

**Kay County Rural Water District No. 3
Ponca City, Oklahoma**

Financial Statements and
Reports of Independent Auditor

For The Year Ended December 31, 2022

Audited by

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

BROKEN ARROW, OK

Kay County Rural Water District No. 3
Ponca City, Oklahoma

Board of Directors and Employees
December 31, 2022

Chairman

Roger Allen

Vice-Chairman

Brady Cooper

Secretary/Treasurer

Rachel Schneeberger

Members

Terry Irwin
Roger Kelle

Office Manager

Lynn Turnipseed

Kay County Rural Water District No. 3
Ponca City, Oklahoma

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December 31, 2022

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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

Board of Directors
Kay County Rural Water District No. 3
Ponca City, 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 Kay County Rural Water District No. 3, Ponca City, Oklahoma (the District), as of and for the year ended December 31, 2022, 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, 2022, and the respective changes in 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 modified 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 page 16 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 6, 2023 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 6, 2023



BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

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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***

Board of Directors
Kay County Rural Water District No. 3
Ponca City, 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 accompanying financial statements of the Kay County Rural Water District No. 3 (the District), Ponca City, Oklahoma, as of and for the year ended December 31, 2022, 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 6, 2023. 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 of accounting, which is a 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 our audit of the financial statements, we considered the District's internal control over financial reporting in order to determine our auditing procedures that are appropriate 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph 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 did identify a certain deficiency in internal control, described in the accompanying schedule of audit results as item 2022-1, which is considered a material weakness.

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 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.

Report on 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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 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.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

March 6, 2023

Kay County Rural Water District No. 3
Ponca City, Oklahoma
Disposition of Prior Year's Significant Deficiencies
December 31, 2022

2021-1 Internal Control – Segregation of Duties

Finding – Presently the same individual performs all accounting functions; receives utility service-related payments and is responsible for service billing and adjustment, also makes bank deposits, writes checks and 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.

Kay County Rural Water District No. 3
Ponca City, Oklahoma
Schedule of Audit Results
December 31, 2022

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion report was issued on the financial statements.
2. The audit disclosed a significant deficiency in the internal controls, item 22-1, which was considered 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:

22-1 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 and is responsible for service billing and adjustments, also makes bank deposits, writes checks and 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.

KAY COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2022

	2022	-Memorandum- -Only- 2021
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 244,358	\$ 234,248
Investments	77,726	77,308
Utility deposit	180	180
Total Current Assets	<u>322,264</u>	<u>311,736</u>
Capital Assets:		
Land	4,200	4,200
Water system	2,309,775	2,198,484
Office building	77,475	77,475
Office furniture and equipment	5,645	5,645
Total Capital Assets	<u>2,397,095</u>	<u>2,285,804</u>
Less: Accumulated depreciation	<u>(1,247,580)</u>	<u>(1,188,509)</u>
Total Capital Assets (net)	<u>1,149,515</u>	<u>1,097,295</u>
TOTAL ASSETS	<u>\$ 1,471,779</u>	<u>\$ 1,409,031</u>
 <u>LIABILITIES</u>		
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>
 <u>NET POSITION:</u>		
Net investment in capital assets	1,149,515	1,097,295
Unrestricted	<u>322,264</u>	<u>311,736</u>
Total net position	<u>1,471,779</u>	<u>1,409,031</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,471,779</u>	<u>\$ 1,409,031</u>

The accompanying notes are an integral part of the financial statements

KAY COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
-MODIFIED CASH BASIS-
FOR THE YEAR ENDED DECEMBER 31, 2022

	2022	-Memorandum- -Only- 2021
Revenue from Operations:		
Water sales	\$ 466,745	\$ 400,784
Late penalties	4,106	2,813
Miscellaneous	1,269	1,152
Total revenue from operations	<u>472,120</u>	<u>404,749</u>
Expenses from Operations:		
Water purchases	156,155	144,086
Utilities	15,243	14,761
System maintenance and repairs	130,908	35,955
Contracted services	38,156	82,797
Mileage	2,359	2,151
Office and postage	9,758	7,519
Insurance	6,019	4,098
Professional fees	1,710	1,470
Salaries and taxes	22,358	19,126
Depreciation	59,071	53,668
Dues & fees	4,261	467
Telephone/Internet	1,502	1,249
Miscellaneous	1,000	-
Total expenses from water operations	<u>448,500</u>	<u>367,347</u>
Net Income (Loss) from Operations	23,620	37,402
Non-Operating Revenues (Expenses):		
Interest earnings	844	1,354
Connections and extensions	22,284	39,243
New memberships	16,000	12,500
Total other income	<u>39,128</u>	<u>53,097</u>
Change in Net Position	62,748	90,499
Net Position, beginning of period	<u>1,409,031</u>	<u>1,318,532</u>
Net Position, end of period	<u><u>\$ 1,471,779</u></u>	<u><u>\$ 1,409,031</u></u>

The accompanying notes are an integral part of the financial statements

**KAY COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2022**

	2022	-Memorandum- -Only- 2021
Cash Flows from Operating Activities:		
Receipts from customers	\$ 472,123	\$ 404,749
Payments to employees	(20,939)	(17,693)
Payments to vendors	(368,493)	(295,986)
Net Cash Provided by Operating Activities	<u>82,691</u>	<u>91,070</u>
Cash Flows from Capital and Related Financing Activities:		
Connection and extension revenue	22,284	39,243
Membership fees	16,000	12,500
Capital assets (purchased) sold	(111,291)	(127,937)
Net cash provided by (used in) Capital and Related Financing Activities	<u>(73,007)</u>	<u>(76,194)</u>
Cash Flows from Investing Activities:		
(Increase) decrease in investments	(418)	42,550
Interest earnings - net investments	844	1,354
Net cash provided by (used in) Investing Activities	<u>426</u>	<u>43,904</u>
Net Increase (Decrease) in Cash and Equivalents	10,110	58,780
Cash and cash equivalents, beginning of period	<u>234,248</u>	<u>175,468</u>
Cash and cash equivalents, end of period	<u>\$ 244,358</u>	<u>\$ 234,248</u>
 Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income (loss)	\$ 23,620	\$ 37,402
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense	59,071	53,668
Net Cash Provided by Operating Activities	<u>\$ 82,691</u>	<u>\$ 91,070</u>

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

Kay Rural Water District No. 3
Ponca City, Oklahoma
Notes to Financial Statements
For the Year Ended December 31, 2022

Note A – Significant Accounting Policies

Business Activity

Kay County Rural Water District No. 3 (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 Kay County. The District purchases water from the Ponca City Utility Authority and sales it to its rural members in an area around the Community of Kildare.

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. 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 Equity Bank, in an Operating Account. Gross revenues of the District are to be 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. The District also maintains a money market account at RCB Bank. There were not transactions made through this account in 2022, except interest earned.

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, 2022 the District's deposits were \$321,134. Funds up to \$250,000 at each bank were covered by the Federal Depository Insurance Corporation (FDIC). Remaining funds were collateralized by District held securities.

Kay County Rural Water District No. 3
Ponca City, Oklahoma
Notes to Financial Statements
For the Year Ended December 31, 2022

Note A – Significant Accounting Policies – cont’d

Investments

The District had \$76,726 in outstanding investments at December 31, 2022, which consisted of certificates of deposit at First National Bank (\$42,949) and Equity Bank (\$33,777).

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 asset by the District and will be depreciated over a specific time. Capital assets are valued at cost, depreciation is computed by use of the straight-line method.

	12/31/2021 Amount	Additions	Deletions	12/31/2022 Amount
Land	\$ 4,200	-	-	4,200
Water system	2,198,484	111,291	-	2,309,775
Office building	77,475	-	-	77,475
Office furn & equip	5,645	-	-	5,645
Total Capital Assets	2,285,804	111,291	-	2,397,095
Less: Accumulated Depreciation	(1,188,509)	(59,071)	-	(1,247,580)
Total	<u>\$ 1,097,295</u>	<u>52,220</u>	<u>-</u>	<u>1,149,515</u>

Federal Income Tax

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

Kay County Rural Water District No. 3
Ponca City, Oklahoma
Notes to Financial Statements
For the Year Ended December 31, 2022

Note B – Long-term Debt

The District had no outstanding long-term debt at December 31, 2022.

Note C – Insurance Coverage

The District appears to have had adequate insurance to cover all major perils at December 31, 2022.

Note D – Subsequent Events

Management has evaluated subsequent events through March 6, 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.

KAY COUNTY RURAL WATER DISTRICT NO. 3
PONCA CITY, OKLAHOMA
Schedule of Water Rates and Customers
-Unaudited Information-
December 31, 2022

Water Rates

Basic charge	=	\$30.90 Residential, \$40.80 Commercial
0 - 5,000 gallons	=	5.05 per 1,000 gallons
5,001 – 15,999 gallons	=	5.60 per 1,000 gallons
16,000 – 25,999 gallons	=	6.35 per 1,000 gallons
26,000 – 35,999 gallons	=	7.35 per 1,000 gallons
36,000 – 45,999 gallons	=	8.85 per 1,000 gallons
46,000 + gallons	=	10.85 per 1,000 gallons

Effective date – January 1, 2022

Water Loss

	<u>2022</u>	<u>2021</u>
Total gallons purchased	68,490,230	64,141,860
Total gallons sold to District customers	<u>(41,994,090)</u>	<u>(36,726,400)</u>
Total water loss	<u>26,491,640</u>	<u>27,415,460</u>
Percentage of water loss	<u>38.7%</u>	<u>42.7%</u>

Source – Bookkeeper monthly summary sheet

Customers

The District had 580 customers at the close of the fiscal year.

A residential benefit unit for the District is \$2,500, a commercial benefit unit is \$3,000.