



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

*Financial Statements
and
Independent Auditor's Report
September 30, 2022*

redw
Advisors & CPAs

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

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Statement of Net Position	4
Statement of Revenues, Expenses and Changes in Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements	7
Supplementary Information	
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 <i>Government Auditing Standards</i>	11

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited 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 (the "Nation"), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2022, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) 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

As discussed in Note 1, the financial statements of the District are intended to present the financial position, the changes in financial position, and cash flows that are attributable to the transactions of the District. They do not purport to, and do not, present fairly the financial position of the Nation as of September 30, 2022, the changes in its financial position, or where applicable, its cash flows for the years then ended in accordance with 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 accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 GAAS 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 GAAS 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.

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.

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 financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated March 31, 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.

REDW LLC

Albuquerque, New Mexico
March 31, 2023

Financial Statements

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

Statement of Net Position
September 30, 2022

Assets

Cash	\$ 319,964
Accounts receivable	165,928
Due from the Nation	52,828
Prepaid expenses	<u>312</u>
Total assets	<u>539,032</u>

Liabilities

Accounts payable	121,232
Accrued payroll liabilities	18,427
Accrued compensated absences	36,770
Due to the Nation	<u>81,449</u>
Total liabilities	<u>257,878</u>

Net Position

Unrestricted	<u>281,154</u>
Total net position	<u>\$ 281,154</u>

The accompanying notes are an integral part of these financial statements.

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

Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended September 30, 2022

Operating Revenues

Water sales	\$ 2,164,578
Other operating revenues	<u>6,887</u>
Total operating revenues	<u>2,171,465</u>

Operating Expenses

Water purchases	443,704
Salaries and personnel costs	813,107
Administrative and general expenses	<u>1,126,416</u>
Total operating expenses	<u>2,383,227</u>
Operating loss	<u>(211,762)</u>

Nonoperating Revenue

Interest income	<u>415</u>
Total nonoperating revenues	<u>415</u>
Change in net position	(211,347)
Net position, beginning of year	<u>492,501</u>
Net position, end of year	<u><u>\$ 281,154</u></u>

The accompanying notes are an integral part of these financial statements.

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

Statement of Cash Flows
For the Year Ended September 30, 2022

Cash flows from operating activities

Cash received from customers	\$ 2,165,169
Cash paid to suppliers	(1,795,340)
Cash paid to employees for services	<u>(798,293)</u>
Net cash used for operating activities	<u>(428,464)</u>

Cash flows from investing activities

Interest income	<u>415</u>
Net cash provided by investing activities	<u>415</u>
Net decrease in cash	(428,049)
Cash, beginning of year	<u>748,013</u>
Cash, end of year	<u><u>\$ 319,964</u></u>

**Reconciliation of operating loss to net cash
used for operating activities**

Operating loss	\$ (211,762)
Adjustments to reconcile operating loss to net cash used for operating activities	
Accounts receivable	(6,296)
Due from/to the Nation	(268,568)
Prepaid expenses	53,941
Accounts payable	(10,593)
Accrued payroll liabilities	18,427
Accrued compensated absences	<u>(3,613)</u>
Net cash used for operating activities	<u><u>\$ (428,464)</u></u>

The accompanying notes are an integral part of these financial statements.

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

**Notes to Financial Statements
September 30, 2022**

1) Nature of Operations and Reporting Entity

Nature of Operations

The Pottawatomie County Rural Water District No. 3, Pottawatomie County, Oklahoma (the "District"), a component unit of the Citizen Potawatomi Nation (the "Nation"), was organized February 18, 1997, under Title 82, Section 1324.6, as amended, of the laws of the State of Oklahoma, by the County Commissioners of Pottawatomie County as an 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.

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. The District's membership rates are determined using a tier system based on the customer's meter size. The tiered fees range from \$900 to \$3,500, which are subject to annual adjustment. The District's membership consists of approximately 1,736 customers/voting members who elect seven board members from the membership population to serve as the board of directors.

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*, GASB Statement No. 61, *The Financial Reporting Entity – an Amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB No. 14*, the District is included as a blended component unit in the financial statements of the Nation.

The accompanying financial statements of the District include the statement of net position; the statement of revenues, expenses and changes in net position; the statement of cash flows; and the notes to financial statements. The financial activity in these financial statements is included in the Nation's basic financial statements and does not present the financial statements of the Nation as a whole.

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

**Notes to Financial Statements
September 30, 2022**

2) Summary of Significant Accounting Policies

Accounting Standards

The financial statements of the District were prepared in accordance with accounting principles generally accepted in the United States of America for governmental entities (GAAP), except that the District has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be a part of, the financial statements (Management's Discussion and Analysis is a narrative of the financial highlights for the year).

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Accordingly, actual results could differ from those estimates.

Accounts Receivable

Accounts receivable include water and wastewater accounts that are considered 100% collectible. No allowance is recorded as of September 30, 2022.

Prepaid Expenses

The District defers expensing of paid costs that benefit future periods. Such costs are amortized over the benefited periods.

Compensated Absences

The District's employees are employees of the Nation. The Nation's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability

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

**Notes to Financial Statements
September 30, 2022**

for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Employees are not entitled to unused sick leave upon termination.

Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments, such as social security and Medicare taxes, computed using rates in effect at that date.

Operating and Nonoperating Revenues and Expenses

The primary purpose of the District is to provide water and trash 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 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 exempt from federal and state income taxes.

3) Cash

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. At September 30, 2022, the District's bank deposits were fully insured.

4) Retirement Plan

On June 1, 1998, the Nation started a defined contribution pension plan known as Citizen Potawatomi Nation Employee 401(k) Retirement Plan (the "Plan") for their employees, and the District's employees. A Nation employee serves as the Plan Administrator having overall responsibility of the Plan. This includes the power to interpret the provisions of the Plan, determine questions concerning eligibility, participation, and benefits, and such other powers and duties as are necessary to the operation of the Plan. The Tribal Vice-Chairman serves as the Administrative Fiduciary and Investment Fiduciary of the Plan. Arvest Wealth Management is the designated Investment Manager. The Nation

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

**Notes to Financial Statements
September 30, 2022**

pays some administrative costs of the Plan. John Hancock is the custodian of the Plan's assets. The Plan provides eligible participants with retirement, death and disability benefits. Pension costs are accrued and funded on a current basis. Employees are eligible to participate after a minimum of 3 months employment and attaining age 18. The District matches all deferrals by participants at a rate of 100% for the first 5% contributed/deferred into the plan. Participants are 100% vested in their deferrals and employer's contributions upon employment. The Legislature has the authority to amend pension plan provisions and contribution rate adjustments.

During fiscal year 2022, employer and employee contributions to the plan were \$26,436 and \$26,488, respectively.

5) Related-Party Transactions

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. The amount owed to the Nation for these services and other expenses at September 30, 2022, was \$81,449. In addition, the Nation owes the District \$52,828 as of September 30, 2022, related to water and trash services and infrastructure projects billed by the District to the Nation. All related-party balances are expected to be repaid within one year.

Any capital improvements or infrastructure projects are paid by the Nation and title to these capital assets resides with the Nation.

6) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to employee health, which is covered through the Nation's self-insurance fund. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Supplementary Information

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

To the Board of Directors
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, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the District's financial statement, and have issued our report thereon dated March 31, 2023.

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 (internal control) as a basis for designing 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 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 did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

REDW_{LLC}

Albuquerque, New Mexico

March 31, 2023