

**THE POTEAU VALLEY  
IMPROVEMENT AUTHORITY**

**FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**THE POTEAU VALLEY IMPROVEMENT AUTHORITY**  
**JUNE 30, 2016 AND 2015**  
**CONTENTS**

	Page
<b>INDEPENDENT AUDITORS' REPORT</b> .....	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....	3
<b>FINANCIAL STATEMENTS</b>	
Balance Sheets .....	8
Statements of Revenues, Expenses and Changes in Net Position .....	10
Statements of Cash Flows .....	12
Notes to Financial Statements .....	14
<b>SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule .....	25
<b>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</b> .....	27



## 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, 2016 and 2015, 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, 2016 and 2015, 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 November 4, 2016 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  
November 4, 2016

## **POTEAU VALLEY IMPROVEMENT AUTHORITY**

### **Management's Discussion and Analysis**

Our discussion and analysis of Poteau Valley Improvement Authority (PVIA) financial performance provides an overview of the utility's financial activities for the fiscal years ended June 30, 2016 and June 30, 2015.

#### **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 Position (on pages 8-11) provide information about the activities of PVIA as a whole and present a longer-term view of the PVIA finances. The footnotes and supplementary information provide additional narrative concerning selected financial items.

#### **Reporting the Utility as a Whole**

The Balance Sheets and the Statement of Revenues, Expenses and Changes in Net Position report information about PVIA'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 fourth 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 for \$59,300 for each of the years ended June 30, 2015 and 2016. As of June 30, 2016, the Authority has paid the balance for all prior years and \$44,700 of the current year obligation.

Two projects for 2016-2017 year will be building a chemical application barge with a budget of \$75,000 and 5,000 feet of 18" pipe with a budget of \$300,000 per year for the next three years. As of June 30, 2016, the Authority has expended \$80,581 for the barge and the Alum pumping equipment to be attached to the barge. The Authority has plans to apply the Alum during the last week of July 2016.

The second year 2014-2015 of the lake model project is complete with a total project cost of \$273,546. Next year will complete the project; this work is being done by the University of Arkansas, Fayetteville.

The Authority contracted to have the water line across Cedar Creek replaced so the State of Oklahoma could rebuild the bridge. This was at no cost to the Authority as the State will reimburse for all the expenses incurred by PVIA for replace the water line.

The Authority approved a \$179,935 bid from Ryburn Construction for the renovation of the Pocola Tank in December 2015. The Authority has removed the 12" outlet line. As of June 30, 2016, the Authority has paid \$112,470 with a balance due of \$67,465. Bacteriological samples will be done in July 2016.

The Authority has instructed their engineer to draw up plans and get permits for two more filters. We hope to start work in fiscal year 2017-2018 at an estimated cost to the Authority in the amount of \$2,250,000.

The Authority has entered into an agreement with the University of Arkansas that will be effective from June 1, 2016 thru January 31, 2018 to perform sampling at a cost of \$40,000.

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 last year were at an all-time high 2,162,106,790 gallons sold. The increase in sales coupled with the rate of \$1.40 per thousand gallons has generated record sales of \$3,026,950.

### **Non-Operating Income**

The interest on CD's and Capital Improvement Funds was slightly up in 2015-2016 due to the interest rate and moving money from the Capital Improvement Fund into CD's. Total received in 2015-2016 was \$20,785 compared to \$15,146 for the 2014-2015 year.

### **Operating Expenses**

Expenses are estimated and budgeted for each year. They include chemicals, electrical, salaries, repairs and maintenance, insurance and depreciation. For 2015-2016 total operating expenses were \$2,457,781 compared to \$2,270,966 for the 2014-2015 year.

Raw water storage cost increased in the fiscal year 2015-2016 to \$11,191 compared to \$11,030 in the fiscal year 2014-2015. 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 has finished 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 6.7% due to an increase in pay and overtime. Truck expense went down slightly during fiscal year 2014-2015 of \$22,800 compared to \$17,313 in the 2015-2016 fiscal year. Repairs and maintenance expenses are up by \$2,465 in the 2015-2016 fiscal year of \$109,430 compared to fiscal year 2014-2015 of \$106,965. Operating expense will continue to vary as repairs are needed; plant equipment is aging and wearing.

### **Summary**

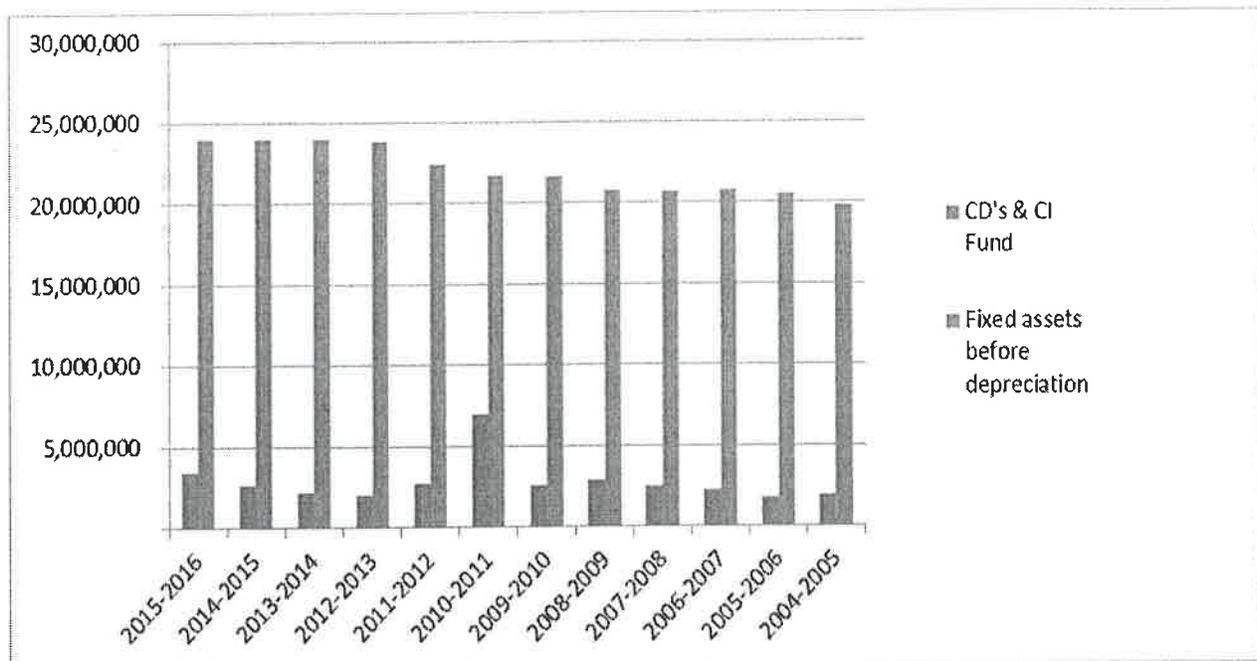
The Authority has Fixed Assets of \$24,019,048 and \$3,409,318 in CD's and Capital Improvement Funds at the end of fiscal year 2015-2016 compared to \$24,038,577 and \$2,640,116 in CD's and Capital Improvement Funds at the end of fiscal year 2014-2015. The increase in the CD's and Capital Improvement Fund of \$769,202 is due to increased water sales, no debt payments, and not having any large projects in 2015-2016.

It is management's opinion that the rate of \$1.40 per thousand gallons is adequate to fund operation and maintenance and needed capital improvements for the next year.

	<u>Work Completed</u>	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	73,488	73,488	1
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
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
		<b>Sub. Total</b>	<b>3,487,137</b>	<b>3,549,294</b>	
	<u>Work in Progress/Plant &amp; Distribution</u>				
2016-1	Rehab Backbone tank	FY 15/16	185,935	12,746	2
2016-2	Hwy 59 Relocate/ Cedar Creek	FY 15/16	248,945	224,051	2,3
	4 Filters & Controls for existing 7 Filters	FY 16/17	1,500,000	-	
		<b>Sub. Total</b>	<b>1,934,880</b>	<b>236,797</b>	
	<u>Source Water Protection Program</u>	FY 14-15	448,819	295,295	
		FY 15/16	393,421	273,912	
	Lake Model	FY 16/17	60,000	-	
	Source Water	FY 16/17	243,200	-	
		<b>Sub Total</b>	<b>1,145,440</b>	<b>569,207</b>	
	<u>Future Plan</u>				
2012-1	14,600' 18" line Panama & Brazil Creek Crossing	FY 12-13-13/14	1,200,000	1,040,079	1
	7000' 18" line per yr. \$300,000. for 3 yrs	FY 17 thur 20	900,000	-	
	New 1 MG Clearwell & Dist. Pump	FY 17/18	1,500,000	-	
	Inspect and Paint Tanks/ Panama,Bubblers	FY 17/18	500,000	-	
	100' Clarifier	FY 18/19	1,000,000	-	
	1-12" River Crossings	FY 19/20	150,000	-	
	Dump truck		77,000	-	
		<b>Sub. Total</b>	<b>5,327,000</b>	<b>1,040,079</b>	
		<b>Total</b>	<b>11,894,457</b>	<b>5,395,377</b>	
		<b>Bal.of Projects</b>	<b>6,499,080</b>		
	(1) Projects Completed				
	(2) Projects in Progress				
	(3) Reimbursable				

## Regulatory Outlook

Stage II Disinfection By-Products Rule 2013 system evaluation was completed in 2010. The evaluation determined the Authority can comply. (But for the 2<sup>nd</sup> quarter of 2016 the Authority failed the TTHM's) 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. We are installing aeration systems in our water towers. Also the Authority has installed a new activated carbon feeder at the plant that will allow more carbon to be fed to the raw water for organic carbon removal.



<u>At year end</u>	<u>CD's &amp; CI Fund</u>	<u>Fixed assets before depreciation</u>
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
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

**THE POTEAU VALLEY IMPROVEMENT AUTHORITY**  
**BALANCE SHEETS**  
**JUNE 30, 2016 AND 2015**

	2016	2015
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,517,492	\$ 2,734,553
Accounts receivable	291,260	274,296
Accounts receivable - other	98,543	-
Prepaid expenses	82,639	82,363
	<u>3,989,934</u>	<u>3,091,212</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	75,734	75,734
Construction in progress	121,089	-
Water plant buildings, facilities, and improvements	7,348,187	7,362,194
Storage tanks	2,010,836	2,011,818
Water lines	11,991,906	12,168,634
Machinery and equipment	2,172,360	2,176,063
Trucks and trailers	203,251	233,030
Boats	84,581	-
Office equipment	11,104	11,104
	<u>24,019,048</u>	<u>24,038,577</u>
Less accumulated depreciation	11,960,756	11,546,773
	<u>12,058,292</u>	<u>12,491,804</u>
<b>OTHER ASSETS</b>		
Deposits	20	20
	<u>20</u>	<u>20</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred pension outflows	63,881	59,888
	<u>63,881</u>	<u>59,888</u>
<b>Total Assets and Deferred Outflow of Resources</b>	<u>\$ 16,112,127</u>	<u>\$ 15,642,924</u>

See Independent Auditors' Report and Notes to Financial Statements.

	2016	2015
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 69,634	\$ 16,739
Accrued liabilities	<u>8,597</u>	<u>2,720</u>
Total Current Liabilities	<u>78,231</u>	<u>19,459</u>
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Net pension liability	<u>71,275</u>	<u>36,481</u>
Total Liabilities Payable From Restricted Assets	<u>71,275</u>	<u>36,481</u>
Total Liabilities	149,506	55,940
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred pension inflows	<u>233,094</u>	<u>133,996</u>
Total Liabilities and Deferred Inflows of Resources	<u>382,600</u>	<u>189,936</u>
<b>NET POSITION</b>		
Invested in capital assets	4,894,042	5,327,554
Net position - unrestricted	<u>3,671,235</u>	<u>2,961,184</u>
Contributed capital	<u>8,565,277</u>	<u>8,288,738</u>
	<u>7,164,250</u>	<u>7,164,250</u>
Total Net Position	<u>15,729,527</u>	<u>15,452,988</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 16,112,127</u>	<u>\$ 15,642,924</u>

See Independent Auditors' Report and Notes to Financial Statements.

**THE POTEAU VALLEY IMPROVEMENT AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED JUNE 30, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>OPERATING REVENUES</b>		
Water sales	\$ 3,026,950	\$ 2,875,444
Miscellaneous income	<u>6,251</u>	<u>2,445</u>
	<u>3,033,201</u>	<u>2,877,889</u>
<b>OPERATING EXPENSES</b>		
Chemicals	429,791	380,270
Depreciation and amortization	603,309	619,611
Engineering services	4,080	6,230
Equipment rental	411	-
Insurance	182,406	184,266
Laundry	5,022	5,075
Legal and accounting	14,785	17,502
Licenses/fees/school	1,083	1,595
Management expenses	1,190	279
Office supplies	1,436	1,547
Payroll taxes	36,571	35,480
Plant supplies	12,237	11,634
Postage and freight	1,018	593
Radio control	5,040	5,040
Raw water lease	11,191	11,030
Repairs and maintenance	109,430	106,965
Research	9,044	14,479
Retirement plan expense	190,583	2,483
Salaries	457,148	428,645
Telephone	4,416	4,324
Testing and lab supplies	18,703	34,064
Truck expenses	17,313	22,800
Trust fees and service charges	-	375
Utilities	340,999	375,069
Water easements	<u>575</u>	<u>1,610</u>
	<u>2,457,781</u>	<u>2,270,966</u>
<b>OPERATING INCOME</b>	<u>575,420</u>	<u>606,923</u>

See Independent Auditors' Report and Notes to Financial Statements.

	2016	2015
<b>NON-OPERATING REVENUES (EXPENSE)</b>		
Source water monitoring income	-	116,250
Source water monitoring expense	(275,165)	(279,460)
Gain on sale of equipment	(44,501)	3,777
Engineering services reimbursed	-	7,750
Interest income	20,785	15,146
Interest expense	-	(8,272)
	<u>(298,881)</u>	<u>(144,809)</u>
<b>CHANGE IN NET POSITION</b>	276,539	462,114
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>8,288,738</u>	<u>7,826,624</u>
<b>NET POSITION, END OF YEAR</b>	<u><u>\$ 8,565,277</u></u>	<u><u>\$ 8,288,738</u></u>

See Independent Auditors' Report and Notes to Financial Statements.

**THE POTEAU VALLEY IMPROVEMENT AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 2,911,443	\$ 2,852,710
Payments to vendors	(1,155,292)	(1,295,872)
Payments to employees	(450,101)	(428,665)
Payments to retirement plan	(60,684)	(57,800)
Other receipts	6,251	2,445
	<u>1,251,617</u>	<u>1,072,818</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital expenditures	(214,298)	(42,303)
Proceeds from sale of equipment	-	3,777
Principal payments on long-term debt	-	(406,518)
Interest paid	-	(8,272)
	<u>(214,298)</u>	<u>(453,316)</u>
Net Cash (Used For) Capital and Related Financing Activities	<u>(214,298)</u>	<u>(453,316)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Engineering services reimbursed	-	7,750
Net source water monitoring	(275,165)	(163,210)
Receipts of interest	20,785	15,146
	<u>(254,380)</u>	<u>(140,314)</u>
Net Cash (Used For) Investing Activities	<u>(254,380)</u>	<u>(140,314)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>782,939</b>	<b>479,188</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>2,734,553</b>	<b>2,255,365</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 3,517,492</b>	<b>\$ 2,734,553</b>

See Independent Auditors' Report and Notes to Financial Statements.

	2016	2015
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:</b>		
Operating income	<u>\$ 575,420</u>	<u>\$ 606,923</u>
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	603,309	619,611
Net change in pension liability	129,899	(55,317)
Change in:		
Accounts receivable	(115,507)	(22,734)
Prepaid expenses	(276)	(2,787)
Accounts payable	52,895	(72,858)
Accrued liabilities	<u>5,877</u>	<u>(20)</u>
 Total adjustments	 <u>676,197</u>	 <u>465,895</u>
 Net Cash From Operating Activities	 <u>\$ 1,251,617</u>	 <u>\$ 1,072,818</u>

See Independent Auditors' Report and Notes to Financial Statements.

**THE POTEAU VALLEY IMPROVEMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**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. Depreciation expense for the years ended June 30, 2016 and 2015 was \$603,309 and \$613,845, respectively. The Authority had fully depreciated assets still in use with an original cost of \$2,132,397 and \$2,092,962 at June 30, 2016 and 2015, respectively.

**THE POTEAU VALLEY IMPROVEMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**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<sup>th</sup> 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.

***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.

**THE POTEAU VALLEY IMPROVEMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

***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 3 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 3 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.

**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, 2016, 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.”

	<b>Bank Balance</b>	<b>Book Balance</b>
Insured (FDIC)	\$ 363,455	\$ 358,075
Collateralized	3,161,349	3,159,317
Uninsured/uncollateralized	-	-
	<u>\$ 3,524,804</u>	<u>\$ 3,517,392</u>

Also included in “Cash and cash equivalents” on the Balance Sheet at June 30, 2016 is petty cash amounting to \$100.

**THE POTEAU VALLEY IMPROVEMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 3: 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, 2016 and 2015, amounts equal to 14% 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, 2016 and 2015, 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.

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 thirteen 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. 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.

**THE POTEAU VALLEY IMPROVEMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 3: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED**

**Benefits Provided - Continued**

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.

**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, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions**

The collective Net Pension Liability of \$359,683,917 and \$183,564,243 was measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2015 and 2014. Each employer's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers.

**THE POTEAU VALLEY IMPROVEMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 3: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions - Continued**

At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Beginning balance	\$ 59,888	\$ (133,996)
Differences between expected and actual experience	-	(7,925)
Changes in assumptions	1,109	-
Net difference between projected and actual earnings on pension plan investments	-	(91,173)
Prior year contributions recognized in the current year	(57,800)	-
Contributions subsequent to measurement date	60,684	-
	<u>\$ 63,881</u>	<u>\$ (233,094)</u>

**Actuarial Assumptions**

The total pension liability as of June 30, 2016 and 2015, was determined based on an actuarial valuation prepared as of July 1, 2015 and 2014, respectively, using the following actuarial assumptions:

- Investment return – 7.5% compounded annually net of investment expense and including inflation
- Salary increases – 4.5% to 8.4% per year including inflation
- Mortality rates – Active participants and nondisabled pensioners – RP-2000 Mortality Table projected to 2010 by Scale AA (disabled pensioners set forward 15 years)
- No annual post-retirement benefit increases
- Assumed inflation rate – 3.0%
- Payroll growth – 4.0% per year
- Actuarial cost method – Entry age
- Select period for the termination of employment assumptions – 10 years

**THE POTEAU VALLEY IMPROVEMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 3: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED**

**Actuarial Assumptions - Continued**

The actuarial assumptions used in the July 1, 2015 and 2014, valuation are based on the results of the most recent actuarial experience study, which cover the three-year period ended June 30, 2013. The experience study report is dated May 9, 2014.

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 target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2016 and 2015, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Large Cap Equity	38.0 %	5.3 %
U.S. Small Cap Equity	6.0	5.6
U.S. Fixed Income	25.0	0.7
International Stock	18.0	5.6
Emerging Market Stock	6.0	6.4
TIPS	3.5	0.7
Rate Anticipation	3.5	1.5
Total	<u>100.0 %</u>	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.50% for 2015 and 2014. 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 through 2114 to be available to make all projected future benefit payments of current plan 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.

**THE POTEAU VALLEY IMPROVEMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 3: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED**

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

The following presents the net pension liability of the employer calculated using the discount rate of 7.50%, 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 (6.50 percent) or one percentage point higher (8.50 percent) than the current rate:

June 30, 2015			
Asset Class	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability	\$ 265,589	\$ 71,275	\$ (93,923)
June 30, 2014			
Asset Class	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability	\$ 227,122	\$ 36,481	\$ (125,591)

**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 \$291,260 and \$274,296 at June 30, 2016 and 2015, respectively.

**NOTE 6: DESIGNATED CASH**

As of June 30, 2016 and 2015, the Authority's Board of Trustees designated \$1,656,638 and \$887,429, respectively, of unrestricted cash for capital improvements.

**THE POTEAU VALLEY IMPROVEMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 7: NONCASH TRANSACTIONS**

The Authority had capital expenditures for equipment and other capital items during the years ended June 30, 2016 and 2015 as follows:

	<b>2016</b>	<b>2015</b>
Purchase price	\$ 243,977	\$ 42,303
Book value of assets involved in casualty loss	(2,360)	-
Insurance proceeds	(27,319)	-
	<u>                    </u>	<u>                    </u>
Cash paid	<u>\$ 214,298</u>	<u>\$ 42,303</u>

During the year ended June 30, 2016 and 2015, the Authority disposed of fully depreciated assets in the amount of \$30,865 and \$10,727, respectively.

**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: ACCOUNTS RECEIVABLE - OTHER**

During the year ended June 30, 2016, the Authority began a water line relocation due to construction by the State of Oklahoma on Highway 59. The State is reimbursing the Authority for all costs associated with the relocation, and the amount collectible on this project as of June 30, 2016 was \$98,543. This balance was collected in full subsequent to year end.

**THE POTEAU VALLEY IMPROVEMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 10: CHANGES IN PROPERTY, PLANT AND EQUIPMENT**

Changes in property, plant, and equipment during the years ended June 30, 2016 and 2015 are as follows:

	Balance July 1, 2015	Additions	Deletions	Transfers	Balance June 30, 2016
Land	\$ 75,734	\$ -	\$ -	\$ -	\$ 75,734
Construction in progress	-	121,089	-	-	121,089
Water plant buildings, facilities and improvements	7,362,194	-	14,007	-	7,348,187
Storage tanks	2,011,818	-	982	-	2,010,836
Water lines	12,168,634	-	176,728	-	11,991,906
Machinery and equipment	2,176,063	15,993	19,696	-	2,172,360
Trucks and trailers	233,030	5,635	22,414	(13,000)	203,251
Boats	-	71,581	-	13,000	84,581
Office equipment	11,104	-	-	-	11,104
	<u>24,038,577</u>	<u>214,298</u>	<u>233,827</u>	<u>-</u>	<u>24,019,048</u>
Less: accumulated depreciation	<u>11,546,773</u>	<u>603,309</u>	<u>189,326</u>	<u>-</u>	<u>11,960,756</u>
	<u>\$ 12,491,804</u>	<u>\$ (389,011)</u>	<u>\$ 44,501</u>	<u>\$ -</u>	<u>\$ 12,058,292</u>

	Balance July 1, 2014	Additions	Deletions	Transfers	Balance June 30, 2015
Land	\$ 75,734	\$ -	\$ -	\$ -	\$ 75,734
Water plant buildings, facilities and improvements	7,361,645	549	-	-	7,362,194
Storage tanks	2,010,525	1,293	-	-	2,011,818
Water lines	12,168,634	-	-	-	12,168,634
Machinery and equipment	2,176,878	2,459	3,274	-	2,176,063
Trucks and trailers	218,048	36,842	21,860	-	233,030
Office equipment	17,397	1,160	7,453	-	11,104
	<u>24,028,861</u>	<u>42,303</u>	<u>32,587</u>	<u>-</u>	<u>24,038,577</u>
Less: accumulated depreciation	<u>10,965,515</u>	<u>613,845</u>	<u>32,587</u>	<u>-</u>	<u>11,546,773</u>
	<u>\$ 13,063,346</u>	<u>\$ (571,542)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,491,804</u>

**THE POTEAU VALLEY IMPROVEMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 11: COMMITMENTS AND SUBSEQUENT EVENTS**

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 (U.S.G.S). The Authority entered into an agreement dated August 10, 2010 to pay the U.S.G.S. \$392,300 over a four year period beginning August 10, 2010 for services related to the source water monitoring project. As of June 30, 2015, all amounts have been paid toward this agreement. The Authority extended the contract through the year ended June 30, 2015 and added an additional cost of \$59,300. As of June 30, 2016, all amounts have been paid toward this agreement. The Authority again extended the contract through the year ended June 30, 2016 and also June 30, 2017 for an additional cost of \$59,600 for each year. As of June 30, 2016, \$44,700 had been paid toward the additional portion of these agreements.

On June 25, 2013, the Authority entered into an agreement to pay the University of Arkansas (the "University") \$273,546 over a three year period to monitor the source water obtained by the Authority from Lake Wister. As of June 30, 2016, total expenses incurred on this contract were \$168,625.

The Authority has plans to add two more filters in which work on this project is projected to begin during fiscal year ended June 30, 2018. The estimated cost related to this project is \$2,250,000.

## **SUPPLEMENTARY INFORMATION**

**THE POTEAU VALLEY IMPROVEMENT AUTHORITY**  
**BUDGETARY COMPARISON SCHEDULE**  
**YEAR ENDED JUNE 30, 2016**

	BUDGET	ACTUAL	VARIANCE
<b>OPERATING REVENUES</b>			
Water sales	\$ 2,828,000	\$ 3,026,950	\$ (198,950)
Miscellaneous income	4,000	6,251	(2,251)
	<u>2,832,000</u>	<u>3,033,201</u>	<u>(201,201)</u>
<b>OPERATING EXPENSES</b>			
Chemicals	400,000	429,791	(29,791)
Depreciation and amortization	480,000	603,309	(123,309)
Engineering services	10,000	4,080	5,920
Equipment rental	1,000	411	589
Insurance	193,000	182,406	10,594
Laundry	6,500	5,022	1,478
Legal and accounting	20,000	14,785	5,215
Licenses/fees/school	2,500	1,083	1,417
Management expenses	2,000	1,190	810
Office supplies	2,000	1,436	564
Payroll taxes	38,000	36,571	1,429
Plant supplies	20,000	12,237	7,763
Postage and freight	1,200	1,018	182
Radio control	5,100	5,040	60
Raw water lease	25,000	11,191	13,809
Repairs and maintenance	247,500	109,430	138,070
Research	20,000	9,044	10,956
Retirement plan contributions	62,000	190,583	(128,583)
Salaries	450,000	457,148	(7,148)
Telephone	5,000	4,416	584
Testing and lab supplies	40,000	18,703	21,297
Truck expenses	40,000	17,313	22,687
Utilities	389,000	340,999	48,001
Water easements	1,000	575	425
	<u>2,460,800</u>	<u>2,457,781</u>	<u>3,019</u>
<b>OPERATING INCOME</b>	<u>371,200</u>	<u>575,420</u>	<u>(204,220)</u>

See Independent Auditors' Report.

**THE POTEAU VALLEY IMPROVEMENT AUTHORITY**  
**BUDGETARY COMPARISON SCHEDULE**  
**YEAR ENDED JUNE 30, 2016**

	BUDGET	ACTUAL	VARIANCE
<b>NON-OPERATING REVENUES (EXPENSE)</b>			
Source water monitoring income	20,000	-	20,000
Source water monitoring expense	(413,421)	(275,165)	(138,256)
Gain on sale of equipment	-	(44,501)	44,501
Interest income	12,000	20,785	(8,785)
	(381,421)	(298,881)	(82,540)
<b>CHANGE IN NET POSITION</b>	<b>\$ (10,221)</b>	<b>\$ 276,539</b>	<b>\$ (286,760)</b>
 <b>ADDITIONAL AMOUNTS BUDGETED:</b>			
Large repairs, reoccurring maintenance and capital outlays	\$ 530,000	\$ 214,298	\$ 315,702

**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, 2016, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements, and have issued our report thereon dated November 4, 2016.

**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.

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 a certain deficiency in internal control described below that we consider to be a significant deficiency.

### **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.

### **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  
November 4, 2016