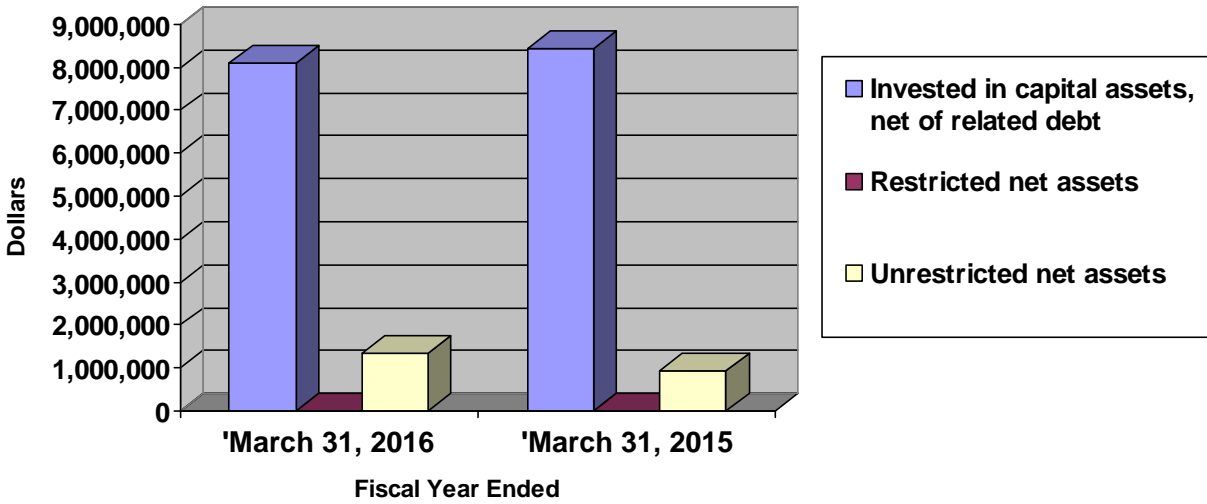
Condensed financial information from the statements of net position as of March 31, 2016 and 2015 and the statements of revenues, expenses and changes in net position for the years then ended are as follows:

| | March 31, | |
|--|---------------------|---------------------|
| | 2016 | 2015 |
| Current assets | \$ 1,674,576 | \$ 1,139,533 |
| Capital assets, net | 19,735,907 | 17,440,286 |
| Total assets | <u>21,410,483</u> | <u>18,579,819</u> |
| Current liabilities | 5,178,943 | 2,828,405 |
| Long-term debt | 6,787,494 | 6,377,674 |
| Total liabilities | <u>11,966,437</u> | <u>9,206,079</u> |
| Net position: | | |
| Net investment in capital assets | 8,092,524 | 8,441,949 |
| Unrestricted | 1,351,522 | 931,791 |
| Total net position | <u>\$ 9,444,046</u> | <u>\$ 9,373,740</u> |
| Operating revenues | \$ 3,481,229 | \$ 3,338,641 |
| Operating expenses, excluding depreciation | 2,772,583 | 2,635,952 |
| Depreciation | 397,400 | 361,304 |
| Total operating expenses, including depreciation | <u>3,169,983</u> | <u>2,997,256</u> |
| Operating income | 311,246 | 341,385 |
| Nonoperating revenues and (expenses) | (251,422) | (279,666) |
| Member contributions | 10,482 | 5,241 |
| Change in net position | 70,306 | 66,960 |
| Beginning of year net position | <u>9,373,740</u> | <u>9,306,780</u> |
| End of year net position | <u>\$ 9,444,046</u> | <u>\$ 9,373,740</u> |

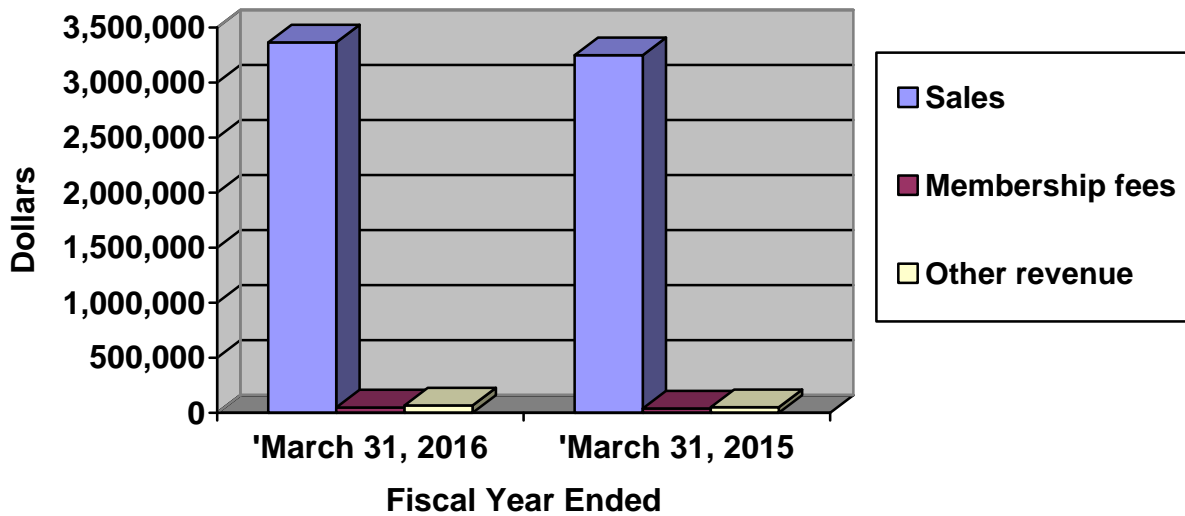
**SEQUOYAH COUNTY WATER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2016**

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Classifications of net assets presented in a graph format

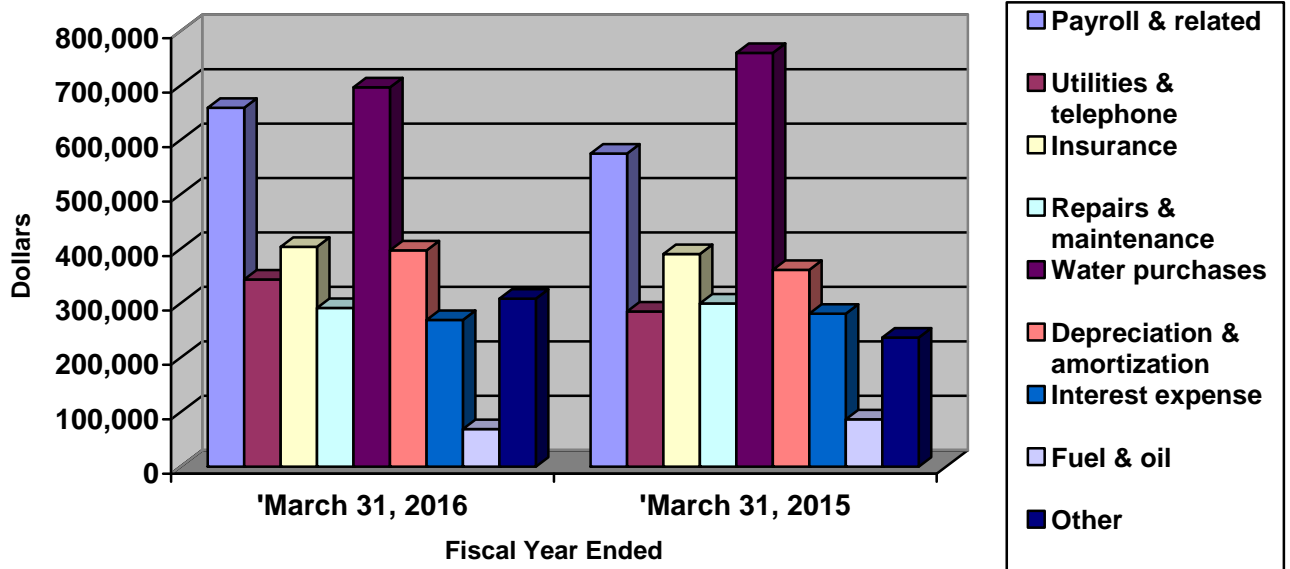


Operating revenues presented in a graph format



**SEQUOYAH COUNTY WATER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2016**

**Operating expenses presented in a graph
format**



CAPITAL ASSETS

The Association's capital assets as of March 31, 2016 and 2015 amounted to \$19,671,906, and \$17,021,131 (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, 2016 included the Maple Pump Station, Williams Pump Station, Stones Mobile Home Park, and 19 different site locations throughout the system with costs totaling \$2,780,861. Land acquisitions totaling \$15,000. Truck and equipment purchases of \$113,159. Furniture and Software upgrades of \$41,888. Construction in process totaled \$64,000 and consisted of the Akins Pump Station, Tower Road Project and the Engineering for the 24" line to Vian and Expanded Water treatment plant.

**SEQUOYAH COUNTY WATER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2016**

LONG-TERM DEBT

As of March 31, 2016, the Association had \$11,643,383 in outstanding debt compared to \$8,724,918 as of March 31, 2015. 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. Current year draws on this loan totaled \$2,500,918 through March 31, 2016. A \$666,149 loan was obtained from Armstrong Bank to finish the Tower Road and Akins Pump Station Projects.

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 \$182,602.

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, | 2016 | 2015 |
|--|---------------------|---------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 984 | \$ 31,628 |
| Restricted checking and savings accounts | 1,046,883 | 427,749 |
| Restricted certificate of deposit | 20,000 | 20,000 |
| Restricted investments | - | 79,246 |
| Accounts receivable, less allowance for doubtful accounts of \$71,825 and \$71,163, respectively | 280,648 | 265,508 |
| Prepaid insurance | 38,390 | 45,580 |
| Inventory | 287,671 | 269,822 |
| Total Current Assets | 1,674,576 | 1,139,533 |
| Noncurrent Assets | | |
| Capital Assets | | |
| Land | 105,953 | 90,953 |
| Water and sewer system | 23,701,857 | 20,811,638 |
| Office building | 426,017 | 420,847 |
| Machinery and equipment | 1,124,601 | 1,058,187 |
| Furniture, fixtures, and radio | 371,831 | 329,943 |
| Construction in process | 64,000 | 419,156 |
| Total | 25,794,259 | 23,130,724 |
| Less accumulated depreciation | 6,058,352 | 5,690,438 |
| Net Capital Assets | 19,735,907 | 17,440,286 |
| Total Assets | 21,410,483 | 18,579,819 |
| Liabilities and Net Position | | |
| Current Liabilities | | |
| Accounts payable | 167,862 | 386,971 |
| Accrued Wages | 8,030 | - |
| Accrued interest | 22,980 | 18,475 |
| Accrued compensated absences | 21,884 | 22,482 |
| Employee deductions payable | 4,112 | - |
| Customer meter deposits | 98,186 | 53,233 |
| Current portion of long-term debt | 4,855,889 | 2,347,244 |
| Total Current Liabilities | 5,178,943 | 2,828,405 |
| Long-Term Debt | 6,787,494 | 6,377,674 |
| Total Liabilities | 11,966,437 | 9,206,079 |
| Net Position | | |
| Net investment in capital assets | 8,092,524 | 8,441,949 |
| Unrestricted | 1,351,522 | 931,791 |
| Total Net Position | \$ 9,444,046 | \$ 9,373,740 |

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, | 2016 | 2015 |
|--|---------------------|---------------------|
| Operating Revenue | | |
| Sales and charges, net of bad debts | \$ 3,365,878 | \$ 3,248,422 |
| Membership fees | 48,531 | 39,131 |
| Other revenue | 66,820 | 51,088 |
| Total Operating Revenue | 3,481,229 | 3,338,641 |
| Operating Expenses | | |
| Salaries | 597,914 | 523,705 |
| Taxes-other than income | 47,786 | 40,422 |
| Outside services | 63,373 | 63,390 |
| Pension plan expense | 13,419 | 11,172 |
| Office expense | 55,855 | 49,228 |
| Professional fees | 26,020 | 12,800 |
| Utilities and telephone | 343,791 | 285,098 |
| Fuel and oil | 69,170 | 87,218 |
| Insurance | 403,834 | 390,838 |
| Miscellaneous | 11,190 | 14,798 |
| Repairs and maintenance | 276,192 | 250,549 |
| Telemetry services | 15,353 | 49,321 |
| Chemicals | 65,110 | 42,612 |
| Water testing | 23,692 | 19,038 |
| Water purchases | 696,657 | 760,294 |
| Equipment rental | 3,670 | 659 |
| Mileage reimbursements | 23,007 | 21,558 |
| Bank Fees | 36,550 | 13,252 |
| Depreciation | 397,400 | 361,304 |
| Total Operating Expenses | 3,169,983 | 2,997,256 |
| Operating Income | 311,246 | 341,385 |
| Nonoperating Activities | | |
| Interest income | 1,366 | 1,307 |
| Interest expense | (269,529) | (280,973) |
| Gain on disposal of asset | 16,741 | - |
| Total Nonoperating Activities | (251,422) | (279,666) |
| Net Income Before Contributions | 59,824 | 61,719 |
| Member Contributions | 10,482 | 5,241 |
| Change in Net Position | 70,306 | 66,960 |
| Beginning of Year Net Position | 9,373,740 | 9,306,780 |
| End of Year Net Position | \$ 9,444,046 | \$ 9,373,740 |

See accompanying notes to financial statements.

SEQUOYAH COUNTY WATER ASSOCIATION

STATEMENTS OF CASH FLOWS

| FOR THE YEARS ENDED MARCH 31, | 2016 | 2015 |
|---|------------------|------------------|
| Cash Flows From Operating Activities | | |
| Cash receipts from customers | \$ 3,511,042 | \$ 3,397,289 |
| Cash payments to suppliers for goods and services | (2,213,566) | (2,167,152) |
| Cash payments to employees for services | (586,370) | (523,342) |
| Net Cash Provided By Operating Activities | 711,106 | 706,795 |
| Cash Flows From Investing Activities | | |
| Net restricted checking and savings account activity | (619,134) | (56,970) |
| Net restricted investment account activity | 79,246 | (872) |
| Interest income | 1,366 | 1,307 |
| Net Cash Used By Investing Activities | (538,522) | (56,535) |
| Cash Flows From Capital and Related Financing Activities | | |
| Cash paid for property, plant, and equipment | (2,757,793) | (1,434,311) |
| Advances on long-term debt | 3,101,327 | 1,278,509 |
| Principal paid on long-term debt | (182,862) | (171,415) |
| Interest paid on long-term debt | (374,382) | (321,329) |
| Net Cash Used By Capital and Related Financing Activities | (213,710) | (648,546) |
| Cash Flows From Noncapital and Related Financing Activities | | |
| Member contributions | 10,482 | 5,241 |
| Processing fees paid | - | (8,647) |
| Net Cash Used By Noncapital and Related Financing Activities | 10,482 | (3,406) |
| Net Increase (Decrease) In Cash and Cash Equivalents | (30,644) | (1,692) |
| Cash and Cash Equivalents At Beginning of Year | 31,628 | 33,320 |
| Cash and Cash Equivalents At End of Year | \$ 984 | \$ 31,628 |

See accompanying notes to financial statements.

SEQUOYAH COUNTY WATER ASSOCIATION

STATEMENTS OF CASH FLOWS

| FOR THE YEARS ENDED MARCH 31, | 2016 | 2015 |
|--|---------------------|---------------------|
| Reconciliation Of Operating Income to Net Cash Provided By Operating Activities | | |
| Net income from operations | \$ 311,246 | \$ 341,385 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation | 397,400 | 361,304 |
| Changes in: | | |
| Accounts receivable | (15,140) | 5,415 |
| Prepaid insurance | 7,190 | (26,289) |
| Inventory | (17,849) | (26,385) |
| Bank overdraft | - | - |
| Trade accounts payable | (28,238) | (2,231) |
| Payroll taxes payable | 4,112 | - |
| Accrued wages | 8,030 | - |
| Accrued compensated absences | (598) | 363 |
| Customer meter deposits | 44,953 | 53,233 |
| Net Cash Provided By Operating Activities | \$ 711,106 | \$ 706,795 |
| Supplemental Schedule of Noncash Investing Activities | | |
| Total cost of property, plant, and equipment acquired | \$ 2,710,280 | \$ 1,741,818 |
| Less: current year construction payables | (65,026) | (255,897) |
| Plus: prior year construction payables | 255,897 | - |
| Less: trade-in value of vehicles | (34,000) | - |
| Less: capitalized interest | (109,358) | (51,610) |
| Net cash expended on property, plant, and equipment | \$ 2,757,793 | \$ 1,434,311 |

See accompanying notes to financial statements.

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

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, 2016 AND 2015

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 \$71,825 and \$71,163, respectively, as of March 31, 2016 and 2015.

e. Inventory

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

f. Compensated Absences

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

g. Estimates

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

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

2. Cash Deposits

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

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

| As Of March 31, 2015 | Book Value | Bank Value |
|-----------------------------|-------------------|-------------------|
| FDIC Insured | \$ 320,089 | \$ 320,089 |
| Uninsured/uncollateralized | 158,505 | 158,535 |
| Total | \$ 478,594 | \$ 478,624 |

The above deposits do not include petty cash on hand of \$983 and \$783 as of March 31, 2016 and 2015 respectively.

3. Restricted Assets

Restricted checking and savings accounts consists of the following:

| As Of March 31, | 2016 | 2015 |
|--------------------------------|---------------------|-------------------|
| Debt reserve fund | \$ 341,583 | \$ 369,552 |
| Emergency reserve funds | 3,001 | 25,048 |
| Construction/depreciation fund | 614,080 | 37,055 |
| Insurance account | 3,006 | 3,003 |
| CDBG account | 5,760 | 40,750 |
| Customer meter deposits | 99,453 | 51,587 |
| Total | \$ 1,066,883 | \$ 526,995 |

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

4. Long-Term Debt

Long-term debt of the Association consists of:

| As Of March 31, | 2016 | 2015 |
|--|--------------|--------------|
| 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. | \$ 597,373 | \$ 630,866 |
| Rural Development - Payments are made monthly in the amount of \$11,601 inclusive of 4.75% interest. The note is secured by the water system and revenues. | 1,924,729 | 1,971,291 |
| 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. | 758,648 | 777,028 |
| Rural Development - Payments are made monthly in the amount of \$11,989 inclusive of 3.375% interest. The note is secured by the water system and revenues. | 2,979,292 | 3,021,814 |
| Armstrong Bank - Payments are made monthly in the amount of \$1,675 inclusive of 2.99% interest. The note is secured by equipment. | 57,560 | 75,589 |
| Armstrong Bank - Payments are made monthly in the amount of \$1,804 inclusive of 2.99% interest. The note is secured by equipment. | 60,289 | 79,707 |
| Armstrong Bank - Payments are made monthly in the amount of \$5,842 inclusive of 2.99% interest. The note is unsecured. | 595,691 | - |
| Central National Bank - The loan is for an amount up to \$4,750,000 with interest of 3.124% accruing once the first draw is made. The loan is due May 15, 2016 and is secured by real estate, all accounts and other rights to payment, inventory and equipment. | 4,669,801 | 2,168,623 |
| Total long-term debt | 11,643,383 | 8,724,918 |
| Less: current maturities | 4,855,889 | 2,347,244 |
| Total long-term debt | \$ 6,787,494 | \$ 6,377,674 |

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

4. Long-Term Debt (continued)

Debt is scheduled to be repaid as follows:

| March 31, | Principal | Interest | Total |
|--------------|----------------------|---------------------|----------------------|
| 2017 | \$ 4,908,902 | \$ 275,006 | \$ 5,183,908 |
| 2018 | 248,500 | 265,607 | 514,107 |
| 2019 | 256,326 | 257,782 | 514,108 |
| 2020 | 226,099 | 246,268 | 472,367 |
| 2021 | 235,430 | 236,936 | 472,366 |
| 2022-2026 | 1,318,938 | 1,042,894 | 2,361,832 |
| 2027-2031 | 1,085,008 | 862,028 | 1,947,036 |
| 2032-2036 | 1,154,854 | 535,046 | 1,689,900 |
| 2037-2041 | 927,236 | 568,552 | 1,495,788 |
| 2042-2046 | 547,091 | 172,249 | 719,340 |
| 2047-2051 | 647,506 | 71,834 | 719,340 |
| 2052-2056 | 87,493 | 1,038 | 88,531 |
| Total | \$ 11,643,383 | \$ 4,535,240 | \$ 16,178,623 |

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

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

| As Of | April 1, 2014 | Debt Additions | Debt Retirements | March 31, 2015 |
|-----------------------|---------------------|---------------------|---------------------|---------------------|
| Rural Development | \$ 6,535,911 | \$ - | \$ 134,911 | \$ 6,401,000 |
| Armstrong Bank | 191,799 | - | 36,504 | 155,295 |
| Central National Bank | 890,114 | 1,278,509 | - | 2,168,623 |
| Total | \$ 7,617,824 | \$ 1,278,509 | \$ 171,415 | \$ 8,724,918 |

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

5. Property, Plant and Equipment

Activity of capital assets consists of the following:

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

| As Of | April 1, 2014 | Additions | Retirements | March 31, 2015 |
|--------------------------------|----------------------|---------------------|-------------------|----------------------|
| Land | \$ 81,439 | \$ 9,514 | \$ - | \$ 90,953 |
| Water and sewer system | 18,652,968 | 2,158,670 | - | 20,811,638 |
| Office building | 378,081 | 42,766 | - | 420,847 |
| Machinery and equipment | 1,058,187 | - | - | 1,058,187 |
| Furniture, fixtures, and radio | 328,197 | 1,746 | - | 329,943 |
| Construction in process | 890,035 | 419,156 | 890,035 | 419,156 |
| Total | \$ 21,388,907 | \$ 2,631,852 | \$ 890,035 | \$ 23,130,724 |

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, 2016, total interest incurred was \$378,887 of which \$109,358 was capitalized and \$269,529 was charged to operations. For the year ended March 31, 2015, total interest incurred was \$332,582, of which \$51,609 was capitalized and \$280,973 was charged to operations.

7. Pension Plan

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

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

SEQUOYAH COUNTY WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

7. Pension Plan (continued)

The Association contributed \$13,419 and \$11,172 for the years ended March 31, 2016 and 2015, respectively.

8. Concentrations Of Risk

a. Financial Instruments

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of bank balances that at times exceed federally insured limits of \$250,000. At December 31, 2016, the Association's uninsured cash balances totaled approximately \$838,518. Management believes it is not exposed to any significant credit risk on its balances.

b. Revenues and Receivables

Another financial instrument that potentially subjects the Association to credit risk consist of accounts receivable. The Association sells only to its members within a defined geographic region.

c. Water Supply System

The Association purchases its water from the Cities of Van Buren and Roland Utility Authority as well as utilizing Tenkiller Lake as a source of water for treatment. If the cost of the water were to increase or the possibility of the Association to have to obtain water from other suppliers was to occur, this may have an effect on the Association's ability to continue in its current state.

9. Risk Management

The Association is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Association carries commercial insurance and workers compensation insurance through Oklahoma Rural Water Association which offers Compusource Mutual Insurance Company.

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

10. Subsequent Events

The Association has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended March 31, 2016 through May 25, 2016, the date the financial statements were available to be issued.

ADDITIONAL REPORT



**Independent Auditor's Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit of Financial
Statements Performed In Accordance With *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Sequoyah County Water Association, as of and for the year ended March 31, 2016, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated May 25, 2016.

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 25, 2016

SUPPLEMENTAL INFORMATION

SEQUOYAH COUNTY WATER ASSOCIATION

ADDITIONAL COMMENTS REQUIRED BY RURAL DEVELOPMENT

MARCH 31, 2015

Water Rate Schedule

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

Board Of Directors

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