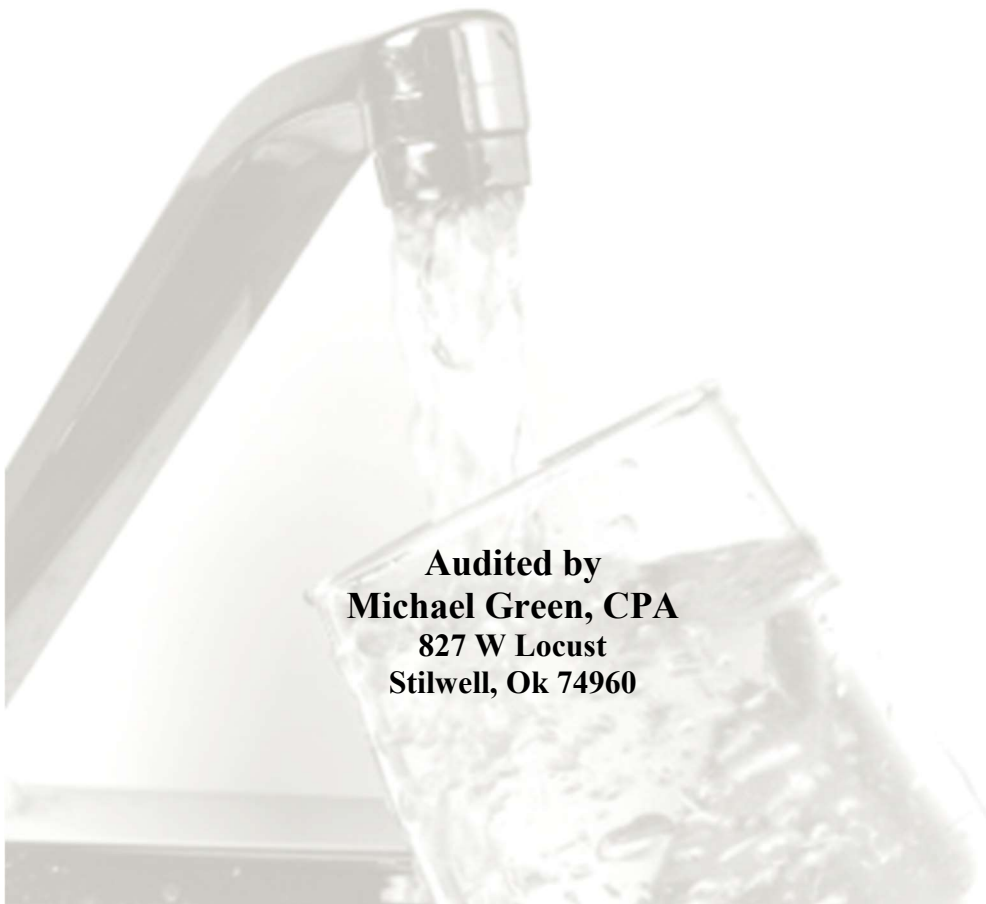


**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT No. 2**

Stilwell, Oklahoma

**Annual Financial Statements
&
Independent Auditor's Report**

For Year Ended December 31, 2023



**Audited by
Michael Green, CPA
827 W Locust
Stilwell, Ok 74960**

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MICHAEL W. GREEN
Certified Public Accountant

827 W. Locust Street
STILWELL, OK. 74960
(918) 696-6298

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water, Sewer, and Solid Waste Management
District No. 2
Adair County, Oklahoma

Report on the Audit of the Financial Statements

Opinions

I have audited the accompanying modified cash basis financial statements of Rural Water, Sewer, and Solid Waste Management District No. 2, Adair County, 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.

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

Basis for Opinions

I conducted my 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. 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 District 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 opinions.

Emphasis of Matter—Basis of Accounting

I draw attention to Note 1.B. 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 opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting, 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 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

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 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*, I:

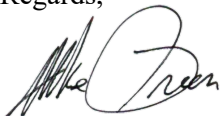
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, 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 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 my 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.

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 16, 2024, on my consideration of the District's internal control over financial reporting and on 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 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 District's internal control over financial reporting and compliance.

Regards,



Michael W. Green, CPA
Stilwell, Oklahoma
May 16, 2024

Rural Water, Sewer and Solid Waste Management District No. 2
Statement of Net Position - Modified Cash Basis
Proprietary Fund
December 31, 2023

ASSETS

Cash on Hand		\$ 100
Cash In Bank		115,977
Investments		201,675
TOTAL CURRENT ASSETS		317,752

FIXED ASSETS

Water System		3,255,895
Office Equipment		15,810
Equipment		48,894
Vehicles		102,655
Buildings		71,329
Land Easement		3,223
Accumulated Depreciation		(1,997,154)
TOTAL FIXED ASSETS		1,500,652

TOTAL ASSETS

\$ 1,818,404

LIABILITIES

CURRENT LIABILITIES

Current Portion of Long-Term Debt		\$ 133,297
TOTAL CURRENT LIABILITIES		133,297

NONCURRENT LIABILITIES

Note Payable - Less Current Portion		48,303
TOTAL NONCURRENT LIABILITIES		48,303

TOTAL LIABILITIES

\$ 181,600

NET POSITION:

Net Investment in Capital Assets		\$ 1,319,052
Unrestricted		317,752
TOTAL NET POSITION		\$ 1,636,804

The accompanying notes and auditor's report are an integral part of this statement.

Rural Water, Sewer and Solid Waste Management District No. 2
Statement of Revenues, Expenses and Change in Net Position - Modified Cash Basis
Proprietary Fund
For the Year Ended December 31, 2023

OPERATING REVENUE:

Charges for Services:	
Water Sales	\$ 546,017
Membership Tap Fees	25,850
Late Fees	8,543
Reconnect Fees	4,775
Total Charges for Services	585,185
TOTAL OPERATING REVENUE	

OPERATING EXPENSES:

Water Purchased	254,988
Bank Charges	160
Payroll	92,330
Payroll Expenses	7,577
Contract Labor	6,950
Depreciation	112,613
Repairs & Maintenance	22,072
Insurance	10,969
Supplies	3,898
Legal & Professional	10,465
Telephone	2,111
Utilities	9,082
Vehicle Expense	11,639
Postage	4,657
Dues, Fees & License	6,390
Miscellaneous	2,907
Water Testing	2,262
Office Exp.	106
TOTAL OPERATING EXPENSES	561,176
NET INCOME FROM OPERATIONS	24,009

NONOPERATING REVENUE (EXPENSE):

Grant Income	22,000
Other Income	1,348
Gain on sale	8,013
Interest Income	4,763
Interest Expense	(4,502)
TOTAL NONOPERATING REVENUE & EXPENSE	31,622

CHANGE IN NET POSITION 55,631

NET POSITION, BEGINNING OF YEAR 1,581,173

NET POSITION, END OF YEAR **\$ 1,636,804**

The accompanying notes and auditor's report are an integral part of this statement.

Rural Water, Sewer and Solid Waste Management District No. 2
Statement of Cash Flows, Direct Method - Modified Cash Basis
Proprietary Fund
For the Year Ended December 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Cash from Customers	\$ 585,185
Cash to Suppliers	(380,861)
Wages to Employees	(99,907)
Net Cash Provided (used) by Operating Activities	104,417

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Addition of Capital Assets (net of disposals)	(194,706)
Principal paid on Capital Debt	(29,859)
Issuance of New Debt	95,776
Income From Grants	22,000
Other Income	1,348
Gain on Sale	8,013
Interest Paid on Capital Debt	(4,502)
Net Cash Provided (used) by Capital and Related Financing Activities	(101,930)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	4,763
Net Cash Provided (used) by Investing Activities	4,763

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 7,250

BALANCES - BEGINNING OF THE YEAR 310,502

BALANCES - END OF THE YEAR \$ 317,752

The accompanying notes and auditor's report are an integral part of this statement.

Rural Water, Sewer and Solid Waste Management District No. 2
Statement of Cash Flows, Direct Method - Modified Cash Basis (Continued)
Proprietary Fund
For the Year Ended December 31, 2023

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES**

Net Income from Operations	\$ 24,009
Adjustments to Reconcile Operating Income to Net Cash Provided (used) by Operating Activities:	
Depreciation Expense	112,613
Change in depreciation due to disposal of assets	<u>(32,205)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 104,417</u></u>

The accompanying notes and auditor's report are an integral part of this statement.

RURAL WATER, SEWER, AND SOLID WASTE
MANAGEMENT DISTRICT NO. 2
ADAIR COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

1.A Nature of Organization

The Rural Water, Sewer, and Solid Waste Management District No. 2 was organized under the Rural Water District Act of Oklahoma, for the purpose of acquiring water and water rights, and to build and acquire pipelines 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.

The District is a governed entity administered by a Board of Directors that act as the authoritative and legislative body of the entity. The Board is comprised of elected board members.

1.B Basis of Accounting

The District is classified as an Enterprise Fund. The cost of providing water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and accrued expenses and liabilities) are not recorded in these financial statements.

1.C Cash and Cash Equivalents

The District considers all checking and savings accounts and deposits with a maturity of three months or less to be cash equivalents.

1.D Cash and Deposits

Cash and deposits are maintained in financial institutions which provide coverage to depositors through the Federal Deposit Insurance Corporation. The State of Oklahoma allows government entities to invest in the following: direct obligations of the United State Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

1.E Investments

Investments, as presented in the District’s financial statements are certificates of deposit with a maturity of three months or more.

1.F Capital Assets

Property, plant and equipment are stated at their historical cost. Depreciation is recorded using the straight-line method over the useful life of the asset. The District has a capitalization policy of \$5,000.

The range of estimated useful life of property by type of asset is as follows:

Furniture and Equipment	5-7
Buildings	20
Water System Improvements	20-40

1.G Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position is displayed in three components:

- a. *Net Investment in capital assets* – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. *Restricted net position* – consists of net assets with constraints placed on the use either by an external group such as creditors, grantors, contributors, or laws and regulation of other governments, or by law through constitutional provisions or enabling legislation.
- c. *Unrestricted net position* – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available.

1.H Use of Estimates

The preparation of financial statements in conformity with modified cash basis of accounting which 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 (such as estimated useful lives in determining depreciation expense). Accordingly, actual results could differ from those estimates.

NOTE 2 – PROPERTY AND EQUIPMENT:

The following table shows the additions and deletions to each category of fixed assets:

	Balance December 31, 2022	Additions	Deletions	Balance December 31, 2023
<i>Business-type activities:</i>				
Capital assets not being depreciated:				
Land Easements	\$ 3,223	\$ -	\$ -	\$ 3,223
Total Non Depreciated Assets	<u>3,223</u>	<u>-</u>	<u>-</u>	<u>3,223</u>
Other capital assets:				
Water System SL 40	3,099,215	156,680	-	3,255,895
Vehicles SL 5	48,155	70,230	(15,730)	102,655
Building SL 20	71,329	-	-	71,329
Office Equipment SL 5	15,810	-	-	15,810
Equipment SL 5	65,369	-	(16,475)	48,894
Accumulated Depreciation	(1,916,746)	(112,613)	32,205	(1,997,154)
Total Capital Assets being Depreciated	<u>1,383,132</u>	<u>114,297</u>	<u>-</u>	<u>1,497,429</u>
Total Capital Assets	<u>\$ 1,386,355</u>	<u>\$ 114,297</u>	<u>\$ -</u>	<u>\$ 1,500,652</u>

NOTE 3 – GENERAL LONG-TERM DEBT:

The District entered into a note payable with Carson Community Bank (formerly Bank of Commerce) on April 5, 2017. The note had an original beginning balance of \$194,835.64 and bears and interest rate of 1.60% annually.

The District entered into a note payable with Carson Community Bank on November 18, 2022 for a line of credit. It has a credit limit of \$145,000 and bears an interest rate of 4.8% annually.

The following table indicates the balances of debt throughout the year:

DEBT SERVICE REQUIREMENTS TO MATURITY

Type of Debt	Balance 12/31/2022	Additions	Reductions	Balance 12/31/2023	Amount Due Within One Year
<i>Business Type Activities:</i>					
Carson Community Bank-4575	\$ 88,279	\$ -	\$ (19,829)	\$ 68,450	\$ 20,149
Carson Community Bank-1800	27,404	95,776	(10,030)	113,150	113,148
Total Business Type Activities:	<u>\$ 115,683</u>	<u>\$ 95,776</u>	<u>\$ (29,859)</u>	<u>\$ 181,600</u>	<u>\$ 133,297</u>

The annual debt service requirements for long-term debt principal and interest are as follows:

Year Ended June 30	Carson Community Bank Loan 4575			Carson Community Bank Loan 1800		
	Principal	Interest	Total	Principal	Interest	Total
2024	\$ 20,149	\$ 948	\$ 21,097	\$ 113,148	\$ 5,552	\$ 118,700
2025	20,474	623	21,097	-	-	-
2026	20,804	293	21,097	-	-	-
2027	7,025	24	7,049	-	-	-
Totals	<u>\$ 68,452</u>	<u>\$ 1,888</u>	<u>\$ 70,340</u>	<u>\$ 113,148</u>	<u>\$ 5,552</u>	<u>\$ 118,700</u>

NOTE 4 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

NOTE 5 – COMMITMENTS AND CONTINGENCIES:

As of December 31, 2023, the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 6 – BUDGETS:

The District is not legally required to adopt a budget.

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The District's financial instruments include cash and cash equivalents, certificates of deposit, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 8 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through May 16, 2024 the date which the financial statements were available to be issued.

MICHAEL W. GREEN

Certified Public Accountant

827 W. Locust Street
Stilwell, Oklahoma 74960
(918) 696-6298

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
Rural Water, Sewer and Solid Waste Management
District No. 2
Adair County, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of Rural Water, Sewer and Waste Management District No. 2, Adair County, Oklahoma (the District) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued my report thereon dated May 16, 2024. My report included an emphasis of matter paragraph related to the District's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I 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 District'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. I consider the deficiency described in the accompanying schedule of findings and responses as item (2023-01) to be significant deficiencies.

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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, I 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 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*.

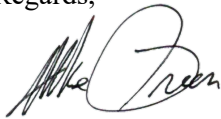
District’s Response to Findings

The District’s, response to the findings identified in my audit is described in the accompanying schedule of findings and responses. The District’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 District’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 District’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Regards,

A handwritten signature in black ink, appearing to read "Mike Green". The signature is stylized with a large, looped "G" and a cursive "Green".

Michael Green, CPA
Stilwell, Oklahoma
May 16, 2024

Rural Water, Sewer and Solid Waste Management District No.2
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2023

SCHEDULE OF FINDINGS AND RESPONSES 2023-01

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

Condition: Presently a limited number of individuals have responsibility for several functions of financial statement reporting. These individuals have oversight responsibilities for billing and adjustments, collections and posting of payments. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This is a repeat finding.

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

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

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

Responsible Official's Response: The organization concurs with the recommendation and will strive to implement procedures and compensating duties to help mitigate the risks associated with the lack of segregation of duties. In addition, the board has in its employ, a contractor who assists with the reconciliation and presentation of its financial data.