

Briefing Document: Pottawatomie County Development Authority Financial Audits (2021-2023)

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

Date: October 26, 2023

Prepared For: [Intended Audience]

Subject: Review of Independent Auditor's Reports and Financial Statements for Pottawatomie County Development Authority (PCDA) for Fiscal Years Ending September 30, 2021, 2022, and 2023.

Sources: Independent Auditor's Reports and Financial Statements for the Pottawatomie County Development Authority for the fiscal years ended September 30, 2021, 2022, and 2023.

Executive Summary:

This briefing document summarizes the key findings and financial information presented in the independent auditor's reports for the Pottawatomie County Development Authority (PCDA) for the fiscal years ending September 30, 2021, 2022, and 2023. The PCDA operates the water systems in Bethel and Macomb, Oklahoma, and manages the Wes Watkins Reservoir.

The audits were conducted by April Adams CPA PLLC. The reports include financial statements (Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows), notes to the financial statements, and reports on internal control over financial reporting and on compliance and other matters.

Key themes across the three years include generally stable financial performance, consistent findings regarding uninsured and uncollateralized deposits, and ongoing issues related to a significant water purchase overcharge from FY 2019. The audit opinion varied across the years, with an unqualified opinion in 2021 and 2023, and a qualified opinion in 2022 due to an unrecorded liability.

Background on Pottawatomie County Development Authority:

The PCDA was established in 1974 as a public trust to provide various services and capital improvements for local communities. Its current primary function is operating water systems in Bethel and Macomb and managing the Wes Watkins Reservoir. The Authority operates as a proprietary fund.

Key Financial Highlights:

Metric	FY 2021	FY 2022	FY 2023	Total Assets	\$16,658,977	\$16,754,634	\$16,851,490	Total
Liabilities	\$98,740	\$83,378	\$54,883	Total Net				
Position	\$16,560,237	\$16,671,256	\$16,796,607	Operating				
Revenues	\$688,027	\$741,278	\$766,199	Operating				
Expenses	\$604,064	\$508,056	\$619,261	Operating Income				
(Loss)	\$83,963	\$233,222	\$146,938	Change in Net Position	\$83,963	\$112,066	\$125,351	Cash
Balance	\$789,191	\$883,881	\$1,139,301	Long-Term Debt (OWRB				
Loan)	\$76,989	\$51,901	\$26,699	Overall Trend:				

The Authority shows a consistent increase in total assets and net position over the three fiscal years. Operating revenues have also generally increased. Long-term debt related to the Oklahoma Water Resources Board (OWRB) loan is decreasing as scheduled. The cash balance significantly increased in FY 2023.

Disclaimer: This summary is presented in a formal, academic style, reflecting both legal and community perspectives. The findings herein are based on the data compiled in the Research and do not constitute legal advice. The opinions expressed regarding municipal failures are those of the investigator(s) and do not necessarily represent an official stance by any governing body.

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Operating Revenue: Water sales consistently represent the majority of operating revenue. For example, in FY 2023, "Water Sales and Late Charges" totaled "\$766,199" out of total operating revenues of the same amount.

Operating Expenses: The largest operating expenses consistently include "Water Purchases" and "Salaries, Payroll Taxes & Benefits."

Net Position: The "Net investment in capital assets" consistently forms the largest component of the net position.

Auditor's Opinions:

FY 2021: Unqualified opinion on the financial statements. The auditor stated, "I have audited the accompanying financial statements of Pottawatomie County Development Authority, as of and for the fiscal year ended September 30, 2021..." and concluded that the financial statements present fairly, in all material respects, the financial position and the results of its operations and its cash flows.

FY 2022: Qualified opinion on the financial statements. The qualification was due to an unrecorded liability related to the water purchase overcharge from FY 2019. The auditor stated, "In my opinion, except for the effects of the matter described in the 'Basis for Qualified Opinion' paragraph, the accompanying financial statements... present fairly, in all material respects, the financial position..." The "Basis for Qualified Opinion" clarified that "As discussed in Note 10, the Authority was significantly overcharged for water purchases in fiscal year 2019. The amount of this overcharge has not been determined and therefore has not been included as an account receivable in the financial statements."

FY 2023: Unqualified opinion on the financial statements. The auditor stated, "In my opinion, the accompanying financial statements... present fairly, in all material respects, the financial position..." This indicates that the previously identified issue leading to the qualified opinion in FY 2022 was no longer considered a material misstatement, although Note 10 still discusses the unresolved receivable.

Findings on Internal Control and Compliance:

The auditor consistently reported findings related to uninsured and uncollateralized deposits as a significant deficiency across all three fiscal years.

FY 2021 (Item 21-01): "Criteria: To protect public monies from potential loss, Oklahoma Statutes require that local governments, such as the Authority, before depositing any funds in a financial institution, shall require security... Condition: At September 30, 2021, the Authority's cash deposits at one financial institution exceeded the Federal Deposit Insurance Corporation (FDIC) coverage by \$539,191 and were not collateralized." The recommendation was to ensure all deposits not covered by FDIC insurance are collateralized. The Authority's response indicated awareness and corrective action with BancFirst.

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FY 2022 (Item 22-01): This finding was repeated with similar language, noting that at "September 30, 2022," cash deposits exceeded FDIC coverage and were not collateralized. The Authority's response again indicated awareness of the problem with BancFirst.

FY 2023 (Item 2023-01): The finding persisted for the fiscal year ending "September 30, 2023," again highlighting the risk of loss due to uninsured and uncollateralized deposits. The Authority's response reiterated their awareness and BancFirst's method of using a sweep account into US Treasuries, but acknowledged the remaining balances exceeded FDIC coverage.

Other Important Information:

Water Purchase Agreement (Note 7): The Authority has long-term agreements with Shawnee Municipal Authority (85%) and Tecumseh Utility Authority (15%) for the delivery of water from the Wes Watkins Reservoir.

Retirement Plan (Note 8): The Authority provides a retirement plan for full-time employees with one year of service, contributing 10% of their annual salary.

Water Purchases Receivable (Note 10): This note consistently details the ongoing issue of a significant overcharge for water purchases in FY 2019. Despite the change in audit opinion in FY 2023, the note still states that "no action is currently taking place to resolve the matter" due to the former Chairman's departure. The amount remained undetermined throughout the audited periods.

Conclusion:

The Pottawatomie County Development Authority appears to be in a generally stable financial position with increasing assets and net position. However, the repeated significant deficiency regarding uninsured and uncollateralized deposits indicates a persistent weakness in internal controls over cash management. Furthermore, the unresolved water purchase overcharge from FY 2019, while no longer deemed a material misstatement in FY 2023, represents a potentially significant uncollected receivable that warrants attention and resolution. The Board of Trustees should continue to monitor the implementation of corrective actions regarding the bank deposits and actively pursue the recovery of the overcharged funds. The consistency in the auditor's findings highlights the importance of addressing these issues to ensure sound financial management and compliance with state statutes.

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