

Pottawatomie County Rural Water District No. 3
(A Component Unit of the Citizen Potawatomi Nation)
Independent Auditor's Reports and Financial Statements
September 30, 2016



Pottawatomie County Rural Water District No. 3
(A Component Unit of the Citizen Potawatomi Nation)
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Independent Auditor's Report

Board of Directors
Pottawatomie County Rural Water District No. 3
Shawnee, Oklahoma

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Pottawatomie County Rural Water District No. 3, Pottawatomie County, Oklahoma, an agency and legally constituted authority of the State of Oklahoma according to Title 82, Section 1324.6 of Oklahoma Statutes (the District), a component unit of the Citizen Potawatomi Nation, which are comprised of the statement of net position as of September 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 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.

BKD, LLP

Oklahoma City, Oklahoma
March 31, 2017

Pottawatomie County Rural Water District No. 3
(A Component Unit of the Citizen Potawatomi Nation)

Statement of Net Position
September 30, 2016

Assets

Cash and cash equivalents	\$ 84,632
Accounts receivable	102,117
Prepaid insurance	<u>89</u>
Total assets	<u><u>\$ 186,838</u></u>

Liabilities

Accounts payable	\$ 15,299
Due to other governments	<u>3,101</u>
Total liabilities	<u><u>\$ 18,400</u></u>

Net Position

Unrestricted	<u>\$ 168,438</u>
Total net position	<u><u>\$ 168,438</u></u>

Pottawatomie County Rural Water District No. 3
(A Component Unit of the Citizen Potawatomi Nation)
Statement of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2016

Operating Revenues	
Water and utility sales	\$ 1,481,955
Other operating revenues	<u>13,185</u>
Total operating revenues	<u>1,495,140</u>
Operating Expenses	
Water and utility purchases	1,309,379
Administrative and general expenses	<u>267,523</u>
Total operating expenses	<u>1,576,902</u>
Operating Loss	(81,762)
Nonoperating Revenues	
Interest income	<u>132</u>
Decrease in Net Position	(81,630)
Net Position, Beginning of Year	<u>250,068</u>
Net Position, End of Year	<u><u>\$ 168,438</u></u>

Pottawatomie County Rural Water District No. 3
(A Component Unit of the Citizen Potawatomi Nation)

Statement of Cash Flows
Year Ended September 30, 2016

Operating Activities

Cash received from customers	\$ 841,988
Cash received from other governments	731,400
Cash paid to suppliers	(423,302)
Cash paid to other governments	<u>(1,403,524)</u>
Net cash used in operating activities	<u>(253,438)</u>

Investing Activities

Interest income	<u>132</u>
Net cash provided by investing activities	<u>132</u>

Decrease in Cash and Cash Equivalents (253,306)

Cash and Cash Equivalents, Beginning of Year 337,938

Cash and Cash Equivalents, End of Year \$ 84,632

Reconciliation of Operating Loss to Net Cash Used in

Operating Activities

Operating loss	\$ (81,762)
Adjustments to reconcile operating loss to net cash used in operating activities	
Increase in accounts receivable	78,248
Increase in other assets	125
Increase in accounts payable	<u>(250,049)</u>
Net cash used in operating activities	<u><u>\$ (253,438)</u></u>

Pottawatomie County Rural Water District No. 3 (A Component Unit of the Citizen Potawatomi Nation)

Notes to Financial Statements September 30, 2016

Note 1: Nature of Operations and Reporting Entity

Nature of Operations

The Pottawatomie County Rural Water District No. 3, Pottawatomie County, Oklahoma (the District), was organized February 18, 1997, under Title 82, Section 1324.1, as amended, of the laws of the State of Oklahoma by the County Commissioners of Pottawatomie County as a Oklahoma Rural Water District to provide water to rural citizens not currently serviced with treated water. The District is operated on a nonprofit basis for the mutual benefit of its participating members.

Reporting Entity

Based on the foregoing criteria and in compliance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* – as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity – an Amendment of GASB Statements No. 14 and No. 34*, the District is included as a blended component unit in the financial statements of the Citizen Potawatomi Nation (the Nation).

In 2005, the Nation purchased the assets of the District and assumed the associated debt. The Nation also provides daily operational management of the District. Consequently, the relationship of the District and the Nation is of such a nature and significance to warrant inclusion in the Nation's financial statements.

Note 2: Summary of Significant Accounting Policies

The District's accounting and financial reporting conform to accounting principles generally accepted in the United States of America (GAAP) as applied to government units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of Accounting

Measurement focus is a term used to describe how transactions are recorded within the financial statements. The accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The accounting objective of this measurement focus is the determination of operating income, changes in net position, net position and cash flows as applicable to the District. All assets and liabilities, if any, of the District are reported. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period in which the liability is incurred or economic asset is used.

Pottawatomie County Rural Water District No. 3

(A Component Unit of the Citizen Potawatomi Nation)

Notes to Financial Statements

September 30, 2016

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the District's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The District defines cash and cash equivalents as cash and investments having an original maturity of three months or less.

Operating and Nonoperating Revenues and Expenses

The primary purpose of the District is to provide water and utility services to rural residents. The principal operating revenues are charges for sales and services. Operating expenses include the costs of sales and services, administrative expenses, depreciation and expenses directly associated with ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Income Taxes

The District is not subject to state or federal income taxes as provided under 25 U.S.C. 881. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Note 3: Deposits

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. The District's policy requires deposits to be sufficiently secured by collateral valued at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation. Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service, as determined by a rating of B minus or above by independent rating agencies. At September 30, 2016, the District's deposits of \$84,632 were not exposed to custodial credit risk.

Pottawatomie County Rural Water District No. 3
(A Component Unit of the Citizen Potawatomi Nation)

Notes to Financial Statements
September 30, 2016

Note 4: Related-Party Transactions

The District purchases water from third-party sources and sells the water to the Nation for treatment. The District then repurchases the treated water from the Nation for sales to end users. During fiscal year 2016, the District sold \$243,018 of raw water to the Nation and repurchased \$846,350 of treated water. At September 30, 2016, the Nation owed the District \$69,539 for raw water purchases and the amount owed by the District to the Nation for treated water purchases was \$45,076.

The Nation provides the District with operational and administrative support in the form of labor and administrative services. The District reimburses the Nation for the services it provides. In fiscal year 2016, the cost of these services was \$116,802. The amount owed to the Nation at September 30, 2016, was \$27,564. The net amount owed to the Nation by the District for all related-party transactions was \$3,101 and is reported as due to other governments on the District's statement of net position.

**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Directors
Pottawatomie County Rural Water District No. 3
Shawnee, 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 Pottawatomie County Rural Water District No. 3, Pottawatomie County, Oklahoma (the District), a component unit of the Citizen Potawatomi Nation, which comprise the statement of net position as of September 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2017.

Internal Control over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the District's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

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 did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Pottawatomie County Rural Water District No. 3

Compliance

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, 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 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 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.

BKD, LLP

Oklahoma City, Oklahoma
March 31, 2017