

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

Financial Statements and
Reports of Independent Auditor

For The Year Ended December 31, 2024

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, 2024

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, 2024

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BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

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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 modified cash basis financial statements of the business-type activities of the Kay County Rural Water District No. 3, Ponca City, Oklahoma (the District), as of and for the year ended December 31, 2024, 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 respective modified cash basis financial position of the business-type activities of the District as of December 31, 2024, and the respective changes in modified cash basis financial position and its cash flows for the year then ended, in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1, and for determining that the modified 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 February 24, 2025 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

February 24, 2025



BLEDSON, HEWETT & GULLEKSON
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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 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 modified cash basis financial statements of the business-type activities of the Kay County Rural Water District No. 3, Ponca City, Oklahoma (the District), as of and for the year ended December 31, 2024 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 24, 2025. 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 2024-1 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 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

February 24, 2025

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

Disposition of Prior Year's Significant Deficiencies
December 31, 2024

2023-1 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, 2024

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 2024-1, 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:

2024-1 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, 2024

	2024	-Memorandum- -Only- 2023
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 267,769	\$ 273,808
Investments	81,500	78,670
Utility deposit	180	180
Total Current Assets	<u>349,449</u>	<u>352,658</u>
Capital Assets:		
Land	4,200	4,200
Water system	2,447,709	2,370,374
Office building	77,475	77,475
Office furniture and equipment	5,645	5,645
Total Capital Assets	<u>2,535,029</u>	<u>2,457,694</u>
Less: Accumulated depreciation	<u>(1,375,271)</u>	<u>(1,310,440)</u>
Total Capital Assets (net)	<u>1,159,758</u>	<u>1,147,254</u>
TOTAL ASSETS	<u>\$ 1,509,207</u>	<u>\$ 1,499,912</u>
 <u>LIABILITIES</u>		
Total Liabilities	<u>\$ 0</u>	<u>\$ 0</u>
 <u>NET POSITION:</u>		
Net investment in capital assets	1,159,758	1,147,254
Unrestricted	349,449	352,658
Total net position	<u>1,509,207</u>	<u>1,499,912</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,509,207</u>	<u>\$ 1,499,912</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, 2024

	2024	-Memorandum- -Only- 2023
Revenue from Operations:		
Water sales	\$ 445,949	\$ 446,414
Miscellaneous	7,853	5,541
Total revenue from operations	<u>453,802</u>	<u>451,955</u>
Expenses from Operations:		
Water purchases	102,265	143,855
Utilities	14,721	13,672
System maintenance and repairs	243,184	174,515
Mileage	1,797	2,231
Office and postage	13,698	12,328
Insurance	7,431	7,223
Professional fees	2,540	3,610
Salaries and taxes	21,992	27,411
Depreciation	64,831	62,860
Dues & fees	534	1,355
Telephone/Internet	1,322	1,820
Miscellaneous	2,192	2,910
Total expenses from water operations	<u>476,507</u>	<u>453,790</u>
Net Income (Loss) from Operations	(22,705)	(1,835)
Non-Operating Revenues (Expenses):		
Interest earnings	8,675	5,204
Connections and extensions	825	4,764
New memberships	22,500	20,000
Total other income	<u>32,000</u>	<u>29,968</u>
Change in Net Position	9,295	28,133
Net Position, beginning of period	<u>1,499,912</u>	<u>1,471,779</u>
Net Position, end of period	<u><u>\$ 1,509,207</u></u>	<u><u>\$ 1,499,912</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, 2024**

	2024	-Memorandum- -Only- 2023
Cash Flows from Operating Activities:		
Receipts from customers	\$ 453,802	\$ 451,955
Payments to employees	(21,992)	(27,411)
Payments to vendors	(389,684)	(363,519)
Net Cash Provided by Operating Activities	<u>42,126</u>	<u>61,025</u>
Cash Flows from Capital and Related Financing Activities:		
Connection and extension revenue	825	4,764
Membership fees	22,500	20,000
Capital assets (purchased) sold	(77,335)	(60,599)
Net cash provided by (used in) Capital and Related Financing Activities	<u>(54,010)</u>	<u>(35,835)</u>
Cash Flows from Investing Activities:		
(Increase) decrease in investments	(2,830)	(944)
Interest earnings - net investments	8,675	5,204
Net cash provided by (used in) Investing Activities	<u>5,845</u>	<u>4,260</u>
Net Increase (Decrease) in Cash and Equivalents	(6,039)	29,450
Cash and cash equivalents, beginning of period	<u>273,808</u>	<u>244,358</u>
Cash and cash equivalents, end of period	<u>\$ 267,769</u>	<u>\$ 273,808</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income (loss)	\$ (22,705)	\$ (1,835)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense	64,831	62,860
Net Cash Provided by Operating Activities	<u>\$ 42,126</u>	<u>\$ 61,025</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, 2024

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, Oklahoma.

Basis of Accounting

The modified cash basis of accounting is followed for all accounts. Revenues are recorded when received and expenditures are recognized when paid. This is a comprehensive basis of accounting other than generally accepted accounting principles. 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 2024, with the exception of interest deposits and bank fees.

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, 2024, the District's deposits were \$348,300. 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, 2024

Note 1 – Significant Accounting Policies – cont’d

Investments

The District had \$80,500 in outstanding investments as of December 31, 2024, which consisted of a certificate of deposit at First National Bank (\$45,661) and a certificate of deposit at Equity Bank (\$34,839).

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.

	12/31/2023 Amount	Additions	Deletions	12/31/2024 Amount
Land	\$ 4,200	-	-	4,200
Water system	2,370,374	77,335	-	2,447,709
Office building	77,475	-	-	77,475
Office furn & equip	5,645	-	-	5,645
Total Capital Assets	2,457,694	77,335	-	2,535,029
Less: Accumulated Depreciation	(1,310,440)	(64,831)	-	(1,375,271)
Total	<u>\$ 1,147,254</u>	<u>12,504</u>	<u>-</u>	<u>1,159,758</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, 2024

Note 2 – Long-Term Debt

The District maintained no long-term debt as of December 31, 2024.

Note 3 – Insurance Coverage

The District appears to have had adequate insurance to cover all major perils at December 31, 2024.

Note 4 – Subsequent Events

Management has evaluated subsequent events through February 24, 2025 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, 2024

Water Rates:

Basic charge	=	\$31.85
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 607 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.



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February 24, 2025

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

Dear Board of Directors:

The following section contains the observations and recommendations relayed to management that are immaterial control deficiencies, which we feel need to be communicated to you so that appropriate action may be taken to correct these deficiencies. These items are not included in your audit report, as they are not considered material in nature. They are simply observations of some immaterial findings that could evolve into material findings if not addressed or corrected.

Deposits

During our audit we observed that deposits were not always made in a timely manner. We would like to remind you that holding these funds overnight increases the opportunity for lost or stolen funds. We recommend that all funds collected each day be receipted into the accounting software and deposited that same day, whenever possible.

We take this opportunity to thank you and your professional staff for the outstanding cooperation and invaluable assistance you gave us during our recent onsite audit work.

Sincerely,

Eric M. Bledsoe

For

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP