

AUDIT REPORT

TRI-COUNTY RURAL WATER DISTRICT #2

SEPTEMBER 30, 2022



April Adams CPA PLLC

PO Box 1355

Ponca City, Oklahoma 74602

Phone: (580) 762-1040

Fax: (580) 762-1047

TRI-COUNTY RURAL WATER DISTRICT #2
SEPTEMBER 30, 2022

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April Adams CPA PLLC
PO Box 1355
Ponca City, Oklahoma 74602
Phone: (580) 762-1040
Fax: (580) 762-1047
Email: cpa@apriladamscpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tri-County Rural Water District #2
Earlsboro, Oklahoma

Report on the Audit of the Financial Statements

Opinion

I have audited the modified cash-basis financial statements of Tri-County Rural Water District #2, as of and for the year ended September 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

In my opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash-basis financial position of the Tri-County Rural Water District #2 as of September 30, 2022, and the respective changes in modified cash-basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with modified cash basis of accounting described in Note 1.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America (GAAS), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the Tri-County Rural Water District #2 and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter - Basis of Accounting

I draw attention to Note 1 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. My opinion is not modified with respect to this matter.

April Adams CPA PLLC

PO Box 1355

Ponca City, Oklahoma 74602

Phone: (580) 762-1040

Fax: (580) 762-1047

Email: cpa@apriladamscpa.com

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my opinion. 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 GAAS 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 GAAS, I

- 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-County Rural Water District #2'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.

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- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Tri-County Rural Water District #2's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that I identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated May 12, 2023, on my consideration of the Tri-County Rural Water District #2's internal control over financial reporting and my 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 my 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 Tri-County Rural Water District #2'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 Tri-County Rural Water District #2's internal control over financial reporting and compliance.



April Adams CPA PLLC
Ponca City, Oklahoma

May 12, 2023

TRI-COUNTY RURAL WATER DISTRICT #2
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
SEPTEMBER 30, 2022

	2022
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash and cash equivalents	\$ 724,886
Investments - Certificates of Deposit	486,692
	1,211,577
Total Current Assets	
<u>Capital Assets:</u>	
Land	9,045
Other Capital Assets	11,047,088
Less: Accumulated Depreciation	(5,647,998)
	5,408,135
Total Capital Assets	
TOTAL ASSETS	\$ 6,619,712
<u>LIABILITIES & NET POSITION</u>	
<u>Current Liabilities:</u>	
Current Portion of Long-Term Debt	\$ 60,327
	60,327
Total Current Liabilities	
<u>Long-term Liabilities:</u>	
Notes Payable - USDA Rural Development	2,322,609
Lease Purchase Payable	39,944
Less: Current Portion of Long-Term Debt	(60,327)
	2,302,225
Total Long-term Liabilities	
TOTAL LIABILITIES	2,362,552
<u>Net Position:</u>	
Net investment in capital assets	3,085,526
Restricted for debt service	134,004
Unrestricted	1,037,630
	4,257,160
TOTAL NET POSITION	
TOTAL LIABILITIES & NET POSITION	\$ 6,619,712

The accompanying notes are an integral part of the basic financial statements.

TRI-COUNTY RURAL WATER DISTRICT #2
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2022

	2022
<u>Operating Revenue:</u>	
Water and sewer sales	\$ 1,735,978
Miscellaneous	123,864
Total Operating Revenue	1,859,842
<u>Operating Expenses:</u>	
Compensation and burden	583,537
Water Purchases	91,858
Operations and maintenance	254,275
Fuel and auto expense	64,253
Utilities	138,872
Engineering	37,057
Insurance	69,305
Professional services	26,460
Office supplies and expenses	34,695
Depreciation	391,431
Bad Debt	-
Other	24,457
Total Operating Expenses	1,716,199
Operating Income (Loss)	143,644
Other Revenues and (Expenses):	
Membership Fees	119,445
Gain on Sales of Assets	-
Interest Income	2,438
Interest Expense	(81,620)
Total Other Revenues and (Expenses)	40,263
Net Income (Loss) Before Contributions	183,906
Capital Contributions	-
Change in Net Position	183,906
Total Net Position, Beginning of Year	4,073,254
Total Net Position, End of Year	\$ 4,257,160

The accompanying notes are an integral part of the basic financial statements.

**TRI-COUNTY RURAL WATER DISTRICT #2
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2022**

	2022
<u>Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 1,859,842
Payments to Suppliers and Laborers for Goods & Services	<u>(1,324,768)</u>
Net Cash Provided (Used) by Operating Activities	<u>535,074</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Additions to Capital Assets	(413,900)
Capital Contributions, including Insurance Proceeds	-
Membership Fees	119,445
Proceeds from Sale of Assets	-
Principal paid on Debt	(81,157)
Interest paid on Debt	<u>(81,620)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(457,233)</u>
<u>Cash Flows from Investing Activities:</u>	
(Increase)Decrease in Investments	(2,046)
Interest Income	<u>2,438</u>
Net Cash Provided (Used) by Investing Activities	<u>393</u>
Net Increase (Decrease) in Cash and Cash Equivalents	78,234
Cash & Cash Equivalents, Beginning of Year	646,652
Cash & Cash Equivalents, Prior Year Adjustment	-
Cash & Cash Equivalents, End of Year	<u><u>\$ 724,886</u></u>
<u>Reconciliation of operating income (loss) to net cash provided</u>	
<u>operating activities:</u>	
Operating Income (Loss)	\$ 143,644
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	391,431
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 535,074</u></u>

The accompanying notes are an integral part of the basic financial statements.

TRI-COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES & OPERATIONS

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Organization & Reporting Entity

The Tri-County Rural Water District #2 (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 waterlines 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.

B. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

TRI-COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

C. Measurement Focus and Basis of Accounting

Measurement Focus

The District utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the District utilized the basis of accounting recognized as generally accepted in the United States, the fund financial

TRI-COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

statements for proprietary fund types would use the accrual basis of accounting.

D. Financial Position

Cash and Cash Equivalents

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

Capital Assets (Property, Plant & Equipment)

Property and equipment are recorded at cost as of the date of acquisition. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	10-40 years
Furniture, fixtures and equipment	5-10 years
Waterline system	10-40 years

Purchases of capital items in excess of \$2,000.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

Income Taxes

The District is conducting its affairs as a local government and has no provisions for income tax.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Net Position Classifications

Net Position is classified and displayed in three components:

1. *Net investment in capital assets.* Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding

TRI-COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

2. *Restricted.* Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. *Unrestricted.* Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

NOTE 2 - CASH AND INVESTMENTS

Custodial Credit Risk

At September 30, 2022, the District held deposits of approximately \$1,211,577 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by

TRI-COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The investments held at September 30, 2022 are as follows:

TRI-COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments:				
Certificates of deposit	6.81	N/A	\$ 486,692	\$ 486,692
Total Investments			<u>\$ 486,692</u>	<u>\$ 486,692</u>

Concentration of Investment Credit Risk

The District places no limit on the amount it may invest in any one issuer. The District has the following credit risk: 100% in Certificates of Deposit (\$486,692).

NOTE 3 - RESTRICTED ASSETS

The loan agreements with the United States Department of Agriculture Rural Development (USDA) requires the District to set aside into a Reserve Account an accumulated amount equal to the sum of the annual installments (\$134,004), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval.

NOTE 4 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended September 30, 2022, was as follows:

	9/30/21 Balance	Additions	Deductions	9/30/22 Balance
Non-depreciable assets:				
Land	\$ 9,045	\$ -	\$ -	\$ 9,045
Total non-depreciable assets	<u>9,045</u>	<u>-</u>	<u>-</u>	<u>9,045</u>
Depreciable assets:				
Plant and production equipment	10,459,865	372,871	-	10,832,736
Vehicles	168,126	41,029	-	209,155
Office Equipment	5,197	-	-	5,197
Total depreciable assets	<u>10,633,188</u>	<u>413,900</u>	<u>-</u>	<u>11,047,088</u>
Less accumulated depreciation for:				
Plant and production equipment	(5,183,157)	(354,646)	-	(5,537,803)
Vehicles	(72,622)	(35,364)	-	(107,985)
Office Equipment	(788)	(1,422)	-	(2,210)
Total accumulated depreciation	<u>(5,256,567)</u>	<u>(391,431)</u>	<u>-</u>	<u>(5,647,998)</u>
Net depreciable assets	5,376,621	22,469	-	5,399,090
Total net capital assets	<u>\$ 5,385,666</u>	<u>\$ 22,469</u>	<u>\$ -</u>	<u>\$ 5,408,135</u>

Depreciation expense for the year was \$391,431.

TRI-COUNTY RURAL WATER DISTRICT #2
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2022

NOTE 5 - LONG TERM DEBT

The District has 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.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended September 30, 2022:

	Balance at September 30, 2021	Additions	Deductions	Balance at September 30, 2022
USDA Note 91-01	\$ 402,450	\$ -	\$ 14,507	\$ 387,943
USDA Note 91-02	\$ 1,275,419	\$ -	\$ 29,450	\$ 1,245,969
USDA Note 91-03	\$ 337,540	\$ -	\$ 7,351	\$ 330,189
USDA Note 91-04	\$ 365,573	\$ -	\$ 7,065	\$ 358,508
Lease Purchase - WSB	\$ 62,729	\$ -	\$ 22,785	\$ 39,944
Total Long-Term Debt	<u>\$ 2,443,710</u>	<u>\$ -</u>	<u>\$ 81,157</u>	<u>\$ 2,362,552</u>

TRI-COUNTY RURAL WATER DISTRICT #2
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2022

Debt Services Requirements to Maturity

USDA Note 91-01:

Year Ended September 30,	Principal	Interest	Annual Payment
2023	\$ 15,153	\$ 16,671	\$ 31,824
2024	15,829	15,995	31,824
2025	16,536	15,288	31,824
2026	17,274	14,550	31,824
2027	18,045	13,779	31,824
2028-2032	103,051	56,069	159,120
2033-2037	128,199	30,921	159,120
2038-2040	73,856	4,168	78,025
Total	<u>\$ 387,943</u>	<u>\$ 167,441</u>	<u>\$ 555,385</u>

USDA Note 91-02:

Year Ended September 30,	Principal	Interest	Annual Payment
2023	\$ 30,267	\$ 33,885	\$ 64,152
2024	31,110	33,042	64,152
2025	31,977	32,175	64,152
2026	32,867	31,285	64,152
2027	33,783	30,369	64,152
2028-2032	183,560	137,200	320,760
2033-2037	210,584	110,176	320,760
2038-2042	241,587	79,173	320,760
2043-2047	277,153	43,607	320,760
2048-2050	173,080	6,968	180,048
Total	<u>\$ 1,245,969</u>	<u>\$ 537,879</u>	<u>\$ 1,783,848</u>

TRI-COUNTY RURAL WATER DISTRICT #2
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2022

USDA Note 91-03:

Year Ended September 30,	Principal	Interest	Annual Payment
2023	\$ 7,574	\$ 9,802	\$ 17,376
2024	7,804	9,572	17,376
2025	8,042	9,334	17,376
2026	8,286	9,090	17,376
2027	8,538	8,838	17,376
2028-2032	46,748	40,132	86,880
2033-2037	54,304	32,576	86,880
2038-2042	63,080	23,800	86,880
2043-2047	73,275	13,605	86,880
2048-2051	52,537	2,606	55,144
Total	<u>\$ 330,189</u>	<u>\$ 159,354</u>	<u>\$ 489,544</u>

USDA Note 91-04:

Year Ended September 30,	Principal	Interest	Annual Payment
2023	\$ 7,333	\$ 13,319	\$ 20,652
2024	7,613	13,039	20,652
2025	7,903	12,749	20,652
2026	8,205	12,447	20,652
2027	8,518	12,134	20,652
2028-2031	47,719	55,541	103,260
2032-2037	57,543	45,717	103,260
2038-2042	69,390	33,870	103,260
2043-2047	83,676	19,584	103,260
2048-2051	60,609	3,704	64,313
Total	<u>\$ 358,508</u>	<u>\$ 222,104</u>	<u>\$ 580,613</u>

Lease Purchase - WSB

Year Ended September 30,	Principal	Interest	Annual Payment
2023	23,628	1,248	\$ 24,876
2024	16,315	307	16,622
2025	-	-	-
2026	-	-	-
2027	-	-	-
Total	<u>\$ 39,944</u>	<u>\$ 1,555</u>	<u>\$ 41,498</u>

TRI-COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 6 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at September 30, 2022, which would have a material effect on the financial statements.

Grant Program Involvement

In the normal course of operations, the District participates in various Federal or State grant or loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 7 - 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.

NOTE 8 - 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, 2022, for employer and employee were \$57,889.43 and \$16,806.62, respectively, on total wages of \$74,696.05.

TRI-COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 9 - SUBSEQUENT EVENTS

The District did not have any subsequent events through May 12, 2023, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending September 30, 2022.

April Adams CPA PLLC

PO Box 1355

Ponca City, Oklahoma 74602

Phone: (580) 762-1040

Fax: (580) 762-1047

Email: cpa@apriladamscpa.com

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-County Rural Water District #2
Earlsboro, Oklahoma

I 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 Tri-County Rural Water District #2 as of and for the year ended September 30, 2022, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, and have issued my report thereon dated May 12, 2023.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Tri-County Rural Water District #2'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 my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Tri-County Rural Water District #2's internal control. Accordingly, I do not express an opinion on the effectiveness of Tri-County Rural Water District #2'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

April Adams CPA PLLC

PO Box 1355

Ponca City, Oklahoma 74602

Phone: (580) 762-1040

Fax: (580) 762-1047

Email: cpa@apriladamscpa.com

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.

My 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control described in the accompanying Schedule of Findings as Item 22-01 that I consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tri-County Rural Water District #2's financial statements are free of material misstatement, I performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Tri-County Rural Water District #2's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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

April Adams CPA PLLC

PO Box 1355

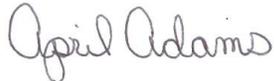
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is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



April Adams CPA PLLC
Ponca City, Oklahoma

May 12, 2023

TRI-COUNTY RURAL WATER DISTRICT #2
SCHEDULE OF FINDINGS
SEPTEMBER 30, 2022

INTERNAL CONTROL FINDINGS:

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 a 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.

COMPLIANCE FINDINGS:

None