

**RURAL WATER AND SOLID WASTE
MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
YEARS ENDED DECEMBER 31, 2022 AND 2021**

**RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA
BOARD OF DIRECTORS
DECEMBER 31, 2022**

BOARD OF DIRECTORS

Chairman.....Freddie Harden
Vice Chairman Roger Ommen
Secretary/Treasurer Robin Kauk Harrel
Member Gary Switzer
Member Billy Rounds
Member Richard Allen
Member.....Bruce Barber

MANAGER

Landon Holcomb

OFFICE

Marilyn Welty

**RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA
DECEMBER 31, 2022 and 2021**

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and other Matters Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards



BRITTON, KUYKENDALL, & MILLER
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Directors
Rural Water and Solid Waste Management District #2
Leedey, Oklahoma

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma, as of and for the years ended December 31, 2022 and 2021, 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 financial position of the business-type activities, and the aggregate remaining fund information of Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma, as of December 31, 2022 and 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our 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 (*Government Auditing Standards*). 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 Rural Water and Solid Waste Management District #2, Roger Mills 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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 Rural Water and Solid Waste Management District #2, Roger Mills 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 Rural Water and Solid Waste Management District #2, Roger Mills 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 Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma'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.

Required Supplementary Information

Management has omitted the management's discussion and analysis that 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 who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma's basic financial statements. The accompanying Schedule of Insurance Coverage and Prepaid Premiums as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Insurance Coverage and Prepaid Premiums is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2023, on our consideration of Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma'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 Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma'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 Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma's internal control over financial reporting and compliance.

Britton, Kuykendall & Miller

BRITTON, KUYKENDALL & MILLER
Certified Public Accountants

Weatherford, Oklahoma
February 20, 2023

FINANCIAL STATEMENTS
OF
RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA

RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
STATEMENT OF NET POSITION
As of December 31, 2022 and 2021

<u>ASSETS</u>	<u>12-31-22</u>	<u>12-31-21</u>
<u>Current Assets</u>		
Cash and Equivalents	\$ 105,130.56	\$ 18,214.98
Cash in Bank - Reserve Fund (Restricted Asset)	11,913.49	11,869.97
Certificates of Deposit	<u>1,000.00</u>	<u>1,000.00</u>
Accounts Receivable - Note 1	97,574.10	61,650.68
Allowance for Doubtful Accounts	(1,000.00)	(1,000.00)
Other Receivables	0.00	0.00
Inventory	59,277.76	40,360.18
Prepaid Insurance	<u>11,123.12</u>	<u>11,768.52</u>
TOTAL CURRENT ASSETS	<u>285,019.03</u>	<u>143,864.33</u>
<u>Fixed Assets - Note 1</u>		
Property, Plant and Equipment	1,656,520.34	1,624,853.57
Construction in Progress	7,500.00	7,500.00
Water Rights	<u>12,732.99</u>	<u>19,562.61</u>
Total Fixed Assets	<u>1,676,753.33</u>	<u>1,651,916.18</u>
TOTAL ASSETS	<u>\$ 1,961,772.36</u>	<u>\$ 1,795,780.51</u>

See accompanying notes to financial statements.

RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
STATEMENT OF NET POSITION - CONTINUED
As of December 31, 2022 and 2021

<u>LIABILITIES</u>	<u>12-31-22</u>	<u>12-31-21</u>
<u>Current Liabilities</u>		
Accounts Payable	\$ 4,576.45	\$ 5,600.22
Customer Deposits	0.00	0.00
Current Portion of Long-Term Debt	100.00	47,850.00
Accrued Payables	<u>2,029.72</u>	<u>2,029.72</u>
TOTAL CURRENT LIABILITIES - Note 2	<u>6,706.17</u>	<u>55,479.94</u>
Long-Term Debt - Note 2	<u>134,766.00</u>	<u>35,101.00</u>
TOTAL LIABILITIES	<u>141,472.17</u>	<u>90,580.94</u>
<u>NET POSITION</u>		
Invested in Capital Assets - Net of Related Debt	1,541,887.33	1,568,965.18
Unrestricted	<u>278,412.86</u>	<u>136,234.39</u>
TOTAL NET POSITION	<u>1,820,300.19</u>	<u>1,705,199.57</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,961,772.36</u>	<u>\$ 1,795,780.51</u>

See accompanying notes to financial statements.

RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For Years Ended December 31, 2022 and 2021

	<u>12-31-22</u>	<u>12-31-21</u>
Revenue from Operations:		
Water Sales - Domestic	\$ 324,137.43	\$ 269,393.86
Water Sales - Pasture	144,904.18	113,732.98
Water Sales - Leedey	64,813.55	56,732.36
Water Sales - Commercial	17,649.11	15,813.05
Water Sales - Coin Machine	(188.25)	429.01
Roll Bulk Water Sales	641.53	2,910.88
Benefit Unit Sales	30,000.00	10,000.00
Connection Charges	215.00	150.00
Late Charges	3,852.85	2,930.17
Sale of Materials	0.00	0.00
Other Income	<u>13,597.05</u>	<u>12,980.97</u>
 TOTAL REVENUE FROM OPERATIONS	 <u>599,622.45</u>	 <u>485,073.28</u>
Expenses from Maintenance and Operation:		
Salaries	170,382.34	172,315.60
Utilities	45,329.69	45,661.64
Operating Expense	21,233.09	24,992.33
Repairs and Maintenance	28,692.01	21,458.81
Insurance	23,854.90	19,902.61
Employee Benefits	17,975.86	27,403.08
Membership & Dues Expense	1,327.90	1,406.19
Monitoring Fees	3,565.73	4,940.29
Payroll Taxes	14,076.95	14,161.47
Professional Fee	3,850.00	4,400.00
Depreciation & Amortization	103,558.98	92,226.00
Truck/Backhoe Expenses	21,040.52	16,591.42
Postage	1,253.61	1,281.95
Meeting & Training Expense	6,088.11	3,521.68
Miscellaneous	3,212.69	0.00
Contract Services	17,215.00	0.00
Office Expense	<u>2,110.32</u>	<u>4,584.90</u>
 TOTAL EXPENSES FROM OPERATIONS	 <u>484,767.70</u>	 <u>454,847.97</u>

See accompanying notes to financial statements.

RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION - CONTINUED
For Years Ended December 31, 2022 and 2021

	<u>12-31-22</u>	<u>12-31-21</u>
Operating Income	\$ 114,854.75	\$ 30,225.31
Other Income (Expenses)		
Interest Earnings	245.87	138.16
Grant Revenue	0.00	65,000.00
Interest Expense	<u>0.00</u>	<u>0.00</u>
TOTAL OTHER INCOME (EXPENSES)	<u>245.87</u>	<u>65,138.16</u>
Net Income (Loss)	115,100.62	95,363.47
Net Position, Beginning of Year	<u>1,705,199.57</u>	<u>1,609,836.10</u>
Net Position, End of Year	\$ <u><u>1,820,300.19</u></u>	\$ <u><u>1,705,199.57</u></u>

See accompanying notes to financial statements.

RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
STATEMENT OF CASH FLOWS
For Years Ended December 31, 2022 and 2021

	<u>12-31-22</u>	<u>12-31-21</u>
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 563,699.03	\$ 481,750.60
Cash Paid to Employees	(202,435.15)	(213,880.15)
Cash Payments for Goods and Services	<u>(198,069.52)</u>	<u>(167,241.22)</u>
Net Cash Provided (Used) by Operating Activities	<u>163,194.36</u>	<u>100,629.23</u>
Cash Flows From Investing Activities:		
Interest Income	245.87	138.16
Proceeds of Certificates of Deposits	<u>(43.52)</u>	<u>(51.39)</u>
Net Cash Provided (Used) by Investing Activities	<u>202.35</u>	<u>86.77</u>
Cash Flows From Financing Activities:		
Proceeds from Long-Term Debt (Net)	51,915.00	(12,850.00)
Proceeds of Grant	0.00	65,000.00
Payments of Interest on Long-Term Debt	0.00	0.00
Acquisition and Constuction of Capital Assets	<u>(128,396.13)</u>	<u>(210,696.75)</u>
Net Cash Provided (Used) by Financing Activities	<u>(76,481.13)</u>	<u>(158,546.75)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	86,915.58	(57,830.75)
Cash and Cash Equivalents, Beginning of Year	<u>18,214.98</u>	<u>76,045.73</u>
Cash and Cash Equivalents, End of Year	<u>\$ 105,130.56</u>	<u>\$ 18,214.98</u>

See accompanying notes to financial statements.

RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
STATEMENT OF CASH FLOWS
For Years Ended December 31, 2022 and 2021

	<u>12-31-22</u>	<u>12-31-21</u>
Adjustments to Reconcile Net Income to Net Cash Provided From Operating Activities:		
Net Income (Loss)	\$ 114,854.75	\$ 30,225.31
Depreciation	103,558.98	92,226.00
(Increase) Decrease in Receivables	(35,923.42)	(3,242.68)
(Increase) Decrease in Inventory	(18,917.58)	(14,567.39)
(Increase) decrease in Prepaid Expenses	645.40	(2,375.84)
Increase (Decrease) in Customer Deposits	0.00	(80.00)
Increase (Decrease) in Accounts & Accrued Payables	<u>(1,023.77)</u>	<u>(1,556.17)</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>163,194.36</u>	\$ <u>100,629.23</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
OF
RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA

**RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

1. Significant Accounting Policies

Organization

Rural Water and Solid Waste Management District #2 (Red Star) was organized and operates as a rural water-supply source for its members in Roger Mills County, Oklahoma as well as those in Custer, Dewey counties in western Oklahoma.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and accrued liabilities are recognized when incurred. This policy is in accordance with accounting principles generally accepted in the United States of America.

Major Funds

The new reporting model as defined in GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses, of either fund category or the governmental and enterprise combined) for the determination of major funds. The District's major fund is the General Fund.

Cash and Investments

For purposes of the Statement of Net Position, "cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits with a maturity of three (3) months or less when purchased to be cash equivalents.

RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

Significant Accounting Policies, (Continued)

Accounts Receivable

Billings for accounts receivable at December 31, 2022 and 2021, are \$97,574.10 and \$61,650.68, respectively. An allowance for doubtful accounts was based on management's analysis of possible uncollectibles.

Inventory

Inventory is valued at cost. Inventory consists of supplies necessary for the maintenance and operation of the water system.

Fixed Assets

Fixed assets are valued at cost. Depreciation is computed by use of the straight-line method. The estimated useful lives of these assets are as follows:

Furniture, Fixtures and Equipment	5-10 years
Pumps and Wells	15 years
Transportation Equipment	5 years
Buildings, Lines and Storage	40 years

Amortization of water rights is recorded as an expense and is combined with depreciation in the Statement of Revenues, Expenses, and changes in Net Position, with accumulated amortization reflected in the Statement of Net Position. Amortization is provided over the assets' estimated useful lives using the straight-line method. The estimated useful lives for all water rights are 40 years.

Federal Income Tax

The District is exempt from federal and state income taxes.

Collateral Pledged

All funds were adequately insured by Federal Deposit Insurance Corporation as of December 31, 2022 and 2021.

The total interest paid on all debt for the years ended December 31, 2022 and 2021, was \$0.00 and \$0.00, respectively.

RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

Significant Accounting Policies, (Continued)

2. Other Details

Certificates of Deposit

Certificates of Deposit are deposited in local banks and have a maturity beyond three months. Total certificates of deposit at December 31, 2022 and 2021 were \$12,913.49, and \$12,869.97, respectively.

Property, Equipment and Water Rights

Capital asset activity for the year ended December 31, 2022, was as follows:

	Balance December 31, 2021	Additions	Retirements and Transfers	Balance December 31, 2022
Land	\$38,969.11	\$0.00	\$0.00	\$38,969.11
Buildings and Equipment	622,870.02	0.00	0.00	622,870.02
Water rights	130,391.77	0.00	0.00	130,391.77
Lines and wells	3,025,824.58	128,396.13	0.00	3,154,220.71
Construction In Progress	7,500.00	0.00	0.00	7,500.00
Totals	3,825,555.48	128,396.13	0.00	3,953,951.61
Less:Accumulated Depreciation/Amortization	2,173,639.30	103,558.98	0.00	2,277,198.28
Net Book Value	\$1,651,916.18	\$24,837.15	\$0.00	\$1,676,753.33

Accounts Payable

Accounts payable are composed of payables to vendors and payroll taxes and deductions due in the normal course of business.

Short-Term Debt

Red Star has an outstanding short-term loan balance at December 31, 2022 of \$100.00. This is for operations and equipment.

**RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

Significant Accounting Policies, (Continued)

Long-Term Debt

Red Star has an outstanding long-term loan balance at December 31, 2022 of \$134,766.00. The final annual payment is due beginning December 2037.

3. Accumulated Unpaid Vacation and Sick Pay

At December 31, 2022 and 2021, no determination of the aggregate dollar value of vacation or sick pay had been made.

4. Related Party Transactions

As compensation for service as directors, board members receive up to 10,000 gallons of water usage each month free of charge. This amounts to \$58.60 per month for each director or \$4,922.00 each year for all directors combined.

5. 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 of loss, including general and auto liability, property damage, and director liability. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

6. Contingencies

None.

7. Subsequent Events

Management has evaluated subsequent events through February 20, 2023, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

SUPPORTING SCHEDULES
OF
RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA

RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
SCHEDULE OF INSURANCE COVERAGE AND PREPAID PREMIUMS
For the Year Ended December 31, 2022

POLICY NUMBER	COMPANY	COVERAGE	AMOUNT	EXPIRATION DATE	ANNUAL PREMIUM	PREPAID PREMIUM
10168	ORWA Assurance Group	I. Liability Coverage		6/1/2023	\$ 17,613.50	\$ 7,338.96
		A. Bodily Injury	\$ 125,000			
		B. Property Damage	25,000			
		C. Personal Injury	125,000			
		D. Errors and Omissions	125,000			
		II. Business Auto Coverage				
		A. Bodily Injury	125,000			
		B. Property Damage	25,000			
		C. Auto Physical Damage	25,000			
		III. Property Coverage				
		A. Buildings and Personal Prop.	ACV			
		IV. Blanket Bond Fidelity By Position Held	82,063			
360434	ORWA Assurance Group	Worker's Compensation		10/31/2023	4,541.00	3,784.17
						\$ 11,123.13

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE
OF
RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA



BRITTON, KUYKENDALL, & MILLER
CERTIFIED PUBLIC ACCOUNTANTS

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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**

The Honorable Board of Directors
Rural Water and Solid Waste Management District #2
Leedey, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the comptroller general of the United States, the financial statements of the business-type activities, and the aggregate remaining fund information of Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma's basic financial statements and have issued our report thereon dated February 20, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in number 2022-001 below that we consider to be a material weakness.

2022-001 The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees where there were a larger number available prevents a proper segregation of accounting functions, which is necessary to assure adequate internal accounting control.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma's financial statements are free from 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*.

Entity's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma's response to the findings identified in our audit and described in number 2022-001 below.

2022-001 We agree that the inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees where there were a larger number available prevents a proper segregation of accounting functions, which is necessary to assure adequate internal accounting control. However, at this time, we feel that with our current financial resources and budget, we cannot financially justify hiring another employee to help segregate the accounting functions.

Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.



BRITTON, KUYKENDALL AND MILLER
Certified Public Accountants

Weatherford, Oklahoma
February 20, 2023