

# Pottawatomie County Rural Water District No. 3 Financial Audits (2015-2023)

## *Integrity of the Game vs Economic Impact (Politics); The Oklahoma Business Plan*

This briefing document summarizes the key themes, important ideas, and facts presented in the annual financial audit reports of Pottawatomie County Rural Water District No. 3 (the District) from fiscal year 2015 to 2023. The District is identified as a component unit of the Citizen Potawatomi Nation (the Nation).

### 1. Nature of Operations and Reporting Entity:

**Purpose:** The District was established in 1997 to provide water to rural citizens in Pottawatomie County, Oklahoma, not currently serviced by treated water. It operates on a nonprofit basis for the benefit of its members.

(2015): "The Pottawatomie County Rural Water District No. 3...was incorporated February 18, 1997...as a utility 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."

(2023): "The District is operated on a nonprofit basis for the mutual benefit of its participating members."

**Relationship with the Citizen Potawatomi Nation:** In 2005, the Nation purchased the assets and assumed the debt of the District. The Nation also provides daily operational management. Due to this significant relationship, the District is included as a blended component unit in the Nation's financial statements. The District's financial activity is reported but does not present the Nation's financials as a whole.

(2015): "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 Nation is of such a nature and significance to warrant inclusion in the Nation's financial statements."

(2018): "...the District is included as a blended component unit in the financial statements of the Citizen Potawatomi Nation (the "Nation"). 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."

**Governance:** The District has a board of directors elected by its members (approximately 1,350 in 2019, increasing to 1,736 in 2022 and 2023). The board size is seven members.

### 2. Financial Performance and Position:

**Revenue Sources:** The primary operating revenue is from water and utility sales. The District also generates some other operating revenue and interest income.

(2015): "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."

(2022): "Operating Revenues: Water sales \$2,164,578; Other operating revenues \$6,887; Total operating revenues \$2,171,465."

**Operating Expenses:** The main operating expenses include water and utility purchases (primarily from the Nation after treatment in earlier years), salaries and personnel costs, and administrative and general expenses.

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(2017): Significant increase in "Salaries and personnel costs" and "Administrative and general expenses" compared to previous years, leading to an operating loss.

(2018-2023): Operating expenses consistently outweigh operating revenues, resulting in operating losses in some years (2015, 2016, 2017, 2022) but not others (2021, 2023).

**Net Position:** The District's net position (unrestricted) has fluctuated over the years:

2015: \$250,068

2016: \$168,438

2017: \$138,414

2018: Not explicitly stated in the provided excerpts of the Statement of Net Position.

2019: Not explicitly stated in the provided excerpts of the Statement of Net Position.

2020: \$715,442 (Significant increase)

2021: \$492,501

2022: \$281,154

2023: \$122,859 (Lowest in the reported period)

**Cash Flow:** Operating activities have often resulted in net cash used, particularly in 2015 and 2016.

### 3. Related-Party Transactions with the Citizen Potawatomi Nation:

**Water Purchase and Sale:** The District engages in significant related-party transactions with the Nation regarding water. Initially, the District sold raw water to the Nation for treatment and then repurchased treated water for sale to end users.

(2015): "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 2015, the District sold \$235,665 of raw water to the Nation and repurchased \$801,461 of treated water."

(2018 onwards): The description shifts to "Water purchases" as a major operating expense, implying a potentially different arrangement or simplified reporting.

**Financial Support from the Nation:** The Nation has provided financial contributions to the District to cover operating costs, particularly in 2017 (\$1,370,000), 2018 (\$681,000), 2019 (\$973,390).

**Capital Assets:** Capital improvements and infrastructure projects are paid for by the Nation, and the title to these assets resides with the Nation.

(2018): "Any capital improvements or infrastructure projects are paid by the Nation and title to these capital assets resides with the Nation."

**Intercompany Balances:** The financial statements consistently show amounts "Due to other governments" (primarily the Nation) and "Due from the Nation" related to water/utility services and occasionally infrastructure projects. These balances are typically expected to be repaid within one year.

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(2020): "Due from the Nation 282,831"; "Due to the Nation 22,784"

(2023): "Due from the Nation 138,554"; "Due to the Nation 126,923"

**Transfers to the Nation:** In 2017 and 2021, there were transfers of funds from the District to the Nation.

(2017): "Contribution to the Nation (\$231,619)"; "Capital Contribution to the Nation (\$542,801)"

(2021): "Transfers to the Nation (\$300,000) ... for prior years' subsidized operating costs provided to the District."

#### 4. Accounting Policies and Auditing:

**GAAP and GASB:** 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 (Governmental Accounting Standards Board) is the accepted standard-setting body.

**Independent Audits:** Annual audits are performed by independent auditors (initially, and later REDW LLC). The audits are conducted in accordance with generally accepted auditing standards and Government Auditing Standards.

**Internal Control:** The auditor's reports on internal control over financial reporting and compliance generally do not express an opinion on the effectiveness of the District's internal control. They define deficiencies, material weaknesses, and significant deficiencies in internal control.

(2015-2017): Reports on internal control were included, defining deficiencies.

(2019): A prior year finding (2019-001) related to monitoring and recording expenses was noted, with corrective action taken in 2020.

**Use of Estimates:** The preparation of financial statements requires management to make estimates and assumptions.

**Income Tax Exemption:** As provided under 25 U.S.C. 881, the District is not subject to state or federal income taxes.

#### 5. Cash and Deposits:

**Custodial Credit Risk:** The District's policy requires deposits to be sufficiently secured by collateral or covered by FDIC insurance.

**Uninsured/Uncollateralized Deposits:** In 2021, a concerning note stated that "\$287,691 of the District's bank deposits were uninsured and uncollateralized." This issue appears to have been resolved by 2022 and 2023, with statements indicating that deposits were fully insured.

#### 6. Membership Fees:

Prior to July 1, 2019, the District charged a one-time \$900 membership fee to every customer.

Effective July 1, 2019, the fee structure transitioned to a tier system based on the customer's meter size, ranging from \$900 to \$3,500, subject to annual adjustment.

#### 7. Risk Management:

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The District is exposed to various risks (torts, theft, damage to assets, business interruption, etc.) for which commercial insurance is generally purchased. Employee health benefits are covered through the Nation's self-insurance fund.

### **Key Trends and Observations:**

**Consistent Relationship with the Nation:** The deep financial and operational integration with the Citizen Potawatomi Nation is a central aspect of the District's existence and reporting.

**Fluctuating Financial Performance:** The District's profitability has varied, with operating losses occurring in several years, often offset by contributions from the Nation.

**Increased Revenue:** Water sales have generally trended upwards over the reported period, particularly in 2021, 2022, and 2023.

**Increased Expenses:** Operating expenses, especially salaries and administrative costs, have also shown increases in certain years.

**Resolution of Deposit Risk:** The issue of uninsured/uncollateralized deposits identified in 2021 appears to have been addressed in subsequent years.

**Ongoing Audit Oversight:** The annual independent audits provide scrutiny of the District's financial position and adherence to accounting standards.

This briefing document provides a high-level overview of the information contained within the provided audit reports. For a more detailed understanding, it is recommended to consult the full audit documents.