

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

**Kay County Rural Water District No. 3**  
**Ponca City, Oklahoma**  
Board of Directors and Employees  
December 31, 2023

**Chairman**

Roger Allen

**Vice-Chairman**

Brady Cooper

**Secretary / Treasurer**

Rachel Schneeberger

**Members**

Terry Irwin

Roger Kelle

**Office Manager**

Kathy Leven

**Kay County Rural Water District No. 3**  
**Ponca City, Oklahoma**  
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 December 31, 2023

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## 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, 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 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 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  
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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 Count Rural Water District No. 3  
Ponca Ciy, 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 Kay County Rural Water District No. 3, Ponca City, 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

consider to be a material weakness. This finding is identified as item 2023-1 in the accompanying Schedule of Audit Results.

### **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, non-compliance 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



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

**Kay County Rural Water District No. 3**  
**Ponca City, Oklahoma**  
Schedule of Audit Results  
December 31, 2023

**Section 1 – Summary of Auditor’s Results:**

1. An unmodified opinion report was issued on the modified cash basis financial statements.
2. The audit disclosed a significant deficiency in the internal controls, item 2023-1, 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:**

**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.

**KAY COUNTY RURAL WATER DISTRICT NO. 3  
STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
DECEMBER 31, 2023**

	<b>2023</b>	<b>-Memorandum- -Only- 2022</b>
<b><u>ASSETS</u></b>		
Current Assets:		
Cash and cash equivalents	\$ 273,808	\$ 244,358
Investments	78,670	77,726
Utility deposit	180	180
Total Current Assets	352,658	322,264
Capital Assets:		
Land	4,200	4,200
Water system	2,370,374	2,309,775
Office building	77,475	77,475
Office furniture and equipment	5,645	5,645
Total Capital Assets	2,457,694	2,397,095
Less: Accumulated depreciation	(1,310,440)	(1,247,580)
Total Capital Assets (net)	1,147,254	1,149,515
<b>TOTAL ASSETS</b>	<b>\$ 1,499,912</b>	<b>\$ 1,471,779</b>
 <b><u>LIABILITIES</u></b>		
Total Liabilities	\$ -	\$ -
 <b><u>NET POSITION:</u></b>		
Net investment in capital assets	1,147,254	1,149,515
Unrestricted	352,658	322,264
Total net position	1,499,912	1,471,779
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 1,499,912</b>	<b>\$ 1,471,779</b>

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, 2023**

	<b>2023</b>	<b>-Memorandum- -Only- 2022</b>
<b>Revenue from Operations:</b>		
Water sales	\$ 443,692	\$ 466,745
Late penalties	2,722	4,106
Miscellaneous	5,541	1,269
Total revenue from operations	451,955	472,120
<b>Expenses from Operations:</b>		
Water purchases	143,855	156,155
Utilities	13,672	15,243
System maintenance and repairs	50,639	130,908
Contracted services	123,876	38,156
Mileage	2,231	2,359
Office and postage	12,328	9,758
Insurance	7,223	6,019
Professional fees	3,610	1,710
Salaries and taxes	27,411	22,358
Depreciation	62,860	59,071
Dues & fees	1,355	4,261
Telephone/Internet	1,820	1,502
Miscellaneous	2,910	1,000.00
Total expenses from water operations	453,790	448,500
<b>Net Income (Loss) from Operations</b>	(1,835)	23,620
<b>Non-Operating Revenues (Expenses):</b>		
Interest earnings	5,204	844
Connections and extensions	4,764	22,284
New memberships	20,000	16,000
Total other income	29,968	39,128
<b>Change in Net Position</b>	28,133	62,748
<b>Net Position, beginning of period</b>	1,471,779	1,409,031
<b>Net Position, end of period</b>	<b>\$ 1,499,912</b>	<b>\$ 1,471,779</b>

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, 2023**

	<u>2023</u>	<u>-Memorandum- -Only- 2022</u>
<b>Cash Flows from Operating Activities:</b>		
Receipts from customers	\$ 451,955	\$ 472,123
Payments to employees	(27,411)	(20,939)
Payments to vendors	(363,519)	(368,493)
Net Cash Provided by Operating Activities	<u>61,025</u>	<u>82,691</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Connection and extension revenue	4,764	22,284
Membership fees	20,000	16,000
Capital assets (purchased) sold	(60,599)	(111,291)
Net cash provided by (used in) Capital and Related Financing Activities	<u>(35,835)</u>	<u>(73,007)</u>
<b>Cash Flows from Investing Activities:</b>		
(Increase) decrease in investments	(944)	(418)
Interest earnings - net investments	5,204	844
Net cash provided by (used in) Investing Activities	<u>4,260</u>	<u>426</u>
Net Increase (Decrease) in Cash and Equivalents	29,450	10,110
Cash and cash equivalents, beginning of period	<u>244,358</u>	<u>234,248</u>
<b>Cash and cash equivalents, end of period</b>	<u><b>\$ 273,808</b></u>	<u><b>\$ 244,358</b></u>
 <b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating Income (loss)	\$ (1,835)	\$ 23,620
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense	62,860	59,071
<b>Net Cash Provided by Operating Activities</b>	<u><b>\$ 61,025</b></u>	<u><b>\$ 82,691</b></u>

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

**Kay County Rural Water District No. 3**  
**Ponca City, Oklahoma**  
Notes to Financial Statements  
For the Year Ended December 31, 2023

**Note 1 – 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 sells it to 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 operating account is with Equity Bank. Gross revenues of the District are to be deposited into this account. The reasonable and necessary current expenses of operating and maintaining the District also paid from this account. The District also maintains a money market account at RCB Bank. There were no transactions made within this account in 2023, with the exception of interest deposits.

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 \$351,509. 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, 2023

**Note 1 – Significant Accounting Policies** – cont’d

***Investments***

The District had \$77,670 in outstanding investments as of December 31, 2023, which consisted of a certificate of deposit at First National Bank (\$43,606) and a certificate of deposit at Equity Bank (\$34,064).

***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.

	12/31/2022			12/31/2023
	<u>Amount</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount</u>
Land	\$ 4,200	-	-	4,200
Water system	2,309,775	60,599	-	2,370,374
Office building	77,475	-	-	77,475
Office furn & equip	<u>5,645</u>	<u>-</u>	<u>-</u>	<u>5,645</u>
Total Capital Assets	2,397,095	60,599	-	2,457,694
Less: Accumulated Depreciation	<u>(1,247,580)</u>	<u>(62,860)</u>	<u>-</u>	<u>(1,310,440)</u>
Total	<u>\$ 1,149,515</u>	<u>(2,261)</u>	<u>-</u>	<u>1,147,254</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, 2023

**Note 2 – Long-Term Debt**

The District maintained no long-term debt as of December 31, 2023.

**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 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, 2023

**Water Rates:**

Basic charge	=	\$42.00
0 – 5,000 gallons	=	5.20 per 1,000 gallons
5,001 – 15,999 gallons	=	5.80 per 1,000 gallons
16,000 – 25,999 gallons	=	6.55 per 1,000 gallons
26,000 – 35,999 gallons	=	7.60 per 1,000 gallons
36,000 – 45,999 gallons	=	9.10 per 1,000 gallons
46,000 + gallons	=	11.20 per 1,000 gallons

*Effective date – January 1, 2023*

**Customers:**

The District had 596 customers at the close of the fiscal year.

The current price of a residential benefit unit is \$2,500. The current price for a commercial benefit unit is \$3,000.