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State Auditor & Inspector

# THE POTEAU VALLEY IMPROVEMENT AUTHORITY

## FINANCIAL STATEMENTS

## JUNE 30, 2011 AND 2010

# THE POTEAU VALLEY IMPROVEMENT AUTHORITY

**JUNE 30, 2011 AND 2010**

**CONTENTS**

BEALL BARCLAY

*CERTIFIED PUBLIC ACCOUNTANTS*

## INDEPENDENT AUDITORS' REPORT

Board of Trustees
**The Poteau Valley Improvement Authority**
Wister, Oklahoma

We have audited the accompanying balance sheets of **The Poteau Valley Improvement Authority** (the Authority) as of June 30, 2011 and 2010, and the related statements of revenues and expenses, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2011 on our consideration of **The Poteau Valley Improvement 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 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 and the budgetary comparison schedule on pages 21 and 22 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Beall Barclay + Company, PLC

**BEALL BARCLAY & COMPANY, PLC**
Certified Public Accountants

Fort Smith, Arkansas
September 6, 2011

# THE POTEAU VALLEY IMPROVEMENT AUTHORITY

## Management's Discussion and Analysis

Our discussion and analysis of The 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, 2011 and June 30, 2010.

### 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 and Expenses (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 and Expenses 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 18" line to Pocola, finished at a cost of $760,288 and the new intake is in the five year plan. In the fiscal year 2009-2010, we spent $50,269 on the intake and in fiscal year 2010-2011, $13,345 was spent. Work has also started on the River Crossing. To date, we have spent $12,750. We have also spent $40,516 to repair a Bull Gear, $15,771 on repairs of the dozer and $37,805 to repair two pumps, frequency drive and replace a valve in the plant.

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 in-kind service. As of June 30, 2011, PVIA has spent $134,116. This project is complete, while long term maintenance 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.

**Variations Between Original and Actual Budget Results**

The 2010-2011 budget was based on expected income and capital improvements expenditures. The budgeted amount for repairs and maintenance of $712,500 included amounts budgeted for capital expenditures. Some larger improvement projects included in the original budget were not completed in this fiscal year.

**Capital Improvement Projects:**

The Authority completed one project in fiscal year 2010-2011, the 18" line on Hwy 112. 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, the remainder of the project will be done by The Authority; i.e. 24" raw water line from the intake to the plant and the electrical work. The 20" river crossing is part of system improvement. The first crossing was let for bid in April 2011 for $123,740. The second river crossing was added to the first contract by change order for labor only, material will be provided by The Authority.

**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 is reflected on the Statements of Revenues and Expenses.

**Operating Revenues**

Water sales are the primary source of revenue for the Authority. Each year the 15 entities The Authority provides water to make requests 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 2010-2011 were $2,400,000. Actual revenue was $2,657,953. This is up slightly from 2009-2010 when expected revenue was $2,340,000, and actual revenue was $2,652,161. The largest influence on water sales is the weather. This year total gallons sold were 2,044,579,690 compared to 2,040,123,580 gallons in 2009-2010. The City of Heavener is an on demand water user. For 2009-2010 fiscal year, they had only purchased 3,218,000 gallons due to completion of an expansion project at the Heavener water plant. For 2010-2011 fiscal year, they purchased 39,691,600 gallons, due to several malfunctions with their intake. When the City of Heavener's intake is functioning properly, 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 lower in 2010-2011 due to the interest rate. Total received was $12,695 compared to $14,077 for 2009-2010.

## Operating Expenses

Expenses are estimated and budgeted for each year. They include chemicals, electrical, salaries, repairs and maintenance, insurance and depreciation. For 2010-2011, total operating expenses were $2,183,327 compared to $2,157,623 for the 2009-2010 year.

Raw water storage cost increased in the fiscal year 2010-2011 to $11,834 compared to $9,839 in fiscal year 2009-2010. 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 as 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.

Salaries are up by 3% due to merit, cost of living raises and overtime. Truck expense went up slightly. In the fiscal year 2010-2011, truck expenses were $32,342 compared to fiscal year 2009-2010 truck expenses of $21,480. Repairs and maintenance expenses are up by $97,890 due to repairs on a Bull Gear, dozer, intake pumps and frequency drive. Repairs and maintenance for fiscal year 2010-2011 was $171,352 compared to fiscal year 2009-2010 repairs and maintenance of $73,462. Operating expense will continue to rise as energy cost rise; also plant equipment is aging and wearing.

## Summary

The Authority began fiscal year 2010-2011 with $2,595,662 in CDs and Capital Improvement Funds and Fixed Assets of $21,644,292 compared to 2009-2010 with $2,860,026 in CDs and Capital Improvement Funds and Fixed Assets of $20,816,800. The Authority has Fixed Assets of $21,698,297 and $2,978,693 in CDs and Capital Improvement Funds at the end of fiscal year 2010-2011. The increase in the CDs and Capital Improvement Fund of $383,031 is due to interest income and transferring funds from our O&M account (See graph below). 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.

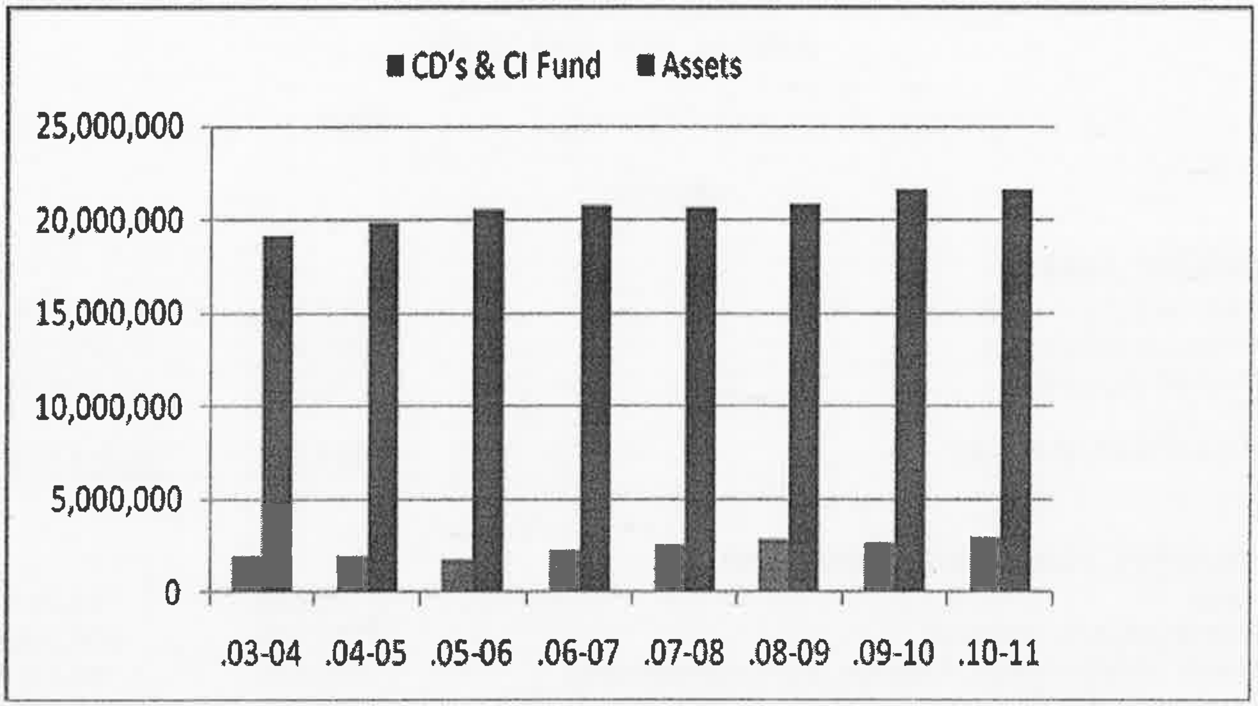
The Authority has a 5 year plan for Plant Improvements.

| Year | Project | Estimated Cost | Funds spent on 5yr Plan |
|---|---|---|---|
| 2007 | | | |
| | 12" Line Sunset Corner | $ 75,000 | $ 87,585 (1) |
| | Backwash Tank | 237,000 | 255,419 (1) |
| | 90" Clarifier | 90,000 | 93,090 (1) |
| | Panama Pump Station | 43,000 | 36,151 (1) |
| 2008 & 2009 | | | |
| | 7000' 18" Line Panama | 350,000 | |
| | 7000' 18" River Crossing to Pocola | 590,236 | 757,813 (1) |
| | Work on Intake | 150,000 | 85,000 (1) |
| 2010 | | | |
| | 60' Clarifier Repair | 60,000 | 40,516 (1) |
| | Clear Well and Piping | 1,500,000 | |
| | New Intake | 1,000,000 | 75,068 (2) |
| 2011 | | | |
| | 100" Clarifier | 1,200,000 | |
| 2012 | | | |
| | 4 New Filters | 1,400,000 | |
| | 2 Intake Pumps | 80,000 | 30,510 (1) |
| | Drying Beds | 40,000 | |
| | Bokoshe Pump Station | 200,000 | |
| | Total | $7,015,236 | $1,461,152 |
| Balance of projects | | $5,554,084 | |

(1) Projects completed
(2) Projects in progress

## 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 may be able to comply. The purchase water systems will not. A change in disinfection practices may be required.




| At year end | CD's & CI Fund | Fixed assets before depreciation |
|---|---|---|
| 2010-2011 | $ 2,978,693 | $ 21,698,297 |
| 2009-2010 | 2,595,662 | 21,644,292 |
| 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, 2011 AND 2010

| | 2011 | 2010 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 3,140,132 | $ 2,700,726 |
| Accounts receivable | 268,915 | 273,022 |
| Prepaid expenses | 75,711 | 70,885 |
| Total Current Assets | 3,484,758 | 3,044,633 |
| **PROPERTY, PLANT, AND EQUIPMENT** | | |
| Land | 75,734 | 75,734 |
| Construction in progress | 78,279 | 804,549 |
| Water plant buildings, facilities, and improvements | 7,159,804 | 7,146,683 |
| Storage tanks | 2,010,525 | 2,010,525 |
| Water lines | 10,580,844 | 9,820,555 |
| Machinery and equipment | 1,545,565 | 1,545,565 |
| Trucks and trailers | 230,149 | 223,284 |
| Office equipment | 17,397 | 17,397 |
| | 21,698,297 | 21,644,292 |
| Less accumulated depreciation | 9,347,985 | 8,850,452 |
| | 12,350,312 | 12,793,840 |
| **OTHER ASSETS** | | |
| Loan issuance costs, net of accumulated amortization of $49,580 and $42,662, respectively | 26,520 | 33,438 |
| Deposits | 20 | 20 |
| | 26,540 | 33,458 |
| | $ 15,861,610 | $ 15,871,931 |

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

| | 2011 | 2010 |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| **CURRENT LIABILITIES** | | |
| Current portion of long-term debt | $ 394,189 | $ 378,755 |
| Accounts payable | 48,248 | 110,373 |
| Accrued liabilities | 21,351 | 21,487 |
| Total Current Liabilities | 463,788 | 510,615 |
| **LONG-TERM DEBT** | 1,244,695 | 1,638,885 |
| Total Liabilities | 1,708,483 | 2,149,500 |
| **EQUITY** | | |
| Retained Earnings | | |
| Invested in capital assets net of related debt | 3,547,178 | 3,611,950 |
| Retained earnings - unrestricted | 3,441,699 | 2,946,231 |
| | 6,988,877 | 6,558,181 |
| Contributed capital | 7,164,250 | 7,164,250 |
| | 14,153,127 | 13,722,431 |
| | $ 15,861,610 | $ 15,871,931 |

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

# THE POTEAU VALLEY IMPROVEMENT AUTHORITY
## STATEMENTS OF REVENUES AND EXPENSES
## YEARS ENDED JUNE 30, 2011 AND 2010

| | 2011 | 2010 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Water sales | $ 2,657,953 | $ 2,652,161 |
| Miscellaneous income | 3,041 | 7,391 |
| | 2,660,994 | 2,659,552 |
| **OPERATING EXPENSES** | | |
| Chemicals | 327,589 | 419,453 |
| Depreciation and amortization | 522,415 | 501,523 |
| Engineering services | 17,720 | 8,450 |
| Equipment rental | 110 | 50 |
| Insurance | 162,835 | 146,434 |
| Laundry | 4,005 | 4,894 |
| Legal and accounting | 16,652 | 19,738 |
| Licenses/fees/school | 2,021 | 1,227 |
| Management expenses | 1,642 | 1,380 |
| Office supplies | 976 | 1,825 |
| Payroll taxes | 31,351 | 30,462 |
| Plant supplies | 10,714 | 14,064 |
| Postage and freight | 1,104 | 1,387 |
| Radio control | 5,040 | 5,040 |
| Raw water lease | 11,834 | 9,839 |
| Repairs and maintenance | 171,352 | 73,462 |
| Research | 78,511 | 64,919 |
| Retirement plan contributions | 50,202 | 101,634 |
| Salaries | 386,176 | 374,964 |
| Telephone | 4,136 | 4,121 |
| Testing and lab supplies | 25,509 | 21,597 |
| Truck expenses | 32,342 | 21,480 |
| Trust fees and service charges | 420 | 790 |
| Utilities | 317,695 | 327,487 |
| Water easements | 975 | 1,403 |
| | 2,183,326 | 2,157,623 |
| **OPERATING INCOME** | 477,668 | 501,929 |

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

| | 2011 | 2010 |
|---|---|---|
| **NON-OPERATING REVENUES (EXPENSE)** | | |
| Source water monitoring income | 83,750 | - |
| Source water monitoring expense | (72,097) | - |
| Gain on sale of equipment | 810 | - |
| Interest income | 12,695 | 14,077 |
| Interest expense | (72,130) | (89,557) |
| | (46,972) | (75,480) |
| **NET INCOME** | $ 430,696 | $ 426,449 |

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

# THE POTEAU VALLEY IMPROVEMENT AUTHORITY
## STATEMENTS OF RETAINED EARNINGS
## YEARS ENDED JUNE 30, 2011 AND 2010

| | 2011 | 2010 |
|---|---|---|
| **BALANCE, BEGINNING OF YEAR** | $ 6,558,181 | $ 6,131,732 |
| Net income | 430,696 | 426,449 |
| **BALANCE, END OF YEAR** | $ 6,988,877 | $ 6,558,181 |

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

# THE POTEAU VALLEY IMPROVEMENT AUTHORITY
## STATEMENTS OF CASH FLOWS
## YEARS ENDED JUNE 30, 2011 AND 2010

| | 2011 | 2010 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from customers | $ 2,662,060 | $ 2,606,295 |
| Payments to vendors | (1,291,484) | (1,127,504) |
| Payments to employees | (383,853) | (374,301) |
| Payments to retirement plan | (50,202) | (101,634) |
| Other receipts | 3,041 | 7,391 |
| Net Cash From Operating Activities | 939,562 | 1,010,247 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Capital expenditures | (71,969) | (835,302) |
| Proceeds from sale of equipment | 810 | - |
| Principal payments on long-term debt | (378,756) | (363,787) |
| Interest paid | (74,589) | (89,557) |
| Net Cash (Used For) Capital and Related Financing Activities | (524,504) | (1,288,646) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Net source water monitoring | 11,653 | - |
| Receipts of interest | 12,695 | 14,077 |
| Net Cash From Investing Activities | 24,348 | 14,077 |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | 439,406 | (264,322) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 2,700,726 | 2,965,048 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 3,140,132 | $ 2,700,726 |

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

| | 2011 | 2010 |
|---|---|---|
| **RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:** | | |
| Operating income | $ 477,668 | $ 501,929 |
| Adjustments to reconcile operating income to net cash from operating activities: | | |
| Depreciation and amortization | 522,415 | 501,523 |
| Write off of engineering costs previously capitalized | - | 7,810 |
| Change in: | | |
| Accounts receivable | 4,107 | (45,866) |
| Prepaid expenses | (4,826) | (7,681) |
| Accounts payable | (62,125) | 51,869 |
| Accrued liabilities | 2,323 | 663 |
| Total adjustments | 461,894 | 508,318 |
| Net Cash From Operating Activities | $ 939,562 | $ 1,010,247 |

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

# THE POTEAU VALLEY IMPROVEMENT AUTHORITY
## NOTES TO FINANCIAL STATEMENTS
## JUNE 30, 2011 AND 2010

### *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 FASB (Financial Accounting Standards Board) 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 has fully depreciated assets still in use with an original cost of $1,835,986 and $1,787,931 at June 30, 2011 and 2010, 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 25$^{th}$ 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 standard 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 end of the audit period, 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, 2011, 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) | $ 413,011 | $ 411,339 |
| Collateralized | 2,726,677 | 2,728,693 |
| Uninsured/uncollateralized | - | - |
| | $ 3,139,688 | $ 3,140,032 |

Also included in "Cash and cash equivalents" on the Balance Sheet at June 30, 2011 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, 2011 and 2010, amounts equal to 14% and 13%, respectively, 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, 2011 and 2010, employees could 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 $268,915 and $273,022 at June 30, 2011 and 2010, respectively.

## *NOTE 6:* LONG-TERM DEBT

Long-term debt at June 30, 2011 and 2010 consisted of:

| | Balance July 1, 2010 | Additions | Reductions | Balance June 30, 2011 | Current portion June 30, 2011 | Long-term portion June 30, 2011 |
|---|---|---|---|---|---|---|
| Bank of Oklahoma | $ 2,017,640 | $ - | $ 378,756 | $ 1,638,884 | $ 394,189 | $ 1,244,695 |

| | Balance July 1, 2009 | Additions | Reductions | Balance June 30, 2010 | Current portion June 30, 2010 | Long-term portion June 30, 2010 |
|---|---|---|---|---|---|---|
| Bank of Oklahoma | $ 2,381,427 | $ - | $ 363,787 | $ 2,017,640 | $ 378,755 | $ 1,638,885 |

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, 2011 and 2010 amounted to $74,589 and $89,557, respectively.

At June 30, 2011, 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 |
|---|---|---|---|
| 2012 | $ 394,189 | $ 59,156 | $ 453,345 |
| 2013 | 410,567 | 42,778 | 453,345 |
| 2014 | 427,464 | 25,881 | 453,345 |
| 2015 | 406,664 | 8,288 | 414,952 |
| | $ 1,638,884 | $ 136,103 | $ 1,774,987 |

## *NOTE 7:* NONCASH TRANSACTIONS

During the year ended June 30, 2011, the Authority wrote off fully depreciated equipment no longer in service with an original cost of $1,053.

There were no noncash transactions during the year ended June 30, 2010.

## *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, 2011 and 2010, the Authority's Board of Trustees designated $1,115,235 and $734,858, 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, 2011 and 2010 are as follows:

| | Balance July 1, 2010 | Additions | Deletions | Transfers | Balance June 30, 2011 |
|---|---|---|---|---|---|
| Land | $ 75,734 | $ - | $ - | $ - | $ 75,734 |
| Construction in progress | 804,549 | 26,095 | - | (752,365) | 78,279 |
| Water plant buildings, facilities and improvements | 7,146,683 | 14,174 | 1,053 | - | 7,159,804 |
| Storage tanks | 2,010,525 | - | - | - | 2,010,525 |
| Water lines | 9,820,555 | 7,924 | - | 752,365 | 10,580,844 |
| Machinery and equipment | 1,545,565 | - | - | - | 1,545,565 |
| Trucks and trailers | 223,284 | 23,776 | 16,911 | - | 230,149 |
| Office equipment | 17,397 | - | - | - | 17,397 |
| | 21,644,292 | 71,969 | 17,964 | - | 21,698,297 |
| Less: accumulated depreciation | 8,850,452 | 515,497 | 17,964 | - | 9,347,985 |
| | $ 12,793,840 | $ (443,528) | $ - | $ - | $ 12,350,312 |

## *NOTE 10:* CHANGES IN PROPERTY, PLANT, AND EQUIPMENT - CONTINUED

| | Balance July 1, 2009 | Additions | Deletions | Transfers | Balance June 30, 2010 |
|---|---|---|---|---|---|
| Land | $ 75,734 | $ - | $ - | $ - | $ 75,734 |
| Construction in progress | 9,726 | 802,633 | 7,810 | - | 804,549 |
| Water plant buildings, facilities and improvements | 7,157,841 | 8,965 | - | (20,123) | 7,146,683 |
| Storage tanks | 2,010,525 | - | - | - | 2,010,525 |
| Water lines | 9,820,555 | - | - | - | 9,820,555 |
| Machinery and equipment | 1,501,738 | 23,704 | - | 20,123 | 1,545,565 |
| Trucks and trailers | 223,284 | - | - | - | 223,284 |
| Office equipment | 17,397 | - | - | - | 17,397 |
| | 20,816,800 | 835,302 | 7,810 | - | 21,644,292 |
| Less: accumulated depreciation | 8,355,848 | 494,604 | - | - | 8,850,452 |
| | $ 12,460,952 | $ 340,698 | $ 7,810 | $ - | $ 12,793,840 |

## *NOTE 11*: COMMITTMENTS

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.

The Authority entered into an agreement on May 3, 2011 with CCC Construction, Inc. to replace the river crossing on the Poteau River. The total contract cost is $123,740, and no payments were made on the contract as of June 30, 2011.

## *NOTE 12*: SUBSEQUENT EVENT

Subsequent to year end June 30, 2011, the Authority entered into an agreement with J.S. Haren, Co. for a new river intake. The total contract cost is approximately $334,000 with possible alternatives.

# SUPPLEMENTARY INFORMATION

# THE POTEAU VALLEY IMPROVEMENT AUTHORITY
## BUDGETARY COMPARISON SCHEDULE
## YEAR ENDED JUNE 30, 2011

| | BUDGET | ACTUAL | VARIANCE |
|---|---|---|---|
| **OPERATING REVENUES** | | | |
| Water sales | $ 2,400,000 | $ 2,657,953 | $ (257,953) |
| Miscellaneous income | - | 3,041 | (3,041) |
| | 2,400,000 | 2,660,994 | (260,994) |
| **OPERATING EXPENSES** | | | |
| Chemicals | 400,000 | 327,589 | 72,411 |
| Depreciation and amortization | 450,000 | 522,415 | (72,415) |
| Engineering services | 5,000 | 17,720 | (12,720) |
| Equipment rental | 1,000 | 110 | 890 |
| Insurance | 161,140 | 162,835 | (1,695) |
| Laundry | 6,400 | 4,005 | 2,395 |
| Legal and accounting | 15,000 | 16,652 | (1,652) |
| Licenses/fees/school | 2,500 | 2,021 | 479 |
| Management expenses | 2,000 | 1,642 | 358 |
| Office supplies | 2,000 | 976 | 1,024 |
| Payroll taxes | 35,000 | 31,351 | 3,649 |
| Plant supplies | 15,000 | 10,714 | 4,286 |
| Postage and freight | 1,200 | 1,104 | 96 |
| Radio control | 5,100 | 5,040 | 60 |
| Raw water lease | 13,000 | 11,834 | 1,166 |
| Repairs and maintenance | 67,500 | 171,352 | (103,852) |
| Research | 100,000 | 78,511 | 21,489 |
| Retirement plan contributions | 48,000 | 50,202 | (2,202) |
| Salaries | 410,000 | 386,176 | 23,824 |
| Telephone | 5,000 | 4,136 | 864 |
| Testing and lab supplies | 30,000 | 25,509 | 4,491 |
| Truck expenses | 30,000 | 32,342 | (2,342) |
| Trust fees and service charges | 1,000 | 420 | 580 |
| Utilities | 388,000 | 317,695 | 70,305 |
| Water easements | 1,000 | 975 | 25 |
| | 2,194,840 | 2,183,326 | 11,514 |
| **OPERATING INCOME** | 205,160 | 477,668 | (272,508) |

# THE POTEAU VALLEY IMPROVEMENT AUTHORITY
## BUDGETARY COMPARISON SCHEDULE
## YEAR ENDED JUNE 30, 2011

| | BUDGET | ACTUAL | VARIANCE |
|---|---|---|---|
| **NON-OPERATING REVENUES (EXPENSE)** | | | |
| Source water monitoring income | - | 83,750 | (83,750) |
| Source water monitoring expense | - | (72,097) | 72,097 |
| Gain on sale of equipment | - | 810 | (810) |
| Interest income | 18,000 | 12,695 | 5,305 |
| Interest expense | (74,590) | (72,130) | (2,460) |
| | (56,590) | (46,972) | (9,618) |
| **NET INCOME** | $ 148,570 | $ 430,696 | $ (282,126) |
| **ADDITIONAL AMOUNTS BUDGETED:** | | | |
| Large repairs, reoccurring maintenance and capital outlays | $ 645,000 | $ 71,969 | $ 573,031 |
| Principal on long-term debt | 453,345 | 453,345 | - |

***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.

BEALL BARCLAY

CERTIFIED PUBLIC ACCOUNTANTS

# 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 the financial statements of **The Poteau Valley Improvement Authority** (the Authority) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 6, 2011. We conducted our audit 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.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described below to be material weaknesses.

**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 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*.

This report is intended solely for the information and use of management and the Board of Trustees and is not intended to be and should not be used by anyone other than those specified parties.

Beall Barclay + Company, PLC

**BEALL BARCLAY & COMPANY, PLC**
Certified Public Accountants

Fort Smith, Arkansas
September 6, 2011