

**Muskogee County Rural Water District No. 2
Muskogee, Oklahoma**

Financial Statements and
Reports of Independent Auditor

For The Year Ended December 31, 2023

Audited by

**BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP**

BROKEN ARROW, OK

Muskogee County Rural Water District No. 2
Muskogee, Oklahoma
Board of Directors and Employees
December 31, 2023

Chairman

Gary Rogers

Vice Chairman

Jeff Case

Secretary / Treasurer

Richard Naus

Members

Juanita Hammers

Jeff Mann

Superintendent

Taylor Schneidewent

Office Manager

Melissa Young

Muskogee County Rural Water District No. 2
Muskogee, Oklahoma

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December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Muskogee County Rural Water District No. 2
Muskogee, Oklahoma

Report on the Audit of the Financial Statements

We have audited the accompanying combined fund type and account group financial statements-regulatory basis of the Muskogee County Rural Water District No. 2, Muskogee, Oklahoma (the District), as of and for the year ended December 31, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2023, and the respective changes in modified cash basis financial position and its cash flows for the year then ended, in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinion

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 District 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 opinion.

Emphasis of Matter – Basis of Accounting

We 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. Our opinion is 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 cash basis of accounting described in Note 1, and for determining that the cash basis of accounting is an acceptable basis for presentation of the financial statements in the circumstances. Management is 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 District'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 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 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 District'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 District's ability to continue as a going concern for a reasonable period of time.

We are 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 we identified during the audit.

Supplementary Information

The District has not presented the Management’s Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

The prior year “memorandum only” comparative information and the supplemental information on pages 16 and 17 are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 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.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

March 1, 2024



BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

Eric M. Bledsoe, CPA
Jeffrey D. Hewett, CPA
Christopher P. Gullekson, CPA

P.O. BOX 1310 • 121 E. COLLEGE ST. • BROKEN ARROW, OK 74013 • (918) 449-9991 • (800) 522-3831 • FAX (918) 449-9779

**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**

Board of Directors
Muskogee County Rural Water District No. 2
Muskogee, Oklahoma

We have audited 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, the financial statements of the Muskogee County Rural Water District No. 2, Muskogee, Oklahoma (the District), as of and for the year ended December 31, 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 March 1, 2024. Our report on the financial statements disclosed that, as described in Note 1 to the financial statements, the District prepares its financial statements on a modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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 identified one deficiency in internal control

that we do not consider to be a material weakness. This finding is identified as item 2023-1 in the accompanying Schedule of Findings and Responses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 financial statements. 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 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.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

March 1, 2024

Muskogee County Rural Water District No. 2
Muskogee, Oklahoma

Disposition of Prior Year's Significant Deficiencies
December 31, 2023

2022-1 Internal Control – Segregation of Duties

Finding – Presently, the same individual performs all accounting functions: receives utility service-related payments, is responsible for service billing and adjustment, makes bank deposits, writes checks, reconciles the monthly bank statements and prepares monthly financial reports. This is considered a lack of segregation of duties.

Recommendation – While it may not be cost effective to hire additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the District should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with the lack of segregation of duties.

Disposition – This continues to be a finding.

Muskogee County Rural Water District No. 2
Muskogee, Oklahoma
Schedule of Audit Results
December 31, 2023

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the modified cash basis financial statements.
2. The audit disclosed a significant deficiency in the internal controls, which was not considered to be a material weakness.
3. The audit disclosed no instances of noncompliance which were material to the financial statements.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

2023-1 Internal Control – Segregation of Duties

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

Condition – Presently the same individual performs all accounting functions: receives utility service-related payments, is responsible for service billing and adjustments, makes bank deposits, writes checks, reconciles the monthly bank statements and prepares monthly financial reports.

Cause – The District’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 accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation – While it may not be cost effective to hire additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the District should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with the lack of segregation of duties.

Management Response – Management agrees with this finding and will provide adequate staffing once annual collections increase enough to justify the extra expense.

**MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 2
MUSKOGEE, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2023**

	2023	-Memorandum- -Only- 2022
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 242,291	234,375
Capital Assets:		
Land	17,719	17,719
Buildings	125,179	125,179
Water system	916,086	839,006
Equipment and vehicles	251,918	186,098
Office furniture and equipment	22,578	22,578
Total Capital Assets	1,333,480	1,190,580
Less: Accumulated depreciation	(781,579)	(722,965)
Total Capital Assets (net)	551,901	467,615
TOTAL ASSETS	\$ 794,192	701,990
 <u>LIABILITIES</u>		
Current Liabilities:		
Payroll taxes payable	\$ 2,319	1,650
Long-Term Debt:		
Lease Purchase of Backhoe	113,698	130,915
Total Liabilities	116,017	132,565
Net Position:		
Unrestricted	678,175	569,425
TOTAL LIABILITIES AND NET POSITION	\$ 794,192	701,990

The accompanying notes are an integral part of the financial statements

**MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 2
MUSKOGEE, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	2023	-Memorandum- -Only- 2022
Revenue from Operations:		
Water sales	\$ 349,487	286,060
Late charges	11,679	11,344
Reconnect fees	850	0
Returned check fees	410	380
Transfer fees	1,900	2,400
Installation fees	3,000	750
Benefit units	4,000	1,000
Miscellaneous	4,020	250
Revenue from District Expansion (RWD #5)	20,000	0
Total revenue from operations	395,346	302,184
Expenses from Operations:		
Water purchases	91,684	81,088
Wages and consulting services	85,919	65,794
Payroll taxes	7,217	4,519
Employee benefits	19,053	18,392
Utilities	6,808	5,607
Insurance	10,276	5,031
Depreciation	58,616	36,608
Office expenses	2,913	1,523
System maintenance and repairs	579	1,525
Supplies and materials	50,641	19,517
Water testing	3,990	4,026
Telephone/Internet	2,219	3,054
Vehicle/Equipment expense	19,762	10,075
Postage	2,866	2,943
Audit fees	2,800	2,600
Dues & fees	1,345	1,225
Miscellaneous	964	179
Total expenses from water operations	367,652	263,706
Net Income (Loss) from Operations	27,694	38,478
Other Income:		
Interest income	1,983	2,043
Interest expense on debt	(4,983)	(1,350)
RIG grant proceeds	84,056	0
Total other income	81,056	693
Net Income (Loss)	108,750	39,171
Net Position, beginning of period	569,425	530,254
Net Position, end of period	\$ 678,175	569,425

The accompanying notes are an integral part of the financial statements

**MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 2
MUSKOGEE, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	2023	-Memorandum- -Only- 2022
Cash Flows from Operating Activities:		
Receipts from customers	\$ 395,345	302,184
Payments to employees	(85,919)	(65,794)
Payments to vendors	(222,449)	(161,351)
Net Cash Provided by Operating Activities	86,977	75,039
Cash Flows from Capital and Related Financing Activities:		
Principal paid on debt	(17,217)	4,200
Interest paid on debt	(4,983)	1,350
Purchase of capital assets	(144,405)	(92,040)
Sale of capital assets	1,505	0
RIG grant proceeds	84,056	0
Net cash provided by (used in) Capital and Related Financing Activities	(81,044)	(86,490)
Cash Flows from Investing Activities:		
Interest earnings	1,983	2,043
Net cash provided by (used in) Investing Activities	1,983	2,043
Net Increase (Decrease) in Cash and Equivalents	7,916	(9,408)
Cash and cash equivalents, beginning of period	234,375	243,783
Cash and cash equivalents, end of period	\$ 242,291	234,375
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income (loss)	\$ 27,694	38,478
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense	58,616	36,608
Increase (decrease) in payroll taxes payable	667	(47)
Net Cash Provided by Operating Activities	\$ 86,977	75,039

The accompanying notes to the financial statements are an integral part of this statement

Muskogee County Rural Water District No. 2
Muskogee, Oklahoma
Notes to Financial Statements
For the Years Ended December 31, 2023

Note 1 – Significant Accounting Policies

Business Activity

Muskogee County Rural Water District No. 2 (the District) was formed under the provisions of Title 82, O.S. Sections 1324.1-1324.26 inclusive. The District operates as a nontaxable government agency to service residents of Muskogee County. The District's primary income is from the sale of water to its members in an area around Muskogee, Oklahoma.

Basis of Accounting

The modified cash basis of accounting is followed for all accounts. Revenues are recorded when received and expenditures are recognized when paid. This is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). The Government Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

Cash

The District's accounts are with Armstrong Bank in an Operating Account. Gross revenues of the District are deposited into this account. The reasonable and necessary current expenses of operating and maintaining the District for each month are also paid from this account.

For the purpose of the statement of cash flows, cash and cash equivalents consists of cash on hand and all cash in the bank.

As of December 31, 2023, the District's deposits were \$242,231. All of these funds were covered by Federal Depository Insurance Corporation (FDIC), which provides up to \$250,000 of coverage.

Muskogee County Rural Water District No. 2
Muskogee, Oklahoma
Notes to Financial Statements
For the Years Ended December 31, 2023

Note 1 – Significant Accounting Policies – cont’d

Investments

The District had no outstanding investments as of December 31, 2023.

Memorandum Only

The “Memorandum Only” captions above the columns of prior year information mean that amounts are presented for comparative and information purposes only.

Capital Assets

Any items purchased or constructed in excess of \$1,000 and a useful life of over two years is considered a capital (fixed) asset by the District, and will be depreciated over a specific time. Fixed assets are valued at cost, depreciation is computed by use of the straight-line method.

	12/31/2022			12/31/2023
	Amount	Additions	Deletions	Amount
Land	\$ 17,719	-	-	17,719
Buildings	125,179	-	-	125,179
Plant and water sys.	839,006	78,585	(1,505)	916,086
Equip and vehicles	186,098	65,820	-	251,918
Office furn & equip	22,578	-	-	22,578
Total Capital Assets	1,190,580	144,405	(1,505)	1,333,480
Less: Accumulated Depreciation	(722,963)	(58,616)	-	(781,579)
Total	<u>\$ 467,617</u>	<u>85,789</u>	<u>-</u>	<u>551,901</u>

Federal Income Tax

The District is exempt from all federal and state income taxes.

Muskogee County Rural Water District No. 2
Muskogee, Oklahoma
Notes to Financial Statements
For the Years Ended December 31, 2023

Note 2 – Long-Term Debt

Long-term debt consists of the following lease purchase:

	<u>Amount Outstanding</u>
Lease Purchase of Backhoe, dated 9-29-22, totaling \$135,115, interest rate of 3.99%, due in monthly principal and interest installments of varying amounts, final payment due 9-29-29	 <u>\$ 113,698</u>

The scheduled maturities for the next six years are detailed as follows:

Year	Total
2024	\$ 17,914
2025	18,666
2026	19,436
2027	20,238
2028	21,069
2029	16,375
Total	\$ 113,698

Note 3 – Insurance Coverage

The District appears to have had adequate insurance to cover all major perils at December 31, 2023.

Note 4 – Subsequent Events

Management has evaluated subsequent events through March 1, 2024, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

**MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 2
MUSKOGEE, OKLAHOMA
BUDGET VS ACTUAL COMPARISON
FOR THE YEAR ENDED DECEMBER 31, 2023**

	<u>ORIGINAL / FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Revenue:			
Water sales	325,000	349,487	24,487
Late charges	11,000	11,679	679
Meter installation	1,500	3,000	1,500
Reconnect fees	100	850	750
Transfer fees	1,200	1,900	700
Returned check fees	150	410	260
Benefit units	2,000	4,000	2,000
Miscellaneous	100	967	867
Refunds & reimbursements	0	3,052	3,052
RIG grant proceeds	0	84,056	84,056
Revenue from expansion (RWD #5)	0	20,000	20,000
Sale of assets	0	1,505	1,505
Interest	1,800	1,983	183
Gross revenue	<u>342,850</u>	<u>482,889</u>	<u>140,039</u>
Cost of Sales:			
Water purchases	72,000	91,684	(19,684)
Revenue less cost of water	<u>270,850</u>	<u>391,205</u>	<u>120,355</u>
Operating Expenses:			
Audit expense	2,800	2,800	0
Wages - Superintendent	39,520	39,520	0
Wages - Office manager	20,921	20,820	101
Wages - Temp/Contract Labor	2,500	315	2,185
Wages - System Assistant	30,000	25,264	4,736
Payroll taxes	4,900	7,217	(2,317)
Health insurance	16,713	16,653	60
Retirement	2,400	2,400	0
Backhoe payment	22,200	22,200	0
Electricity	7,200	6,808	392
Insurance - Building/Truck	5,575	8,307	(2,732)
Insurance - Workers Comp	1,500	1,969	(469)
Office supplies/expenses	1,000	2,013	(1,013)
Plant expenses/parts/materials	40,000	51,220	(11,220)
Water testing	4,025	3,990	35
Telephone/Internet	3,054	2,219	835
Employee board travel & training	500	964	(464)
Truck maintenance	3,000	6,032	(3,032)
Truck fuel	3,000	4,291	(1,291)
Backhoe fuel	3,000	2,909	91
Backhoe maintenance	0	6,531	(6,531)
Postage	3,000	2,866	134
Seqouyah contract	900	900	0
Itron contract	1,042	0	1,042
Itron cloud storage	315	0	315
Dues, fees & licenses	150	848	(698)
Memberships	495	497	(2)
Paint Office Building	7,000	0	7,000
Truck Purchase***	0	65,820	(65,820)
Construction in Progress 65th St***	0	25,241	(25,241)
Construction in Progress Caradobo***	0	13,294	(13,294)
Tower Maintenance***	0	40,050	(40,050)
Total operating expenses	<u>226,710</u>	<u>383,958</u> **	<u>(157,248)</u>
Revenues over (under) expenses	<u><u>44,140</u></u>	<u><u>7,247</u></u>	<u><u>(36,893)</u></u>

** - Operating expenses do not include depreciation expense of \$58,616.

*** - These expenses include capital asset expenditures and are not listed as operating expenses on the financial statements, but have been included here for budget to actual comparison purposes.

Muskogee County Rural Water District No. 2
Muskogee, Oklahoma

Schedule of Water Rates and Customers

-Unaudited Information-

December 31, 2023

Water Rates - Residential

0 – 2,000 gallons	=	\$35.00 minimum bill
2,001 – 14,999 gallons	=	\$8.50 per 1,000 gallons
15,000 + gallons	=	\$14.00 per 1,000 gallons

Water Rates - Commercial

0 – 2,000 gallons	=	\$35.00 minimum bill
2,001 + gallons	=	\$14.00 per 1,000 gallons

Water Loss

	<u>2023</u>	<u>2022</u>
Total gallons purchased (City of Muskogee)	40,273,682	36,536,569
Total gallons sold to District customers	<u>27,678,845</u>	<u>27,190,887</u>
Total water loss	<u>12,594,837</u>	<u>9,345,682</u>
Percentage of water loss	<u>31.27%</u>	<u>25.58%</u>

Source: 2023 Monthly Operating Report

Customers

The District had 473 customers at the close of the fiscal year.

Current benefit unit is \$1,000, and \$750 for installation.