



TRI-COUNTY RURAL WATER  
DISTRICT NO 2

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED  
SEPTEMBER 30, 2023

TRI-COUNTY RURAL WATER DISTRICT NO 2  
POTTAWATOMIE COUNTY, OKLAHOMA  
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## **INDEPENDENT AUDITOR’S REPORT**

To the Board of Directors  
Tri-Country Rural Water District No 2  
Earlsboro, Oklahoma

### **Opinions**

We have audited the accompanying modified cash basis financial statements of the business-type activities of the Tri-Country Rural Water District No 2, Pottawatomie County, Oklahoma as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the business-type activities of the Tri-Country Rural Water District No 2, Pottawatomie County, Oklahoma as of September 30, 2023, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

### **Basis for Opinions**

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. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Tri-Country Rural Water District No 2, Pottawatomie County, Oklahoma, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Emphasis of Matter – Basis of Accounting**

We draw attention to Note 1C of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1 and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Tri-Country Rural Water District No 2, Pottawatomie County, Oklahoma’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor’s Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Tri-Country Rural Water District No 2, Pottawatomie County, Oklahoma's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Tri-Country Rural Water District No 2, Pottawatomie County, Oklahoma's ability to continue as a going concern for a reasonable period of time.

#### **Other Matters**

##### *Other Information*

Management is responsible for the other information included in the annual report. The other information comprises the management's discussion and analysis but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 15, 2024, on our consideration of the District'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 solely 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 effectiveness of the District's internal control over financial reporting, or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering the District's internal control over financial reporting, and compliance.



**OBER & LITTLEFIELD, CPAS, PLLC**  
**MIAMI, OKLAHOMA**

OCTOBER 15, 2024

TRI-COUNTY RURAL WATER DISTRICT NO 2  
POTTAWATOMIE COUNTY, OKLAHOMA  
STATEMENT OF NET POSITION – MODIFIED CASH BASIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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|   |                     |
|---|---------------------|
| Assets  |                     |
| Current assets  |                     |
| Cash and cash equivalents                             | \$ 583,106          |
| Certificates of deposits                              | 491,968             |
| Cash and cash equivalents restricted for debt service | <u>134,004</u>      |
| Total current assets                                  | 1,209,078           |
| Non-current assets                                    |                     |
| Capital assets, net of accumulated depreciation       | <u>5,917,151</u>    |
| Total noncurrent assets                               | <u>5,917,151</u>    |
| Total assets  | <u>\$ 7,126,229</u> |
| Liabilities   |                     |
| Current liabilities                                   |                     |
| Current portion long-term debt                        | \$ <u>79,885</u>    |
| Total current liabilities                             | <u>79,885</u>       |
| Non-current liabilities                               |                     |
| Long-term debt, less current portion                  | <u>2,199,919</u>    |
| Total non-current liabilities                         | <u>2,199,919</u>    |
| Total liabilities                                     | <u>2,279,804</u>    |
| Net position  |                     |
| Invested in capital assets, net of related debt       | 3,637,347           |
| Unrestricted  | <u>1,209,078</u>    |
| Total net position                                    | <u>4,846,425</u>    |
| Total liabilities and net position                    | <u>\$ 7,126,229</u> |

The accompanying notes are an integral part of these financial statements.

TRI-COUNTY RURAL WATER DISTRICT NO 2  
POTTAWATOMIE COUNTY, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – MODIFIED CASH BASIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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|  |                     |
|--|---------------------|
| Operating revenues                       |                     |
| Water revenue                            | \$ 1,741,208        |
| Miscellaneous operating revenue          | <u>67,445</u>       |
| Total operating revenue                  | <u>1,808,653</u>    |
| Operating expenses                       |                     |
| Advertising                              | 2,583               |
| Bank fees                                | 15,880              |
| Board expense                            | 2,900               |
| Chemicals                                | 16,331              |
| Contract labor                           | 35,273              |
| Depreciation expense                     | 353,235             |
| Dues and Subscriptions                   | 5,707               |
| Electric                                 | 136,379             |
| Employee insurance                       | 53,582              |
| Employee reimbursements                  | 12,167              |
| Fuel                                     | 36,834              |
| Insurance                                | 36,427              |
| Materials and supplies                   | 136,067             |
| Office equipment and supplies            | 18,395              |
| Other expenses                           | 42,498              |
| Salaries and wages                       | 522,428             |
| Payroll taxes                            | 31,928              |
| Postage                                  | 14,083              |
| Professional services                    | 40,158              |
| Repairs and maintenance- building        | 3,598               |
| Repairs and maintenance - equipment      | 14,352              |
| Repairs and maintenance- vehicle         | 13,300              |
| Repairs and maintenance- water system    | 74,447              |
| Retirement expense                       | 71,850              |
| Utilities                                | 45,150              |
| Water costs                              | 85,885              |
| Water testing                            | 17,100              |
| Workers Compensation                     | <u>8,206</u>        |
| Total operating expenses                 | <u>1,846,743</u>    |
| Operating income/(loss)                  | <u>(38,090)</u>     |
| Other financing sources/(uses)           |                     |
| Membership and transfer fees             | 69,210              |
| Interest earned                          | 5,948               |
| Grant income                             | 677,720             |
| Interest expense                         | <u>(76,890)</u>     |
| Total other financing sources/(uses)     | <u>675,988</u>      |
| Change in net position                   | 637,898             |
| Total net position, beginning            | 4,257,160           |
| Prior period adjustment                  | <u>(48,633)</u>     |
| Total net position, beginning - restated | <u>4,208,527</u>    |
| Total net position - ending              | <u>\$ 4,846,425</u> |

The accompanying notes are an integral part of these financial statements.

TRI-COUNTY RURAL WATER DISTRICT NO 2  
POTTAWATOMIE COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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|  |                     |
|--|---------------------|
| Cash flows from operating activities   |                     |
| Receipts from customers  | \$ 1,808,653        |
| Payments to suppliers and employees  | <u>(1,493,508)</u>  |
| Net cash provided/(used) by operating activities                                       | <u>315,145</u>      |
| Cash flows from noncapital financing activities  |                     |
| Benefit Units  | <u>69,210</u>       |
| Net cash provided/(used) by noncapital financing activities                            | <u>69,210</u>       |
| Cash flows from capital and related financing activities                               |                     |
| Principal paid on capital debt   | (82,748)            |
| Interest paid on capital debt  | (76,890)            |
| Purchase of fixed assets   | <u>(862,251)</u>    |
| Net cash provided/(used) by capital and related financing activities                   | <u>(344,169)</u>    |
| Cash flows from investing activities   |                     |
| Interest and dividends   | <u>5,948</u>        |
| Net cash provided/(used) by investing activities                                       | <u>5,948</u>        |
| Net increase/(decrease) in cash and cash equivalents                                   | 46,134              |
| Cash and cash equivalents, beginning of year   | <u>1,162,944</u>    |
| Cash and cash equivalents, end of year   | <u>\$ 1,209,078</u> |
| Reconciliation of operating income to net cash provided by operating activities        |                     |
| Operating income/(loss)  | \$ (38,090)         |
| Adjustment to reconcile operating income to net cash provided by operating activities: |                     |
| Depreciation expense   | <u>353,235</u>      |
| Net cash provided/(used) by operating activities                                       | <u>\$ 315,145</u>   |
| Reconciliation to Statement of Net Position  |                     |
| Cash and cash equivalents  | \$ 583,106          |
| Certificate of deposits  | 491,968             |
| Cash and cash equivalents - restricted   | <u>134,004</u>      |
| Total cash and cash equivalents  | <u>\$ 1,209,078</u> |

The accompanying notes are an integral part of these financial statements.

**Note 1 - Summary of Significant Accounting Policies**

The Tri-Country Rural Water District No 2, Pottawatomie County, Oklahoma (the “District”) was organized on June 4, 1984, under the Rural Water, Sewer, Gas and Solid Waste Management District Act, Title 82, 1324.3 of the laws of the State of Oklahoma. The District was organized to acquire water and water rights; to build and acquire water lines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owners and occupants of land located within the District (including Pottawatomie, Seminole and Lincoln counties), in accordance with the adopted by-laws.

**1.A. Financial Reporting Entity**

The District complies with GASB Statement No. 14, “*The Financial Reporting Entity*.” This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations, for which the elected officials of the primary government are financially accountable, and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The District considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the District’s financial statements.

**1.B. Basis of Presentation**

The accounts of the District are organized into funds, each of which is considered to be a separate accounting entity. The District uses the following fund types.

**Proprietary Funds**

**Enterprise Funds**

The District’s fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities, provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement, similar to the private sector.

**1.C. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded, regardless of the measurement focus applied.

**Measurement Focus**

The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.



**Note 1 - Summary of significant Accounting Policies** (continued)

**1.C. Measurement Focus and Basis of Accounting** (continued)

**Basis of Accounting**

The basic financial statements are presented on the modified cash basis of accounting. Under the modified cash basis of accounting, revenues are recognized when they are received, rather than earned. Expenditures are recorded when they are paid, rather than when the obligation is incurred.

**1.D. Assets, Liabilities, and Net Position**

**Cash and Cash Equivalents**

For the purposes of cash flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of twelve months or less when purchased, to be cash and cash equivalents.

**Fair Value of Financial Instruments**

The District's financial statements include cash and investments. The District's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position – modified cash basis. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

**Capital Assets**

Capital assets include property, plant, and equipment. The Board has approved a capitalization threshold of an initial individual cost of more than \$2,000, and an estimated useful life of more than one year. Such assets are recorded at historical cost. Donated capital assets are reported at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized.

All reported capital assets are depreciated on the straight-line basis over the estimated useful lives, ranging from three (3) to fifty (50) years.

**Equity Classification**

Equity is classified as net position and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**Note 1 – Summary of Significant Accounting Policies** (continued)

**1.D. Assets, Liabilities and Net Position** (continued)

**Equity Classification** (continued)

Equity is classified as net position and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted – All other net position that do not meet the definitions of “restricted” or “invested in capital assets, net of related debt”.

**Use of Estimates**

The preparation of financial statements, in conformity with the modified cash basis of accounting, requires management to make estimates, and assumptions, that affect the reported amounts of assets and liabilities, and 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 those estimates.

**Note 2 - Stewardship, Compliance, and Accountability**

By its nature, a government unit is subject to various federal, state and local laws and contractual regulations. In accordance with *Government Auditing Standards*, the auditor has issued a report on his consideration of the district’s internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of the audit.

**Note 3 – Detailed Notes Concerning Accounts**

**3.A. Restricted Assets**

The terms of the loan agreement with USDA Rural Development require that the District maintain restricted funds for the use of servicing debt in the amount of one year’s debt service of the total annual payment. The balance in the restricted cash is sufficient to fulfill this requirement.

**3.B. Deposits and Investments**

State statutes govern the District’s investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts, or savings certificates, of savings and loan associations and trust companies. Collateral is required for demand deposits, and certificates of deposit, for all amounts not covered by federal deposit insurance. Investments are stated at cost. Currently, the District invests entirely in certificates of deposit.

*Credit Risk:* The District’s investment policy is to apply the “prudent investor” standard. “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived.”

*Custodial Credit Risk – Deposits:* Custodial credit risk is the risk that, in the event of a bank failure, the District’s deposits may not be returned to it. The District’s cash deposits, including interest-bearing certificates of deposit, are maintained in financial institutions. The District does not have a deposit policy for custodial credit risk.

The table presented below is designed to disclose the level of custody credit risk assumed by the District based upon how its deposits were insured or secured with collateral at March 31, 2023. The categories of credit risk are defined as follows:

Category A – Insured by FDIC or collateralized with securities held by the District or by its agent in its name

Category B – Uninsured but collateralized with securities held by the pledging financial institution’s trust department or agent in the District’s name.

Category C – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the District’s name; or collateralized with no written or approved collateral agreement.

|  | Category            |             |                   | Bank<br>Balance     | Carrying<br>Amount  |
|--|---------------------|-------------|-------------------|---------------------|---------------------|
|  | A                   | B           | C                 |                     |                     |
| Demand deposits                              | \$ 250,000          | \$ -        | \$ 640,079        | \$ 890,079          | \$ 717,110          |
| Time deposits                                | 491,968             | -           | -                 | 491,968             | 491,968             |
| Total  | <u>\$ 741,968</u>   | <u>\$ -</u> | <u>\$ 640,079</u> | <u>\$ 1,382,047</u> | <u>\$ 1,209,078</u> |
| Reconciliation to statement of net position: |                     |             |                   |                     |                     |
| Cash and equivalents                         | \$ 583,106          |             |                   |                     |                     |
| Certificates of Deposit                      | 491,968             |             |                   |                     |                     |
| Restricted cash and equivalents              | 134,004             |             |                   |                     |                     |
|  | <u>\$ 1,209,078</u> |             |                   |                     |                     |

### 3.C. Changes in Capital Assets

Capital asset activity, for the fiscal year ended September 30, 2023, was as follows:

|                                      | 9/30/2022           | Additions         | Dispositions | 9/30/2023           |
|--------------------------------------|---------------------|-------------------|--------------|---------------------|
| Land                                 | \$ 9,045            | \$ -              | \$ -         | \$ 9,045            |
| Vehicles                             | 209,155             | 164,408           |              | 373,563             |
| Office equipment                     | 5,197               | 2,089             | -            | 7,286               |
| Plant and production equipment       | 10,832,736          | 695,754           | -            | 11,528,490          |
| Construction in Process              | -                   | -                 | -            | -                   |
| Total Property, Plant, and Equipment | 11,056,133          | 862,251           | -            | 11,918,384          |
| Accumulated Depreciation             | (5,647,998)         | (353,235)         | -            | (6,001,233)         |
| Net Property, Plant, and Equipment   | <u>\$ 5,408,135</u> | <u>\$ 509,016</u> | <u>\$ -</u>  | <u>\$ 5,917,151</u> |

### 3.D. Long-Term Debt

The District has a note 91=01 dated April 5, 2004 with the USDA Rural Development, with an original amount of \$600,000 due in monthly installments of \$2,652 beginning May 2004 through April 2044 at an interest rate of 4.375%

The District also has note 91-02 dated November 2, 2012, with the USDA Rural Development, with an original amount of \$1,553,930 due in monthly installments of \$5,346 beginning December 2, 2012 and continuing thereafter at an interest rate of 2.75%.

The District also has note 91-03 dated February 12, 2020, with the USDA Rural Development, with an original amount of \$348,752.03 due in monthly installments of \$1,448 beginning June 29, 2020 and continuing thereafter at an interest rate of 3.00%. This loan was transferred to the District when taking over Seminole County Rural Water District #7.

The District also has note 91-04 dated February 17, 2020, with the USDA Rural Development, with an original amount of \$376,247.97 due in monthly installments of \$1,721 beginning August 21, 2020 and continuing thereafter at an interest rate of 3.75%. This loan was transferred to the District when taking over Seminole County Rural Water District #7.

The District entered into an Equipment Lease-Purchase Agreement dated June 5, 2019, with Welch State Bank, with an original amount of \$112,549.99 due in monthly installments of \$2,073 beginning July 2019 through June 2024 at an interest rate of 3.99% for the purchase of a John Deere Backhoe, International Day Cab and Big Tex Trailer.

TRI-COUNTY RURAL WATER DISTRICT NO 2  
POTTAWATOMIE COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023

**Note 3 – Detailed Notes Concerning Accounts** (continued)

**3.D. Long-Term Debt** (continued)

The following is a summary of the changes in general long-term debt, for the fiscal year ended September 30, 2023:

|                              | Balance<br>September 30, 2022 | Additions   | Deductions         | Balance<br>September 30, 2023 | Amount due<br>in one year |
|------------------------------|-------------------------------|-------------|--------------------|-------------------------------|---------------------------|
| USDA RURAL DEVELOPMENT 91-01 | \$ 387,943                    | \$ -        | \$ (15,155)        | \$ 372,788                    | \$ 15,829                 |
| USDA RURAL DEVELOPMENT 91-02 | 1,245,969                     | -           | (30,270)           | 1,215,699                     | 31,110                    |
| USDA RURAL DEVELOPMENT 91-03 | 330,189                       | -           | (7,575)            | 322,614                       | 7,804                     |
| USDA RURAL DEVELOPMENT 91-04 | 358,508                       | -           | (7,334)            | 351,174                       | 7,613                     |
| WELCH STATE BANK             | 39,944                        | -           | (22,415)           | 17,529                        | 17,529                    |
| Total long-term activities   | <u>\$ 2,362,553</u>           | <u>\$ -</u> | <u>\$ (82,749)</u> | <u>\$ 2,279,804</u>           | <u>\$ 79,885</u>          |

The annual debt service requirements, to maturity, for the notes, as of September 30, 2023, are as follows:

|           | Principal           | Interest            |
|-----------|---------------------|---------------------|
| 2024      | \$ 79,885           | \$ 71,955           |
| 2025      | 64,458              | 69,546              |
| 2026      | 66,632              | 67,372              |
| 2027      | 68,884              | 65,120              |
| 2028      | 70,717              | 63,011              |
| 2029-2033 | 390,273             | 277,361             |
| 2034-2038 | 462,797             | 205,843             |
| 2039-2043 | 428,472             | 129,301             |
| 2044-2048 | 443,277             | 66,397              |
| 2049-2053 | 204,409             | 7,407               |
|           | <u>\$ 2,279,804</u> | <u>\$ 1,023,313</u> |

**3.E. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials' liability. There were no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**3.F. Water Lease**

The District has entered into a 50-year lease agreement with a private party that expires on December 31, 2052, for the purpose of purchasing water for the duration of the agreement. The cost of water purchased per 1,000 gallons is as follows:

- January 1, 2002-December 31, 2010: \$ 0.0393
- January 1, 2011-December 31, 2028: Adjusted annually
- January 1, 2029-December 31, 2052: Price renegotiated

The District entered into a perpetual lease agreement with a private party on May 16, 2002, for the purpose of water, for the consideration of \$0.393 per 1,000 gallons sold.

**3.G. Retirement Plan**

During the fiscal year, the District participated in the Oklahoma Public Employees Retirement System. The total contribution is 20% with the District contributing 15.5% and the employee contributing 4.5%. The total contributions for the fiscal year ending September 30, 2023, for employer and employee were \$63,652.21 and \$18,479.70 respectively.

**3.H. Evaluation of Subsequent Events**

The District has evaluated subsequent events through October 15, 2024, the date which the financial statements were available to be issued, and no additional disclosures are required.

**REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS**



124 S. Main Street, Miami, Oklahoma 74354  
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**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  
Tri-Country Rural Water District No 2  
Pottawatomie County, 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 modified cash basis financial statements of the business-type activities of Tri-Country Rural Water District No 2, Pottawatomie County, Oklahoma (the “District”), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon, dated October 15, 2024.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning, and performing, our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) as a basis for designing 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 District’s internal control. Accordingly, we do not express an opinion on the District’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 a 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 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 the 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. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings as Item 23-01 and 23-02 that we consider to be significant deficiencies.



**REPORT ON COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the Tri-Country Rural Water District No 2, Pottawatomie County, Oklahoma'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*.

**TRI-COUNTRY RURAL WATER DISTRICT NO 2'S RESPONSE TO FINDINGS**

Tri-Country Rural Water District No 2's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Tri-Country rural Water District No 2's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control, and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**OBER & LITTLEFIELD, CPAs, PLLC**  
**MIAMI, OKLAHOMA**

OCTOBER 15, 2024

Item 22-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in position to authorize, execute, and record the same transaction.

Condition: Due to the size of the district's major areas of internal control that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the District.

Response: The Board continues to be actively involved in the operations of the District.

**Item 23-01: Segregation of Duties**

*Criteria:* The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation for those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

*Condition:* Presently a limited number of individuals has responsibility for all functions of the financial statement reporting and safeguarding of the district's assets. These individuals have oversight responsibilities for billing and adjustments; posting of payments, payment to subsidiary accounts receivable ledgers and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This condition was also reported in 2016, 2017, 2018, and 2019.

*Cause:* The entity's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

*Effect or Potential Effect:* Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the membership and other billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

*Recommendation:* Management and the board should consider a formal evaluation of their risks associated with this lack of duties and segregation over assets. In response to the identified risks, consideration should be given to identifying and implementing compensating duties to act as controls that could help mitigate the risks associated with lack of segregation of duties, such as management performing review procedures for the reconciliation of accounts.

*Responsible Official's Response:* The District concurs with the recommendation and will strive to implement procedures and compensating duties to help mitigate the risks associated with the lack of segregation of duties.

**Item 23-02: Maintenance and Safeguarding of Capital Assets**

*Criteria or Specific Requirement –* The Board is required to maintain adequate controls to safeguard and account for its capital assets.

*Condition –* Internal controls over property accountability were inadequate for capital assets. The District has no written policies or procedures on recording, adjusting or inventorying capital assets and does not adequately monitor or inventory capital assets. Assets are not appropriately captured and recorded in an asset database by project.

*Cause –* There are no written policies or procedures for the recording, maintenance, and safeguarding of capital assets.

*Effect –* Without adequate internal controls to ensure proper safeguarding, assets are at risk and vulnerable to misappropriation, misuse or loss, which would not be detected in a timely manner, if at all. Financial information is also inaccurately recorded for capitalized assets.

*Recommendation –* We recommend the Board implement internal controls in its property accountability by developing written policies and procedures that describe how capital assets will be recorded and managed, post transactions affecting capital assets to a capital asset inventory system and perform timely inventories of capital assets on an annual basis.