THE POTEAU VALLEY IMPROVEMENT AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

THE POTEAU VALLEY IMPROVEMENT AUTHORITY

JUNE 30, 2013 AND 2012

CONTENTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
The Poteau Valley Improvement Authority
Wister, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of **The Poteau Valley Improvement Authority**, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements which collectively comprise **The Poteau Valley Improvement Authority's** basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Poteau Valley Improvement Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **The Poteau Valley Improvement Authority** as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 to 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 evidence sufficient to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise **The Poteau Valley Improvement 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. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued our report dated September 3, 2013 on our consideration of **The Poteau Valley Improvement Authority's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

Beall Barclay + Company, PLC

BEALL BARCLAY & COMPANY, PLC
Certified Public Accountants

Fort Smith, Arkansas
September 3, 2013

POTEAU VALLEY IMPROVEMENT AUTHORITY

Management's Discussion and Analysis

Our discussion and analysis of Poteau Valley Improvement Authority's (the Authority's) financial performance provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2013 and June 30, 2012.

Using the Annual Audit Report

This annual audit report consists of a series of financial statements, footnotes and supplementary information. The Balance Sheets and the Statements of Revenues, Expenses and Changes in Net Assets (on pages 8-11) 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 Balance Sheets and the Statements of Revenues, Expenses and Changes in Net Assets 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 had several capital improvement projects in progress. The River Intake included in the 5 year plan was completed in the fiscal year 2012-2013 with a total cost of $637,313. Also in the fiscal year 2012-2013, the Authority built a Carbon Feed building with equipment at a cost of $139,324. The Authority is working on the 18" Panama line with a cost to date of $1,231,428 having been spent on this project. The Authority has also spent $1,700 on the Bokoshe Pump Station project.

The Authority has two projects ongoing that are "source water protection" projects. The first is a joint demo project with EPA, Corps of Engineers and the Secretary of Environment to improve water quality in Lake Wister. We have installed aeration equipment and floating wetlands in Quarry Island Cove. The project has cost approximately $132,556. An EPA grant of $75,000 was awarded. The Authority is providing the balance with cash and inkind service. This project is complete, while long term maintenance is ongoing.

The second is also a "source water protection" project. The Authority has contracted with U.S.G.S. and The Water Resource Board to monitor nutrients, suspended sediment, and river flows. Meanwhile, the Authority has contracted with Bioxdesign to monitor nutrients in the lake. This will be a four year project with an approximate cost of $442,500. The Authority has three contributors for this project, The Choctaw Nation, City of Poteau and AES Shady Point. They have committed to $110,000 a year for four years.

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.

Capital Improvement Projects:

The Authority has several projects in progress that will span several budget years. New river intake is part of the five year plan; engineering plans, state and Federal permits were acquired in the 2010-2011 budget year. The project was let for bid in June 2011. The low bid was $334,000 for the structure only; a change order was added for a center wall for $74,128. The remainder of the project was done by The Authority; i.e. 24" raw water line from the intake to the plant and the electrical work. The river intake project is complete and the Authority is waiting for OG&E to provide power.

Long-Term Debt Activity

During the year 2003-2004, the Authority refinanced all of the debt outstanding into one loan with the Bank of Oklahoma. This loan carries a fixed interest rate of 4.04%. Since that time regular monthly payments have been made on this loan, and savings in interest expense can be seen on the Statements of Revenues, Expenses and Changes in Net Assets.

Operating Revenues

Water sales are the primary source of revenue for the Authority. Each year the 15 entities the Authority provides water to 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. Expected sales for 2012-2013 were $2,652,000. Actual revenue was $2,603,354. This is up slightly from 2011-2012 when actual revenue was $2,579,432. The largest influence on water sales is the weather. This year total gallons were 2,002,580,090 compared to 1,984,178,160 gallons in 2011-2012. The City of Heavener is an on demand water user. For 2012-2013 fiscal year, they have purchased 80,941,000 gallons due to completion of an expansion project at the Heavener water plant. This will mean a drop in sales in the years to come for the Authority. This will be offset by the addition of a new purchaser; the City of Keota has plans to join The Authority and should buy 15 to 20 million gallons a year.

Non-Operating Income

The interest on CD's and Capital Improvement Funds was slightly higher in 2012-2013 due to the interest rate and moving money from the Capital Improvement Fund into CD's with higher interest rates. Total received was $19,382 compared to $16,952 for 2011-2012.

Operating Expenses

Expenses are estimated and budgeted for each year. They include chemicals, electrical, salaries, repairs and maintenance, insurance and depreciation. For 2012-2013, total operating expenses were $2,083,111 compared to $2,057,782 for the 2011-2012 year.

Raw water storage cost decreased in the fiscal year 2012-2013 to $15,747 compared to $22,616 in the fiscal year 2011-2012. The Authority's water storage contract with the Corps of Engineers requires the Authority to pay 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.

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 down by 2%. Truck expense went up slightly in the fiscal year 2012-2013 of $28,569 compared to $27,907 in the 2011-2012 fiscal year. Repairs and maintenance expenses are up by $8,043 in the 2012-2013 fiscal year of $88,285 compared to fiscal year 2011-2012 of $80,242. Operating expense will continue to rise as energy costs rise; also plant equipment is aging and wearing.

Summary

The Authority has Fixed Assets of $23,820,208 and $1,982,571 in CD's and Capital Improvement Funds at the end of fiscal year 2012-2013 compared to $2,737,236 in CD's and Capital Improvement Funds and $22,415,954 in fixed assets at the end of the 2011-2012 fiscal year. The decrease in the CD's and Capital Improvement Fund of $754,665 is due to work on the river intake project, the Panama 18" line project and interest income, transferring funds from our operation and maintenance account. (See graph on page 7).

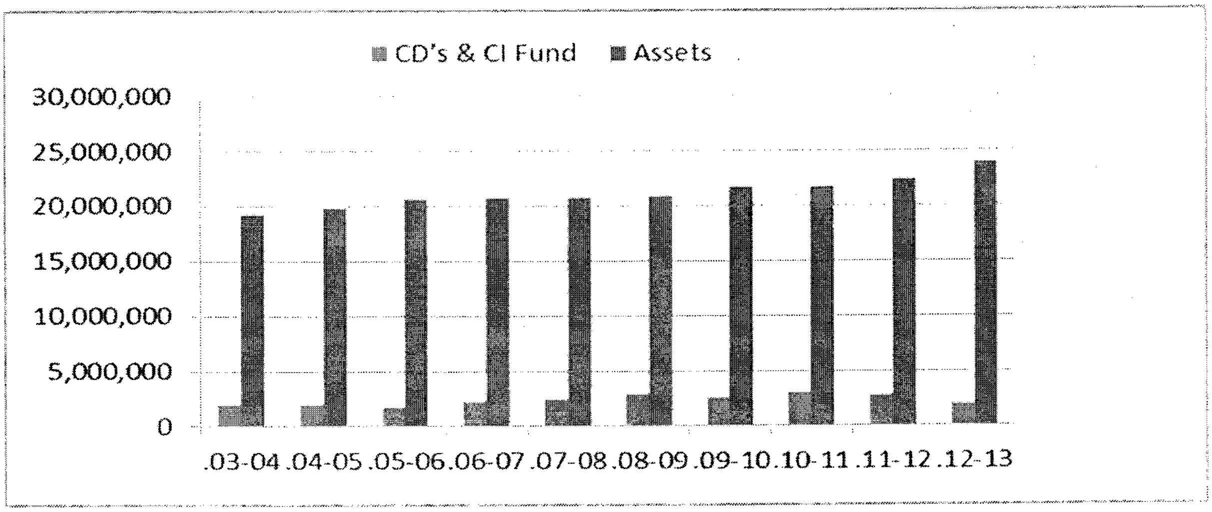
The Authority is in compliance with all State and Federal water quality and environmental regulations. It is management's opinion that the present rate of $1.30 per thousand gallons is adequate to fund operation and maintenance and needed capital improvements for the next year.

Work Completed	Year Completed	Estimated Cost	Funds Spent on 5 yr. plan	
12" Line toward Sunset Corner	FY 05-06	75,000	87,585	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
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	73,488	73,488	1
2-20" River Crossings	FY 11-12	274,240	387,275	1
New Intake 11-12/12-13	FY 11/12-12/13	724,000	637,313	1
Powdered Activated Carbon Feeder	FY 12-13	200,000	139,324	1
	Sub. Total	2,377,137	2,623,484	
Work in Progress				
14,600' 18" line Panama & Brazil Creek Crossing	FY 12-13	600,000	882,628	2
Bokoshe Pump Station	FY 12-13	250,000*	1,700	2
	Sub. Total	850,000	884,328	
Revised Plan				
Lake Model		237,840*		
Relocate 18" line around College		300,000		
2-12" River Crossings		300,000		
7000' 18" line to Panama		350,000		
New 1 MG Clearwell & Dist. Pump		1,500,000		
100' Clarifer & 4 Filters		2,600,000		
	Total	8,514,977	3,507,812	
Balance of Projects		5,007,165		

(1) Projects Completed
(2) Projects in Progress
* Projects Planned for FY 2013-2014

Regulatory Outlook

The Authority is in compliance with present EPA Rules. The 2010 Long Term II Enhanced Surface Water Treatment Rule has come and gone with the Authority in compliance. (We will have to test again in 2014 for the rule.) Stage II Disinfection By-Products Rule 2013 system evaluation has been completed in 2010. The evaluation determined the Authority can comply. The purchase water systems failed but only by about 20-30% of the limit. Rather than change disinfection practices at the plant the purchase water systems are willing to make changes in their systems to limit the production of disinfection-by-products. The Authority will install a new activated carbon feeder at the plant that will allow a great deal more carbon to be feed to the raw water for organic carbon removal.



At year end	CD's & CI Fund	Fixed assets before depreciation
2012-2013	$ 1,982,571	$ 23,820,208
2011-2012	2,737,236	22,415,954
2010-2011	2,978,693	21,698,297
2009-2010	2,595,662	21,644,297
2008-2009	2,860,026	20,816,800
2007-2008	2,495,364	20,688,078
2006-2007	2,240,851	20,756,459
2005-2006	1,766,581	20,568,730
2004-2005	1,917,450	19,820,809
2003-2004	1,936,294	19,179,433

THE POTEAU VALLEY IMPROVEMENT AUTHORITY
BALANCE SHEETS
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,069,960	$ 2,879,315
Accounts receivable	215,320	267,488
Prepaid expenses	89,191	84,685
Total Current Assets	2,374,471	3,231,488
PROPERTY, PLANT AND EQUIPMENT		
Land	75,734	75,734
Construction in progress	1,026,564	405,569
Water plant buildings, facilities, and improvements	7,299,128	7,159,804
Storage tanks	2,010,525	2,010,525
Water lines	10,968,290	10,968,290
Machinery and equipment	2,182,878	1,545,565
Trucks and trailers	239,692	233,070
Office equipment	17,397	17,397
	23,820,208	22,415,954
Less accumulated depreciation	10,416,369	9,861,401
	13,403,839	12,554,553
OTHER ASSETS		
Loan issuance costs, net of accumulated amortization of $63,416 and $56,498, respectively	12,684	19,602
Deposits	20	20
	12,704	19,622
	$ 15,791,014	$ 15,805,663

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

	2013	2012
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 427,464	$ 410,567
Accounts payable	26,587	9,709
Accrued liabilities	4,496	5,804
Total Current Liabilities	458,547	426,080
LONG-TERM DEBT	406,537	834,076
Total Liabilities	865,084	1,260,156
NET ASSETS		
Invested in capital assets net of related debt	5,405,588	4,145,660
Net assets - unrestricted	2,356,092	3,235,597
	7,761,680	7,381,257
Contributed capital	7,164,250	7,164,250
	14,925,930	14,545,507
	$ 15,791,014	$ 15,805,663

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

THE POTEAU VALLEY IMPROVEMENT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
OPERATING REVENUES		
Water sales	$ 2,603,354	$ 2,579,432
Miscellaneous income	2,671	2,488
	2,606,025	2,581,920
OPERATING EXPENSES		
Chemicals	317,804	328,078
Depreciation and amortization	561,886	541,006
Engineering services	1,600	2,440
Insurance	169,448	168,897
Laundry	4,560	4,483
Legal and accounting	14,509	14,989
Licenses/fees/school	2,633	1,851
Management expenses	1,625	977
Office supplies	851	988
Payroll taxes	32,402	34,458
Plant supplies	11,601	12,076
Postage and freight	712	1,047
Radio control	5,040	5,040
Raw water lease	15,747	22,616
Repairs and maintenance	88,285	80,242
Research	15,332	-
Retirement plan contributions	50,142	55,579
Salaries	390,632	398,804
Telephone	4,418	4,386
Testing and lab supplies	30,754	27,057
Truck expenses	28,569	27,907
Trust fees and service charges	750	750
Utilities	333,236	323,536
Water easements	575	575
	2,083,111	2,057,782
OPERATING INCOME	522,914	524,138

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

	2013	2012
NON-OPERATING REVENUES (EXPENSE)		
Source water monitoring income	50,000	95,000
Source water monitoring expense	(170,303)	(187,118)
Gain on sale of equipment	-	1,185
Interest income	19,382	16,952
Interest expense	(41,570)	(57,777)
	(142,491)	(131,758)
CHANGE IN NET ASSETS	380,423	392,380
NET ASSETS, BEGINNING OF YEAR	7,381,257	6,988,877
NET ASSETS, END OF YEAR	$ 7,761,680	$ 7,381,257

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

THE POTEAU VALLEY IMPROVEMENT AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 2,655,522	$ 2,580,859
Payments to vendors	(1,068,254)	(1,109,906)
Payments to employees	(390,632)	(413,024)
Payments to retirement plan	(50,142)	(55,579)
Other receipts	2,671	2,488
Net Cash From Operating Activities	1,149,165	1,004,838
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(1,404,254)	(738,329)
Proceeds from sale of equipment	-	1,185
Principal payments on long-term debt	(410,642)	(394,241)
Interest paid	(42,703)	(59,104)
Net Cash (Used For) Capital and Related Financing Activities	(1,857,599)	(1,190,489)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net source water monitoring	(120,303)	(92,118)
Receipts of interest	19,382	16,952
Net Cash (Used For) Investing Activities	(100,921)	(75,166)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(809,355)	(260,817)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,879,315	3,140,132
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,069,960	$ 2,879,315

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

	2013	2012
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Operating income	$ 522,914	$ 524,138
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	561,886	541,006
Change in:		
Accounts receivable	52,168	1,427
Prepaid expenses	(4,506)	(8,974)
Accounts payable	16,878	(38,539)
Accrued liabilities	(175)	(14,220)
Total adjustments	626,251	480,700
Net Cash From Operating Activities	$ 1,149,165	$ 1,004,838

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 or 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.

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. The Authority had fully depreciated assets still in use with an original cost of $1,945,803 and $1,845,138 at June 30, 2013 and 2012, respectively.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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.

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.

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 within by the 25th of the month. Past-due accounts are assessed a 10% late charge.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events

Subsequent events are evaluated through the date the financial statements were available to be issued, which is the date of the Independent Auditors' Report.

NOTE 2: 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, 2013, all deposits were in two financial institutions and carried at cost. The amounts of these deposits are displayed on the Balance Sheet as "Cash and cash equivalents."

	Bank Balance	Book Balance
Insured (FDIC)	$ 434,933	$ 337,289
Collateralized	2,080,229	1,732,571
Uninsured/uncollateralized	-	-
	$ 2,515,162	$ 2,069,860

Also included in "Cash and cash equivalents" on the Balance Sheet at June 30, 2013 is petty cash amounting to $100.

NOTE 3: RETIREMENT SYSTEM

The Authority participates in the Oklahoma Public Employees Retirement System. Contributions to the retirement system are made by the Authority as required by law. During the years ended June 30, 2013 and 2012, amounts equal to 14% of employee wages were contributed to the system with no percentage adjustment at different wage levels. In addition to the amounts contributed by the Authority during the years ended June 30, 2013 and 2012, employees must contribute 6% of their monthly compensation to the system.

NOTE 4: 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.

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 $215,320 and $267,488 at June 30, 2013 and 2012, respectively.

NOTE 6: LONG-TERM DEBT

Long-term debt at June 30, 2013 and 2012 consisted of:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current portion June 30, 2013	Long-term portion June 30, 2013
Bank of Oklahoma	$ 1,244,643	$ -	$ 410,642	$ 834,001	$ 427,464	$ 406,537

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current portion June 30, 2012	Long-term portion June 30, 2012
Bank of Oklahoma	$ 1,638,884	$ -	$ 394,241	$ 1,244,643	$ 410,567	$ 834,076

The Bank of Oklahoma note is collateralized by a first lien on revenues with monthly payments of $37,779, including interest at 4.04%, and a maturity date of May 4, 2015. The note requires the Authority to maintain certain financial covenants. The Authority capitalized issuance costs associated with this note in the amount of $76,100 and is amortizing those costs over the term of the note.

Interest paid during the years ended June 30, 2013 and 2012 amounted to $42,703 and $59,104, respectively.

At June 30, 2013, the Authority was in substantial compliance with all covenants.

Annual requirements to amortize outstanding debt are as follows:

Years ending June 30,	Principal	Interest	Total
2014	$ 427,464	$ 25,881	$ 453,345
2015	406,537	8,287	414,824
	$ 834,001	$ 34,168	$ 868,169

NOTE 7: NONCASH TRANSACTIONS

There were no noncash transactions during the year ended June 30, 2013 and 2012.

NOTE 8: RELATED PARTIES

During the year ended June 30, 2004, the Authority entered into an agreement with an employee and relatives of the employee to dispose of sludge generated by the Authority on the employee's property as part of a test project to determine whether the sludge is suitable for growing Bermuda grass for sod farms. Under the agreement, the Authority is responsible for dumping and spreading the sludge until such time as representatives from the Kerr Center for Sustainable Agriculture determine sufficient buildup has taken place. At that time, Bermuda grass will be planted. The Authority will be responsible for providing irrigation to the plot and for maintaining the necessary research records. The agreement was set to expire in February 2006, at which time the agreement could have been renewed, if approved by all parties. Upon expiration of the contract, a verbal agreement was entered into for an undetermined amount of time.

NOTE 9: DESIGNATED CASH

As of June 30, 2013 and 2012, the Authority's Board of Trustees designated $35,322 and $620,094, respectively, of unrestricted cash for capital improvements.

NOTE 10: CHANGES IN PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant, and equipment during the years ended June 30, 2013 and 2012 are as follows:

	Balance July 1, 2012	Additions	Deletions	Transfers	Balance June 30, 2013
Land	$ 75,734	$ -	$ -	$ -	$ 75,734
Construction in progress	405,569	1,164,689	-	(543,694)	1,026,564
Water plant buildings, facilities and improvements	7,159,804	-	-	139,324	7,299,128
Storage tanks	2,010,525	-	-	-	2,010,525
Water lines	10,968,290	-	-	-	10,968,290
Machinery and equipment	1,545,565	232,943	-	404,370	2,182,878
Trucks and trailers	233,070	6,622	-	-	239,692
Office equipment	17,397	-	-	-	17,397
	22,415,954	1,404,254	-	-	23,820,208
Less: accumulated depreciation	9,861,401	554,968	-	-	10,416,369
	$ 12,554,553	$ 849,286	$ -	$ -	$ 13,403,839

NOTE 10: CHANGES IN PROPERTY, PLANT AND EQUIPMENT – CONTINUED

	Balance July 1, 2011	Additions	Deletions	Transfers	Balance June 30, 2012
Land	$ 75,734	$ -	$ -	$ -	$ 75,734
Construction in progress	78,279	340,040	-	(12,750)	405,569
Water plant buildings, facilities and improvements	7,159,804	-	-	-	7,159,804
Storage tanks	2,010,525	-	-	-	2,010,525
Water lines	10,580,844	374,696	-	12,750	10,968,290
Machinery and equipment	1,545,565	-	-	-	1,545,565
Trucks and trailers	230,149	23,593	20,672	-	233,070
Office equipment	17,397	-	-	-	17,397
	21,698,297	738,329	20,672	-	22,415,954
Less: accumulated depreciation	9,347,985	534,088	20,672	-	9,861,401
	$ 12,350,312	$ 204,241	$ -	$ -	$ 12,554,553

NOTE 11: COMMITMENTS

During the year ended June 30, 2011, the Authority entered into agreements with The Choctaw Nation, City of Poteau and AES Shady Point, LLC to monitor the source water obtained by the Authority from Lake Wister. The above entities have agreed to share the cost of the project over a four year period. The monitoring services are being performed in conjunction with the United States Department of the Interior, U.S. Geological Survey (USGS). The Authority entered into an agreement dated August 10, 2010 to pay the USGS $392,300 over a four year period beginning August 10, 2010 for services related to the source water monitoring project. As of June 30, 2013, $244,875 has been paid toward this agreement.

SUPPLEMENTARY INFORMATION

THE POTEAU VALLEY IMPROVEMENT AUTHORITY
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2013

	BUDGET	ACTUAL	VARIANCE
OPERATING REVENUES			
Water sales	$ 2,652,000	$ 2,603,354	$ 48,646
Miscellaneous income	-	2,671	(2,671)
	2,652,000	2,606,025	45,975
OPERATING EXPENSES			
Chemicals	350,000	317,804	32,196
Depreciation and amortization	450,000	561,886	(111,886)
Engineering services	10,000	1,600	8,400
Equipment rental	1,000	-	1,000
Insurance	176,900	169,448	7,452
Laundry	6,500	4,560	1,940
Legal and accounting	18,000	14,509	3,491
Licenses/fees/school	2,500	2,633	(133)
Management expenses	2,000	1,625	375
Office supplies	2,000	851	1,149
Payroll taxes	35,500	32,402	3,098
Plant supplies	15,000	11,601	3,399
Postage and freight	1,200	712	488
Radio control	5,100	5,040	60
Raw water lease	18,000	15,747	2,253
Repairs and maintenance	107,500	88,285	19,215
Research	20,000	15,332	4,668
Retirement plan contributions	58,000	50,142	7,858
Salaries	460,000	390,632	69,368
Telephone	5,000	4,418	582
Testing and lab supplies	40,000	30,754	9,246
Truck expenses	40,000	28,569	11,431
Trust fees and service charges	1,000	750	250
Utilities	389,000	333,236	55,764
Water easements	1,000	575	425
	2,215,200	2,083,111	132,089
OPERATING INCOME	436,800	522,914	(86,114)

THE POTEAU VALLEY IMPROVEMENT AUTHORITY
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2013

	BUDGET	ACTUAL	VARIANCE
NON-OPERATING REVENUES (EXPENSE)			
Source water monitoring income	110,000	50,000	60,000
Source water monitoring expense	(180,000)	(170,303)	(9,697)
Gain on sale of equipment	-	-	-
Interest income	16,000	19,382	(3,382)
Interest expense	(43,000)	(41,570)	(1,430)
	(97,000)	(142,491)	45,491
CHANGE IN NET ASSETS	$ 339,800	$ 380,423	$ (40,623)

ADDITIONAL AMOUNTS BUDGETED:			
Large repairs, reoccurring maintenance and capital outlays	$ 1,200,000	$ 1,404,254	$ (204,254)
Principal on long-term debt	410,600	410,642	(42)

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 AUDITORS' 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) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements, and have issued our report thereon dated September 3, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **The Poteau Valley Improvement Authority's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity'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.
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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 were not identified. We did identify certain deficiencies in internal control described below that we consider to be significant deficiencies.

Preparation of Financial Statements

Condition: As a part of the audit engagement, we assisted management in the preparation of the Authority's financial statements. Although management reviewed and approved the financial statements and related footnotes, management's current system of internal control lacks adequate controls to ensure the propriety and completeness of disclosure in the footnotes.

Criteria and Cause: Internal control over financial reporting includes management's controls over the preparation of financial statements and related footnotes. An auditor can assist in assembling or drafting the financial statements and related footnotes; however, an auditor cannot be part of the Authority's internal control. Management does not have internal controls in place to ensure the propriety and completeness of the information in the financial statements, including disclosure in the related footnotes.

Effect: Under the current process, errors or omissions in the footnote disclosures to the financial statements might not be prevented or detected and corrected on a timely basis by the Authority's management.

Recommendation: We understand management feels its current controls over the preparation of financial statements are adequate and implementing additional controls is not practical or feasible with the Authority's current staff and resources. We recommend management continue to evaluate the cost/benefit of improving internal control over the preparation of financial statements and implement additional controls as considered necessary.

Segregation of Duties

Condition: We noted that there is no review or approval of general journal entries posted to the accounting system by an individual that is separate from the posting of the entry. We also noted that access to the accounting system is not user specific and that all users have unrestricted access to all the ledgers and transaction posting abilities of the accounting system.

Criteria and Cause: A proper segregation of duties is an integral part of any internal control system. Ideally, duties should be segregated to prevent one person from being in a position to authorize transactions, record transactions and maintain custody of assets of the organization. Our review of the Authority's financial reporting system disclosed that, primarily due to the limited number of accounting personnel, there are inherent limitations in the Authority's controls in this regard.

Effect: A lack of proper segregation of duties increases the risk that errors or fraud may occur and not be detected in a timely manner.

Recommendation: While we realize the Authority does not presently have the staff necessary to achieve a complete segregation of duties, and the employment of additional personnel for the purpose of segregating duties may not be possible from a cost-benefit standpoint, we believe there are certain instances where duties can and should be reassigned to ensure that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction. We recommend the Board of Directors work closely with management to determine ways to reassign duties with existing personnel to maximize segregation of duties.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **The Poteau Valley Improvement 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beall Barclay + Company, PLC

BEALL BARCLAY & COMPANY, PLC
Certified Public Accountants

Fort Smith, Arkansas
September 3, 2013