

**The Poteau Valley
Improvement Authority**

**Financial Statements
and
Supplementary Information
June 30, 2022 and 2021**

(With Independent Auditor's Report Thereon)

The Poteau Valley Improvement Authority

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The Poteau Valley Improvement Authority
Wister, Oklahoma

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of **The Poteau Valley Improvement Authority** (the Authority), as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of **The Poteau Valley Improvement Authority**, as of June 30, 2022 and 2021, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits 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 Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The Authority's management is responsible for the preparation and fair presentation of the 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.

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 Authority's ability to continue as a going concern for one year after the date that the financial statements are issued.

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 opinions. 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 Authority'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 Authority'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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Budgetary Comparison Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Budgetary Comparison Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2022, on our consideration of the Authority'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 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 Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Fort Smith, Arkansas
September 6, 2022

POTEAU VALLEY IMPROVEMENT AUTHORITY

Management's Discussion and Analysis

Our discussion and analysis of Poteau Valley Improvement Authority (the Authority) financial performance provides an overview of the utility's financial activities for the fiscal years ended June 30, 2022 and June 30, 2021.

Using the Annual Audit Report

This annual audit report consists of a series of financial statements, footnotes and supplementary information. The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position (on pages 9-12) provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. The footnotes and supplementary information provide additional narrative concerning selected financial items.

Reporting the Utility as a Whole

The Statements of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority's activities and include all assets and liabilities using the accrual basis of accounting. All current revenue and expenses are taken into consideration, regardless of when cash was received or paid. These accounting practices are similar to the accounting methods used by most private sector companies.

Financial Highlights

The Authority has finished the tenth year of a contract with U.S.G.S. and The Water Resource Board to monitor nutrients, suspended sediment, and river flows. The original cost of the project was \$392,300. with an extension for site testing through the year ended June 30, 2022 totaling \$478,700. As of June 30, 2022, the Authority has paid \$463,650 for these extensions. The Authority again extended the contract through the year June 30, 2023 for an additional cost of \$60,700. As of June 30, 2022, no amounts had been paid on this extension of the agreement.

The Authority has decided not to do the Alum project in the summer of 2022.

The original lake project is complete with a total project cost of \$273,546. Work done thus far has been done by the University of Arkansas, Fayetteville. The continuing work necessary to complete the project will be done by Baylor University in Waco, Texas with a cost of \$65,117. In the year ended June 30, 2020, Baylor completed the lake project, and the Authority paid the balance for this agreement totaling \$20,000. The Authority extended this agreement through the year ending June 30, 2021 for an additional cost of \$19,786. As of June 30, 2022, all amounts had been paid for this extension.

In June 2022 the Authority entered into a contract with the Oklahoma Water Resources Board for \$6,300 that will run from July 1, 2022 to June 30, 2023. As of June 30, 2022 no amounts have been paid toward this agreement.

The Authority is in the process of getting two lagoons built. The DEQ has approved the plans and sent the permit. The Authority is waiting on the Environmental Assessment and Archeological Survey before the construction can commence. Estimated cost is \$1,500,000. Leflore County has pledged \$1.247 million to aid in the construction of the lagoons.

Note: It should be noted that when comparing project cost and expenditures stated in the financial highlights section, with the current financial statement, that the current financial statement covers only what was spent in that fiscal year, while the analysis given here is for the project in total.

Operating Revenues

Water sales are the primary source of revenue for the Authority. Each year the 16 entities make a request for the amount of water they will need for the coming year. The Authority's management will use the requested amount and historical data of each entity to refine the amount to an expected amount. The budget is based on expected revenue. Water sales for fiscal year 2021-2022 was 2,562,167,665 gallons; this is up from 2,399,208,630 gallons for fiscal year 2020-2021. Water sales with the rate of \$1.60 per thousand gallons has generated sales of \$4,099,468.

Non-Operating Income

The interest on CD's and Capital Improvement Funds was down in fiscal year 2021-2022 due interest rates. Total received in fiscal year 2021-2022 was \$2,598 compared to \$9,566 for the 2020-2021 year. The Authority has secured a loan (line of credit) in the amount of \$3,000,000 for the construction of the two filters. The balance on the line of credit as of June 30, 2022 is \$805,721.

Operating Expenses

Expenses are estimated and budgeted for each year. They include chemicals, electrical, salaries, repairs and maintenance, insurance and depreciation. For 2021-2022 total expenses were \$2,836,241 compared to \$2,827,947 for 2020-2021.

Raw water storage cost decreased in 2021-2022 to \$8,316 compared to \$9,350 in 2020-2021. The Authority's water storage contract with the Corps of Engineers requires the Authority to pay a percentage of Corps maintenance of the dam. The percentage paid is tied to the amount of water stored. The Authority has doubled the amount of stored water in the lake. The added cost is not known at this time; the Corps is working on the contract. The new storage contract will cost much more than the old storage contract, because the Corps will charge a higher percentage rate on all new storage contracts. The Authority now has the river intake which doesn't require a storage permit.

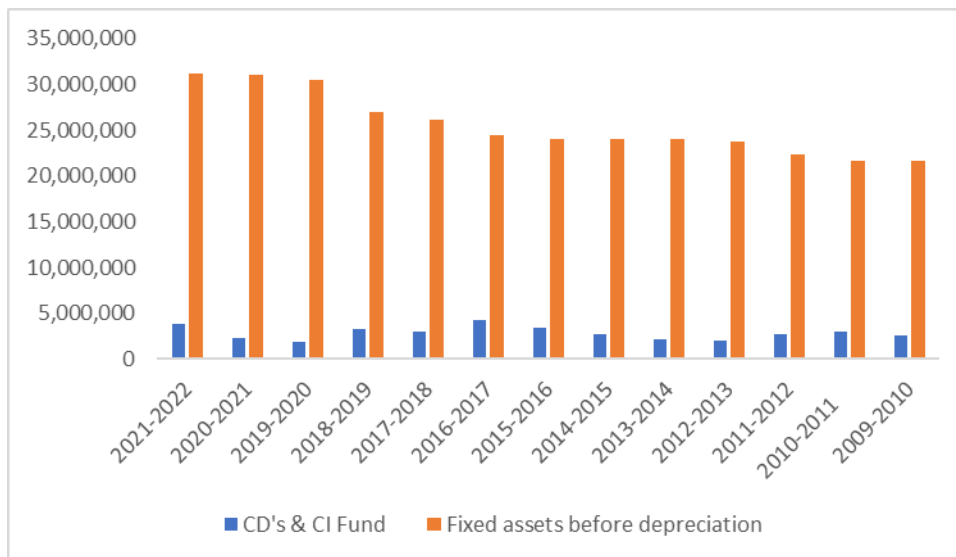
Note: The Corps of Engineers is unable to enter into a new storage contract with the Authority at this time due to an unfinished Environment Assessment that was not completed after the last increase in the pool elevation.

Salaries are up by 0.5% due to employee raises. Truck expense went down slightly during 2021-2022 to \$20,523 compared to \$23,560 in 2020-2021. Repairs and maintenance expenses are down in 2021-2022 to \$172,064 compared to \$244,302 in 2020-2021.

Summary

The Authority has Fixed Assets of \$31,235,264 and \$3,820,469 in CD's and Capital Improvement Fund at the end of 2021-2022 compared to \$31,097,542 and \$2,268,379. in CD's and Capital Improvement Funds at the end of 2020-2021. The increase in the CD's and Capital Improvement Fund of \$1,552,090 is due to less construction and larger water sales.

It is management's opinion that the rate of \$1.60 per thousand is not sufficient to keep up with maintenance of the aging Treatment Plant and Lines; therefore, the price will increase to \$1.70 per thousand effective July 1, 2022.



At year end	CD's & CI Fund	Fixed assets before depreciation
2021-2022	\$ 3,820,469	\$ 31,235,264
2020-2021	2,268,379	31,097,542
2019-2020	1,884,863	30,426,511
2018-2019	3,265,942	27,027,202
2017-2018	2,806,677	26,125,366
2016-2017	4,231,569	24,456,028
2015-2016	3,409,318	24,019,048
2014-2015	2,640,116	24,038,577
2013-2014	2,176,112	24,028,861
2012-2013	1,982,571	23,820,208
2011-2012	2,737,236	22,415,954
2010-2011	2,978,639	21,698,297
2009-2010	2,595,662	21,644,292

5 Year Plan Adopted 2021-2022					
	Work Completed	Yr Completed	Estimated Cost	Funds Spent on 5 yr. plan	
2008-1	Lake Intake	FY 03-04	700,000	677,457	1
2008-4	12" Line toward Sunset Corner	FY 05-06	75,000	87,585	1
2007-1	Backwash Tank and Plant Piping	FY 06-07	237,000	255,419	1
	90' Clarifier Repair	FY 06-07	90,000	93,090	1
	Panama Pump Station Upgrade	FY 06-07	43,000	36,151	1
	Additional Intake Pump	FY 08-09	40,000	30,510	1
	Demolition of Old Intake	FY 09-10	150,000	85,000	1
2010-1	Pocola Line Material & Boring Only	FY 09-10	410,409	757,813	1
	60' Clarifier Repair	FY 10-11	60,000	40,516	1
	Source Water Protection Plan	FY 10-11	119,000	73,488	
	Source Water Protection Plan	FY 11-12	117,350	190,315	
	Source Water Protection Plan	FY 12-13	117,350	171,143	
	Source Water Protection Plan	FY 13-14	225,156	211,496	
	Source Water Protection Plan	FY 14-15	448,819	321,555	
	Source Water Protection Plan	FY 15-16	413,421	346,746	
	Source Water Protection Plan / Reimbursed	2011-2015		(440,000)	3
	Source Water Protection Plan	FY 16-17	323,200	283,594	
	Source Water Protection Plan / Reimbursed	FY 16-17		(15,000)	3
	Source Water Protection Plan	FY 17-18	283,317	240,975	
	Source Water Protection Plan / Reimbursed	FY 17-18		(5,000)	3
	Source Water Protection Plan	FY 18-19	300,700	184,520	
	Source Water Protection Plan / Reimbursed	FY 19-20		(40,000)	3
	Source Water Protection Plan	FY 19-20	278,700	245,685	
	Source Water Protection Plan	FY 20-21	247,150	166,785	
2010-3	2-20" River Crossings	FY 11-12	274,240	387,275	1
2010-2	River Intake	FY 11-12/12-13	724,000	637,313	1
	14,600' 18" line Panama & Brazil Creek Crossing	FY 12-13/13-14	1,200,000	1,040,079	1
2012-2	Powdered Activated Carbon Feeder	FY 12-13	200,000	139,325	1
2012-3	Bokoshe Pump Station	FY 13-14	250,000	160,268	1
2014-1	Relocate 18" line around College	FY 14-15	55,000	59,811	1,3
2014-1	CASC payment for Relocate	FY 14-15		(54,743)	3
2015-1	Repair 12" Poteau River Crossing	FY 14-15	25,000	3,099	1
	Boat	FY 15-16	80,000	79,917	1
2016-1	Rehab Backbone tank	FY 15-16	185,935	187,095	1
2016-2	Hwy 59 Relocate/ Cedar Creek	FY 15-16	248,945	247,905	1,3
2016-2	ODOT reimbursed for 59 relocate			(247,905)	3
2017-1	Controls for existing 7 Filters	FY 16-17	300,000	304,405	1
2017-2	Aeration in Pine Mt., Bokoshe, & Panama Tanks	FY 17-18	1,200,000	1,370,021	1
2018-2	Paint and Sandblast Poteau Tank	FY 17-18		329,368	1
2018-1	2 Filters #2897	FY 18-19	2,361,000	1,082,962	1
	Dump truck	FY 20-21	110,256	71,609	1
	Heavener Line	FY 18-20	3,500,000	3,545,167	1
	Relocate Line on 112 (Reimbursable)	FY 20-21	212,038	213,230	1
	ODOT reimbursed for 112 project			(143,761)	3
	Sub. Total		15,605,986	13,412,283	
<u>Work in Progress/Plant & Distribution</u>					
3032	Retaining Ponds	FY 18-19	966,750	75,940	2
	ARPA County Money	FY 21-22		(41,882)	3
	Centrifuge & Building	FY 20-21	5,000,000		
	Sub. Total		5,966,750	34,058	
<u>Source Water Protection Program</u>					
	Lake Model	FY 21-22	45,000	4,801	
	Source Water	FY 21-22	177,150	122,710	
	Sub Total		222,150	127,511	
<u>Future Plan</u>					
	7000' 18" line per yr. \$440,824 for 3 yrs	FY 17 thru 20	1,362,146		
2012-1	New 1 MG Clearwell & Dist. Pump	FY 17-18	2,277,973		
	100' Clarifier	FY 18-19	1,518,648		
	1-12" River Crossings	FY 19-20	228,377		
	Sub. Total		5,387,144	-	
	Total		27,182,030	13,573,852	
	Bal.of Projects		13,608,178		
	(1) Projects Completed				
	(2) Projects in Progress				
	(3) Reimbursable				

Financial Statements

The Poteau Valley Improvement Authority

Statements of Net Position June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,102,299	\$ 2,557,342
Accounts receivable	394,308	406,846
Accounts receivable - other	-	69,469
Prepaid expenses	<u>101,419</u>	<u>88,275</u>
Total Current Assets	<u>4,598,026</u>	<u>3,121,932</u>
PROPERTY, PLANT AND EQUIPMENT		
Land	81,534	81,534
Construction in progress	73,401	153,320
Water plant buildings, facilities, and improvements	8,859,228	8,686,754
Storage tanks	3,782,191	3,782,191
Water lines	15,757,329	15,757,329
Machinery and equipment	2,293,795	2,248,750
Trucks and trailers	270,296	270,296
Boats and garage	96,303	96,303
Office equipment	<u>21,187</u>	<u>21,065</u>
	31,235,264	31,097,542
Less accumulated depreciation	<u>16,128,036</u>	<u>15,196,823</u>
	<u>15,107,228</u>	<u>15,900,719</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension outflows	<u>293,384</u>	<u>268,199</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 19,998,638</u></u>	<u><u>\$ 19,290,850</u></u>

See accompanying notes to financial statements.

The Poteau Valley Improvement Authority

Statements of Net Position June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
LIABILITIES PAYABLE FROM CURRENT ASSETS		
Line of credit	\$ 805,721	\$ 1,112,172
Accounts payable	189,557	180,063
Accrued liabilities	<u>8,351</u>	<u>8,426</u>
Total Current Liabilities	<u>1,003,629</u>	<u>1,300,661</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Net pension liability (asset)	<u>(296,886)</u>	<u>188,217</u>
Total Liabilities Payable From Restricted Assets	<u>(296,886)</u>	<u>188,217</u>
	706,743	1,488,878
DEFERRED INFLOWS OF RESOURCES		
Deferred pension inflows	<u>643,828</u>	<u>305,281</u>
Total Liabilities and Deferred Inflows of Resources	<u>1,350,571</u>	<u>1,794,159</u>
NET POSITION		
Invested in capital assets	7,942,978	8,736,469
Net position - unrestricted	<u>3,540,839</u>	<u>1,595,972</u>
	11,483,817	10,332,441
Contributed capital	<u>7,164,250</u>	<u>7,164,250</u>
	<u>18,648,067</u>	<u>17,496,691</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u><u>\$ 19,998,638</u></u>	<u><u>\$ 19,290,850</u></u>

See accompanying notes to financial statements.

The Poteau Valley Improvement Authority

Statements of Revenues, Expenses, and Changes in Net Position Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Water sales	\$ 4,099,468	\$ 3,598,813
Miscellaneous income	5,626	8,848
	<u>4,105,094</u>	<u>3,607,661</u>
OPERATING EXPENSES		
Chemicals	564,837	488,638
Depreciation	941,820	824,127
Engineering services	6,540	-
Equipment rental	241	-
Insurance	167,325	169,630
Laundry	4,832	6,372
Legal and accounting	18,370	16,800
Licenses/fees/school	1,631	911
Management expenses	276	122
Office supplies	3,613	3,396
Payroll taxes	39,690	38,917
Plant supplies	25,200	25,248
Postage and freight	624	1,143
Radio control	7,200	6,600
Raw water storage costs	8,316	9,350
Repairs and maintenance	172,064	244,302
Retirement plan expense (income)	(107,651)	129,551
Salaries	480,393	478,078
Telephone	3,126	3,090
Testing and lab supplies	29,914	24,272
Truck expenses	20,523	23,560
Utilities	446,982	333,465
Water easements	375	375
	<u>2,836,241</u>	<u>2,827,947</u>
OPERATING INCOME	<u>1,268,853</u>	<u>779,714</u>

See accompanying notes to financial statements.

The Poteau Valley Improvement Authority

Statements of Revenues, Expenses, and Changes in Net Position Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
NON-OPERATING REVENUES (EXPENSE)		
Source water monitoring expense	(138,408)	(166,784)
Gain on sale of equipment	-	2,500
Capital contribution	41,882	-
Interest income	2,598	9,566
Interest expense	(23,549)	(43,745)
	<u>(117,477)</u>	<u>(198,463)</u>
 CHANGE IN NET POSITION	 1,151,376	 581,251
 NET POSITION, BEGINNING OF YEAR	 <u>10,332,441</u>	 <u>9,751,190</u>
 NET POSITION, END OF YEAR	 <u><u>\$ 11,483,817</u></u>	 <u><u>\$ 10,332,441</u></u>

See accompanying notes to financial statements.

The Poteau Valley Improvement Authority

Statements of Cash Flows Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 4,112,006	\$ 3,427,525
Payments to vendors	(1,525,329)	(1,331,650)
Payments to employees	(480,468)	(478,239)
Payments to retirement plan	(64,090)	(64,691)
Other receipts (payments)	75,095	(60,621)
	<u>2,117,214</u>	<u>1,492,324</u>
Net Cash From Operating Activities		
	<u>2,117,214</u>	<u>1,492,324</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(106,447)	(643,637)
Proceeds from sale of equipment	-	2,500
Interest paid	(23,549)	(43,745)
Payments on line of credit	(306,451)	(86,256)
	<u>(436,447)</u>	<u>(771,138)</u>
Net Cash (Used For) Capital and Related Financing Activities		
	<u>(436,447)</u>	<u>(771,138)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net source water monitoring	(138,408)	(166,784)
Receipts of interest	2,598	9,566
	<u>(135,810)</u>	<u>(157,218)</u>
Net Cash (Used For) Investing Activities		
	<u>(135,810)</u>	<u>(157,218)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,544,957	563,968
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,557,342</u>	<u>1,993,374</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 4,102,299</u></u>	<u><u>\$ 2,557,342</u></u>

See accompanying notes to financial statements.

The Poteau Valley Improvement Authority

Statements of Cash Flows Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Operating income	\$ 1,268,853	\$ 779,714
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	941,820	824,127
Net change in pension liability (asset)	(171,741)	64,860
Change in:		
Accounts receivable	12,538	(171,288)
Accounts receivable - other	69,469	(69,469)
Prepaid expenses	(13,144)	(19,327)
Accounts payable	9,494	83,868
Accrued liabilities	(75)	(161)
	<u>848,361</u>	<u>712,610</u>
Net Cash From Operating Activities	<u><u>\$ 2,117,214</u></u>	<u><u>\$ 1,492,324</u></u>

See accompanying notes to financial statements.

The Poteau Valley Improvement Authority

Notes to Financial Statements

June 30, 2022 and 2021

NOTE 1: NATURE OF BUSINESS

The Poteau Valley Improvement Authority (the Authority) is a trust created under the provisions of Title 60, Oklahoma Statutes 1961, Sections 176 to 180, inclusive, the Oklahoma Trust Act and other applicable statutes of the State of Oklahoma.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Type

The Authority is an enterprise fund, used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Basis of Accounting

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Under this basis of accounting and measurement focus, the Authority applies all Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989 that are developed for business enterprises, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements.

Operating revenues and expenses are distinguished from other revenues (expenses) items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the Authority. All revenue and expenses not meeting this definition are reported as other revenues (expenses) but remain a major component of the overall revenues and expenses of the Authority.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Poteau Valley Improvement Authority

Notes to Financial Statements

June 30, 2022 and 2021

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

For purposes of the Statements of Cash Flows, the Authority considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

The Authority considers accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is deemed necessary. If accounts become uncollectible, they will be charged to operations when that determination is made. Determination of uncollectibility is made by management based on knowledge of individual customers and consideration of such factors as current economic conditions. Credit extended to customers is generally uncollateralized. Amounts are considered past-due when not paid by the 25th of the month. Past-due accounts are assessed a 10% late charge.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation of property, plant, and equipment is computed on the straight-line method over the estimated useful lives of the assets, which range from three to fifty years. Depreciation expense for the years ended June 30, 2022 and 2021 was \$941,820 and \$824,127, respectively. The Authority had fully depreciated assets still in use with an original cost of \$4,410,558 and \$4,421,165 at June 30, 2022 and 2021, respectively.

Long-Lived Assets

FASB Codification Topic Property, Plant and Equipment, Section Subsequent Measurement requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The application of this Codification Topic has not materially affected the Authority's reported earnings, financial condition or cash flows.

Capitalization of Interest Costs

The Authority capitalizes interest costs as part of the total acquisition costs of construction related to the addition to and/or improvement of facilities. Interest costs capitalized include only the interest incurred during the construction period on debt used to finance the project. The interest capitalization period commences with the first expenditure for the project and continues until the constructed project is substantially complete and ready for its intended use, at which time interest capitalization ceases.

The Poteau Valley Improvement Authority

Notes to Financial Statements

June 30, 2022 and 2021

Deferred Inflows and Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then. The Authority has one item that qualifies for reporting in this category. In regards to the deferred outflows of resources related to pension liabilities, these amounts were created as a result of the implementation of GASB 68. See Note 10 for additional information.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Authority has one item that qualifies for reporting in this category. In regards to the deferred inflows of resources related to pension liabilities, these amounts were created as a result of the implementation of GASB 68. See Note 10 for additional information.

Pensions

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Oklahoma Public Employees Retirement System (OPERS) and additions to or deductions from the OPERS fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

The Authority's net position is classified as follows:

Net investment in capital assets: This represents the Authority's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Unrestricted net position: This represents unrestricted liquid assets derived from water sales.

Income Taxes

The Authority, as a public trust of the State of Oklahoma, is exempt from all federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

The Poteau Valley Improvement Authority

Notes to Financial Statements June 30, 2022 and 2021

NOTE 3: CASH AND CASH EQUIVALENTS

Deposits in financial institutions are financial instruments that could potentially subject the Authority to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. At June 30, 2022, all deposits were in two financial institutions and carried at cost. The amounts of these deposits are displayed on the Statements of Net Position as Cash and cash equivalents.

	Bank Balance	Book Balance
Insured (FDIC)	\$ 1,000,000	\$ 1,000,000
Collateralized	3,030,172	3,102,199
Uninsured/uncollateralized	<u>-</u>	<u>-</u>
	<u>\$ 4,030,172</u>	<u>\$ 4,102,199</u>

Also included in Cash and cash equivalents on the Statements of Net Position at June 30, 2022 is petty cash amounting to \$100.

NOTE 4: DESIGNATED CASH

As of June 30, 2022 and 2021, the Authority's Board of Trustees designated \$3,069,689 and \$1,517,847, respectively, of unrestricted cash for capital improvements.

NOTE 5: CONCENTRATION OF CREDIT RISK

The Authority sells water to various local water districts in the Poteau, Oklahoma area. The Authority operates from its primary facilities in Wister, Oklahoma. The Authority grants credit to customers, all of whom are local water districts, located in the vicinity of the operating location. The Authority had extended credit to regular customers (accounts receivable) of \$394,308 and \$406,846 at June 30, 2022 and 2021, respectively.

NOTE 6: CONTRIBUTED CAPITAL

The Authority has received grants from various sources over the years to make additions and improvements to its water system and facilities. The Authority is not obligated to repay these funds. Therefore, these funds are considered to be contributed capital.

The Poteau Valley Improvement Authority

Notes to Financial Statements June 30, 2022 and 2021

NOTE 7: CHANGES IN PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant, and equipment during the years ended June 30, 2022 and 2021 are as follows:

	Balance July 1, 2021	Additions	Deletions	Transfers	Balance June 30, 2022
Land	\$ 81,534	\$ -	\$ -	\$ -	\$ 81,534
Construction in progress	153,320	50,081	-	(130,000)	73,401
Water plant buildings, facilities and improvements	8,686,754	51,922	9,448	130,000	8,859,228
Storage tanks	3,782,191	-	-	-	3,782,191
Water lines	15,757,329	-	-	-	15,757,329
Machinery and equipment	2,248,750	45,045	-	-	2,293,795
Trucks and trailers	270,296	-	-	-	270,296
Boats and garage	96,303	-	-	-	96,303
Office equipment	21,065	1,281	1,159	-	21,187
	31,097,542	148,329	10,607	-	31,235,264
Less: accumulated depreciation	15,196,823	941,820	10,607	-	16,128,036
	<u>\$ 15,900,719</u>	<u>\$ (793,491)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,107,228</u>
	Balance July 1, 2020	Additions	Deletions	Transfers	Balance June 30, 2021
Land	\$ 80,734	\$ 800	\$ -	\$ -	\$ 81,534
Construction in progress	3,377,126	320,382	-	(3,544,188)	153,320
Water plant buildings, facilities and improvements	8,581,854	107,061	2,161	-	8,686,754
Storage tanks	3,665,206	116,985	-	-	3,782,191
Water lines	12,213,141	-	-	3,544,188	15,757,329
Machinery and equipment	2,173,800	74,950	-	-	2,248,750
Trucks and trailers	229,082	71,609	30,395	-	270,296
Boats and garage	96,303	-	-	-	96,303
Office equipment	9,265	11,800	-	-	21,065
	30,426,511	703,587	32,556	-	31,097,542
Less: accumulated depreciation	14,405,252	824,127	32,556	-	15,196,823
	<u>\$ 16,021,259</u>	<u>\$ (120,540)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,900,719</u>

The Poteau Valley Improvement Authority

Notes to Financial Statements June 30, 2022 and 2021

NOTE 8: NONCASH INVESTING AND FINANCING ACTIVITIES

The Authority had capital expenditures for equipment and other capital items during the years ended June 30, 2022 and 2021 as follows:

	2022	2021
Purchase price	\$ 148,329	\$ 703,587
Accounts payable	-	(59,950)
Capital contribution	(41,882)	-
Cash paid	\$ 106,447	\$ 643,637

During the years ended June 30, 2022 and 2021, the Authority disposed of fully depreciated assets in the amount of \$10,607 and \$32,556, respectively.

NOTE 9: LINE OF CREDIT

During the year ended June 30, 2018, the Authority secured a \$3,000,000 line of credit expiring May 1, 2028. The line of credit is collateralized by gross revenues and bears a fixed interest rate of 3.88% until May 1, 2021, and then at a fixed rate of interest equal to the then *Wall Street Journal* Prime rate less 87 basis points (3.88% at June 30, 2022), with said rate to be reset on May 1, 2024 and May 1, 2027, provided however, that the interest rate shall not exceed the maximum rate as provided for by the laws of the State of Oklahoma. The Authority had outstanding borrowings associated with this line of credit of \$805,721 and \$1,112,172 at June 30, 2022 and 2021, respectively.

NOTE 10: PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Authority participates in the Oklahoma Public Employees Retirement Plan (OPERS). Contributions to the retirement system are made by the Authority as required by law. During the years ended June 30, 2022 and 2021, amounts equal to 13% and 14%, respectively, of employee wages were contributed to the system with no percentage adjustment at different wage levels. Any overtime earned by the employees is not subject to employer contribution. In addition to the amounts contributed by the Authority during the years ended June 30, 2022 and 2021, employees must contribute 6% of their monthly compensation to the system.

Plan Description

The following brief description of OPERS is provided for general information purposes only. Participants should refer to Title 74 of the Oklahoma Statutes, Sections 901 through 932 and 935, as amended, for more complete information.

The Poteau Valley Improvement Authority

Notes to Financial Statements

June 30, 2022 and 2021

OPERS is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. As set forth in Title 74, of the Oklahoma Statutes, at Section 921, administrative expenses are paid with funds provided by operations of the Plan. The general administration and responsibility for the proper operation of the System is vested in the fourteen members of the Board of Trustees of OPERS (the Board). Membership includes a member of the Corporation Commission as selected by the Commission, a member of the Tax Commission as selected by the Tax Commission, the Administrator of the Office of Personnel Management or designee, the State Insurance Commissioner or designee, and the Director of State Finance or designee, and the State Treasurer or designee. Of the remaining members, three are appointed by the Governor, one is appointed by the Supreme Court, two are appointed by the Speaker of the House of Representatives and two are appointed by the President Pro Tempore of the Senate.

Benefits Provided

Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90). Normal retirement date is further qualified to require that all members employed on or after January 1, 1983 must have six or more years of full-time equivalent employment with a participating employer before being eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

A member with a minimum of ten years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011, or age 60 if the participant became a member on or after November 1, 2011.

Disability retirement benefits are available for members having eight years of credited service whose disability status has been certified as being within one year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

Upon the death of an active member, the accumulated contributions of the member are paid to the member's named beneficiary(ies) in a single lump sum payment. If a retired member elected a joint annuitant survivor option or an active member was eligible to retire with either reduced or unreduced benefits or eligible to vest the retirement benefit at the time of death, benefits can be paid in monthly payments over the life of the spouse if the spouse so elects.

Upon the death of a retired member, OPERS will pay a \$5,000 death benefit to the member's beneficiary or estate of the member if there is no living beneficiary. The death benefit will be paid in addition to any excess employee contributions or survivor benefits due to the beneficiary.

The Poteau Valley Improvement Authority

Notes to Financial Statements June 30, 2022 and 2021

Contributions

The contribution rates for each member category of OPERS are established by the Oklahoma Legislature after recommendation by the Board based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates.

Each member participates based on their qualifying gross salary earned, excluding overtime. There is no cap on the qualifying gross salary earned, subject to Internal Revenue Service (IRS) limitations on compensation.

OPERS Fiduciary Net Position

Detailed information about OPERS's fiduciary net position is available in the separately issued OPERS Financial Report available at <http://www.opers.ok.gov/publications>.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

The collective Net Pension Liability (Asset) for OPERS of \$(1,342,160,731) and \$892,163,248 was measured as of June 30, 2022 and 2021, respectively, and the total pension liability used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of July 1, 2021 and 2020. Each employer's proportion of the Net Pension Liability (Asset) was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers. At June 30, 2022 and 2021, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Beginning balance, July 1, 2020	\$ 171,772	\$ (304,253)
Differences between expected and actual experience	-	(1,028)
Net difference between projected and actual earnings on pension plan investments	22,365	-
Changes in assumptions	67,229	-
Prior year contributions recognized in the current year	(57,858)	-
Contributions subsequent to measurement date	64,691	-
Balance as of June 30, 2021	268,199	(305,281)
Differences between expected and actual experience	-	(7,465)
Net difference between projected and actual earnings on pension plan investments	-	(331,082)
Changes in assumptions	21,876	-
Prior year contributions recognized in the current year	(60,781)	-
Contributions subsequent to measurement date	64,090	-
Balance as of June 30, 2022	\$ 293,384	\$ (643,828)

The Poteau Valley Improvement Authority

Notes to Financial Statements June 30, 2022 and 2021

Actuarial Assumptions

The total pension liability as of June 30, 2022 and 2021, was determined based on an actuarial valuation prepared as of July 1, 2021 and 2020, using the following actuarial assumptions:

- Investment return – 6.50% for 2021 and 2020 compounded annually net of investment expense and including inflation
- Salary increases – 3.25% to 9.25% for 2021 and 2020 per year including inflation
- Mortality rates for 2021 – In 2021, Pub-2010 Below Media, General Membership Active/Retiree Healthy Mortality Table with base rates projected to 2030 using Scale MP-2019. Male rates are set back one year, and female rates are set forward one year
- Mortality rates for 2020 – Active participants and nondisabled pensioners – RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years)
- No annual post-retirement benefit increases
- Assumed inflation rate – 2.50% for 2021 and 2020
- Payroll growth – 3.25% per year for 2021 and 2020
- Actuarial cost method – Entry age
- Select period for the termination of employment assumptions – 10 years

The actuarial assumptions used in the July 1, 2021, valuation are based on the results of the most recent actuarial experience study, which cover the three-year period ended June 30, 2019. The experience study report is dated May 13, 2020.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The Poteau Valley Improvement Authority

Notes to Financial Statements June 30, 2022 and 2021

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2022 and 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	34.0 %	4.7 %
U.S. Small Cap Equity	6.0	5.8
Int's Developed Equity	23.0	6.5
Emerging Market Equity	5.0	8.5
Core Fixed Income	25.0	0.5
Long Term Treasuries	3.5	0.0
US TIPS	3.5	0.3
Total	100.0 %	

Discount Rate

The discount rate used to measure the total pension liability net of investment expenses was 6.50% for 2021 and 2020. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current System members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability (asset) of the employer calculated using the discount rate of 6.50% for 2021 and 2020, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

June 30, 2021			
Asset Class	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Net pension liability (asset)	\$ (27,562)	\$ (296,886)	\$ (524,528)
June 30, 2020			
Asset Class	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Net pension liability	\$ 443,079	\$ 188,217	\$ (27,138)

The Poteau Valley Improvement Authority

Notes to Financial Statements June 30, 2022 and 2021

NOTE 11: COMMITMENTS

The Authority has entered into agreements with the U.S. Geological Survey (U.S.G.S.) totaling \$120,900 for the monitoring of source water obtained by the Authority from Lake Wister. These agreements ended on June 30, 2022. As of June 30, 2022, \$105,850 had been paid toward these agreements. The Authority extended the contract through the year ended June 30, 2023 for an additional cost of \$60,700.

The Authority entered into an agreement totaling \$19,786 with Baylor University to monitor source water obtained by the Authority from Wister Lake. This agreement ended on June 30, 2021. As of June 30, 2022, all amounts have been paid towards this agreement.

On May 18, 2021, the Authority entered into an agreement totaling \$6,300 with the Oklahoma Water Resources Board to collect low flow discharge data for the Black Fork River. This agreement expired on June 30, 2022. As of June 30, 2022, all amounts have been paid towards this agreement. The Authority extended the contract through the year ended June 30, 2023 for an additional cost of \$6,300.

NOTE 12: RISKS AND UNCERTAINTIES

The Corps of Engineers is in the process of formalizing a contract for water storage whereby the Authority has agreed to pay a percentage of the costs of maintaining the dam. The percentage paid is tied to the amount of water stored. The Authority has doubled the amount of stored water in the lake, and expects the contract will increase, although the amount is not yet determinable.

As of the date of the Independent Auditor's Report, the COVID-19 pandemic has had an adverse impact on both domestic and global financial markets and operations. Management is unable to accurately predict how the COVID-19 pandemic will affect the results of the Authority's operations due to uncertainties surrounding the severity of the disease and duration of the outbreak.

NOTE 13: SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 6, 2022, the date that the financial statements were available to be issued.

Supplementary Information

The Poteau Valley Improvement Authority

Budgetary Comparison Schedule Year ended June 30, 2022

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
OPERATING REVENUES			
Water sales	\$ 4,143,200	\$ 4,099,468	\$ (43,732)
Miscellaneous income	<u>4,000</u>	<u>5,626</u>	<u>1,626</u>
	<u>4,147,200</u>	<u>4,105,094</u>	<u>(42,106)</u>
OPERATING EXPENSES			
Chemicals	687,000	564,837	(122,163)
Communications	10,000	-	(10,000)
Depreciation	720,000	941,820	221,820
Engineering services	10,000	6,540	(3,460)
Equipment rental	1,000	241	(759)
Insurance	182,500	167,325	(15,175)
Laundry	6,500	4,832	(1,668)
Legal and accounting	25,000	18,370	(6,630)
Licenses/fees/school	2,500	1,631	(869)
Management expenses	2,000	276	(1,724)
Office supplies	20,000	3,613	(16,387)
Payroll taxes	44,000	39,690	(4,310)
Plant supplies	23,000	25,200	2,200
Postage and freight	1,200	624	(576)
Radio control	8,000	7,200	(800)
Raw water storage costs	8,000	8,316	316
Repairs and maintenance	165,000	172,064	7,064
Retirement plan expense (income)	70,000	(107,651)	(177,651)
Salaries	532,000	480,393	(51,607)
Telephone	3,400	3,126	(274)
Testing and lab supplies	40,000	29,914	(10,086)
Truck expenses	35,000	20,523	(14,477)
Utilities	440,000	446,982	6,982
Water easements	<u>1,000</u>	<u>375</u>	<u>(625)</u>
	<u>3,037,100</u>	<u>2,836,241</u>	<u>(200,859)</u>
OPERATING INCOME	<u>1,110,100</u>	<u>1,268,853</u>	<u>158,753</u>

See Independent Auditor's Report.

The Poteau Valley Improvement Authority

Budgetary Comparison Schedule Year ended June 30, 2022

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
NON-OPERATING REVENUES (EXPENSE)			
Source water monitoring expense	(222,150)	(138,408)	83,742
Capital contribution	-	41,882	41,882
Interest income	6,000	2,598	(3,402)
Interest expense	(27,000)	(23,549)	3,451
	<u>(243,150)</u>	<u>(117,477)</u>	<u>125,673</u>
CHANGE IN NET POSITION	<u>\$ 866,950</u>	<u>\$ 1,151,376</u>	<u>\$ 284,426</u>
ADDITIONAL AMOUNTS BUDGETED:			
Large repairs, reoccurring maintenance and capital outlays	<u>\$ 1,150,000</u>	<u>\$ 106,447</u>	<u>\$ 1,043,553</u>

NOTE 1: BUDGET

The budget for the Authority is prepared on the accrual basis of accounting. The budget is approved by the Authority's Board of Trustees. The original budget approved is the same as the final budget.

**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 Trustees
The Poteau Valley Improvement Authority
Wister, 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 Poteau Valley Improvement Authority** (the Authority) which comprise the statement of net position as of June 30, 2022, 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 September 6, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Fort Smith, Arkansas
September 6, 2022