

**The Poteau Valley
Improvement Authority**

**Financial Statements
and
Supplementary Information
June 30, 2023 and 2022**

(With Independent Auditor's Report Thereon)

The Poteau Valley Improvement Authority

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The Poteau Valley Improvement Authority
Wister, Oklahoma

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **The Poteau Valley Improvement Authority** (the Authority), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of **The Poteau Valley Improvement Authority**, as of June 30, 2023 and 2022, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 6 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Budgetary Comparison Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Budgetary Comparison Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2023, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

Fort Smith, Arkansas
November 7, 2023

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, 2023 and June 30, 2022.

Using the Annual Audit Report

This annual audit report consists of a series of financial statements, footnotes and supplementary information. The Statement of Net Position 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 Statement of Net Position 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 eleventh year of a contract with U.S.G.S. and The Water Resource Board to monitor nutrients, suspended sediment, and river flows. The original cost of the project was \$392,300, with an extension for site testing through the year ended June 30, 2022 totaling \$478,700. As of June 30, 2022, the \$478,700 has been paid. The Authority again extended the contract through the year June 30, 2023 for an additional cost of \$60,700. As of June 30, 2023, the Authority has paid \$45,525.

The Authority has decided not to do the Alum project in the summer of 2023.

The original lake project is complete with a total project cost of \$273,546. Work done thus far has been done by the University of Arkansas, Fayetteville. The continuing work necessary to complete the project will be done by Baylor University in Waco, Texas with a cost of \$65,117. Baylor has completed the Lake Model in 2017-2018 at a cost of \$45,117. In 2019-2020 Baylor finished the core and TMDL test, at a cost of \$20,000. The Authority extended this agreement through the year ending June 30, 2021 for additional cost of \$19,786. As of June 30, 2022, all amounts had been paid for this extension.

In June 2023, the Authority entered into a contract with the Oklahoma Water Resources Board for \$6,800 that will run from July 1, 2023 to June 30, 2024. As of June 30, 2023, \$6,800 has been paid toward this agreement.

The Authority is in the process of getting two lagoons built. The DEQ has approved the plans and sent the permit. The Authority is waiting on the Environmental Assessment and Archeological Survey. Estimated cost is \$2,062,292. The County has pledged \$1.247 million of the ARPA money LeFlore County has received.

The Authority is in the process of getting a clear well, high service pumps, and belt press. Estimated cost is \$5,000,000. DEQ has approved plans and sent permits. We have qualified for a \$2,000,000 matching grant through OWRB.

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 historical data of each entity to refine the amount to an expected amount. The budget is based on expected revenue.

Water sales for 2022-2023 was 2,635,681,763 compared to 2021-2022 was 2,562,167,665. Water sales with the rate of \$1.70 per thousand gallons has generated sales of \$4,480,659.00.

Non-Operating Income

The interest on CD's and Capital Improvement Funds was up in 2021-2022 due interest rates. Total received in 2022-2023 was \$81,591 compared to \$2,598 in 2021-2022. The Authority has secured a loan (line of credit) in the amount of \$3,000,000 for the construction of the two filters. The balance on the line of credit as of June 30, 2023 is \$350,617.

Operating Expenses

Expenses are estimated and budgeted for each year. They include chemicals, electrical, salaries, repairs and maintenance, insurance and depreciation. For 2022-2023 total expenses were \$3,802,865 compared to \$2,836,241 For 2021-2022.

Raw water storage cost increased in 2022-2023 to \$9,122. Compared to 2021-2022 to \$8,316. The Authority's water storage contract with the Corps of Engineers requires the Authority to pay a percentage of Corps maintenance of the dam. The percentage paid is tied to the amount of water stored. The Authority has doubled the amount of stored water in the lake. The added cost is not known at this time, the Corps is working on the contract. The new storage contract will cost much more than the old storage contract, because the Corps will charge a higher percentage rate on all new storage contracts. The Authority now has the River Intake which doesn't require a storage permit.

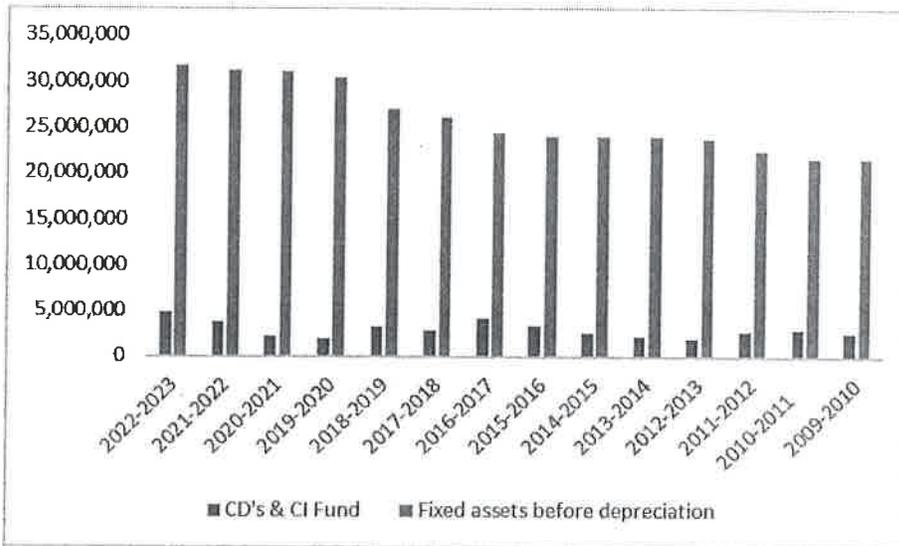
Note: The Corps of Engineers is unable to enter into a new storage contract with the Authority at this time due to an unfinished Environment Assessment that was not completed after the last increase in the pool elevation.

Salaries are up by 10% due to employee raises. Truck expense went up during 2022-2023 to \$35,539 compared to \$20,523 in 2021-2022. Repairs and maintenance expenses are down in 2022-2023 \$146,599 compared to \$172,064 in 2021-2022.

Summary

The Authority has Fixed Assets of \$31,743,069 and \$4,796,031 in CD's and Capital Improvement Fund at the end of 2022-2023 compared to \$31,235,264 and \$3,820,469 in CD's and Capital Improvement Funds at the end of 2021-2022. The increase in the CD's and Capital Improvement Fund of \$975,561 is due to less construction and larger water sales.

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



At year end	CD's & CI Fund	Fixed assets before depreciation
2022-2023	\$ 4,796,031	\$ 31,743,069
2021-2022	3,820,469	31,235,264
2020-2021	2,268,379	31,097,542
2019-2020	1,884,863	30,426,511
2018-2019	3,265,942	27,027,202
2017-2018	2,806,677	26,125,366
2016-2017	4,231,569	24,456,028
2015-2016	3,409,318	24,019,048
2014-2015	2,640,116	24,038,577
2013-2014	2,176,112	24,028,861
2012-2013	1,982,571	23,820,208
2011-2012	2,737,236	22,415,954
2010-2011	2,978,639	21,698,297
2009-2010	2,595,662	21,644,292

Financial Statements

The Poteau Valley Improvement Authority

Statements of Net Position June 30, 2023 and 2022

	2023	2022
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,029,601	\$ 4,102,299
Accounts receivable	342,719	394,308
Prepaid expenses	109,255	101,419
Total Current Assets	5,481,575	4,598,026
PROPERTY, PLANT AND EQUIPMENT		
Land	81,534	81,534
Construction in progress	283,126	73,401
Water plant buildings, facilities, and improvements	9,069,495	8,859,228
Storage tanks	3,782,191	3,782,191
Water lines	15,757,329	15,757,329
Machinery and equipment	2,381,608	2,293,795
Trucks and trailers	270,296	270,296
Boats and garage	96,303	96,303
Office equipment	21,187	21,187
	31,743,069	31,235,264
Less accumulated depreciation	17,082,120	16,128,036
	14,660,949	15,107,228
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension outflows	498,376	293,384
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 20,640,900	\$ 19,998,638

See accompanying notes to financial statements.

The Poteau Valley Improvement Authority

Statements of Net Position June 30, 2023 and 2022

	2023	2022
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
LIABILITIES PAYABLE FROM CURRENT ASSETS		
Line of credit	\$ 350,617	\$ 805,721
Accounts payable	65,790	189,557
Accrued liabilities	8,915	8,351
Total Current Liabilities	425,322	1,003,629
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Net pension liability (asset)	180,080	(296,886)
Total Liabilities Payable From Restricted Assets	180,080	(296,886)
	605,402	706,743
DEFERRED INFLOWS OF RESOURCES		
Deferred pension inflows	652,354	643,828
Total Liabilities and Deferred Inflows of Resources	1,257,756	1,350,571
NET POSITION		
Invested in capital assets	7,405,138	7,901,096
Net position - unrestricted	4,722,195	3,540,839
	12,127,333	11,441,935
Contributed capital	7,255,811	7,206,132
	19,383,144	18,648,067
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 20,640,900	\$ 19,998,638

See accompanying notes to financial statements.

The Poteau Valley Improvement Authority

Statements of Revenues, Expenses, and Changes in Net Position Years ended June 30, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Water sales	\$ 4,480,659	\$ 4,099,468
Miscellaneous income	13,571	5,626
	4,494,230	4,105,094
OPERATING EXPENSES		
Chemicals	746,494	564,837
Depreciation	954,084	941,820
Engineering services	3,941	6,540
Equipment rental	27,224	241
Insurance	182,402	167,325
Laundry	6,106	4,832
Legal and accounting	21,859	18,370
Licenses/fees/school	3,144	1,631
Management expenses	287	276
Office supplies	4,061	3,613
Payroll taxes	47,658	39,690
Plant supplies	24,476	25,200
Postage and freight	3,576	624
Radio control	10,014	7,200
Raw water storage costs	9,122	8,316
Repairs and maintenance	146,599	172,064
Retirement plan expense (income)	357,012	(107,651)
Salaries	573,583	480,393
Telephone	3,172	3,126
Testing and lab supplies	43,481	29,914
Truck expenses	35,539	20,523
Utilities	598,456	446,982
Water easements	575	375
	3,802,865	2,836,241
OPERATING INCOME	691,365	1,268,853

See accompanying notes to financial statements.

The Poteau Valley Improvement Authority

Statements of Revenues, Expenses, and Changes in Net Position Years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
NON-OPERATING REVENUES (EXPENSE)		
Source water monitoring expense, net	(77,625)	(138,408)
Interest income	86,554	2,598
Interest expense	<u>(14,896)</u>	<u>(23,549)</u>
	<u>(5,967)</u>	<u>(159,359)</u>
CHANGE IN NET POSITION	685,398	1,109,494
NET POSITION, BEGINNING OF YEAR	<u>11,441,935</u>	<u>10,332,441</u>
NET POSITION, END OF YEAR	<u><u>\$ 12,127,333</u></u>	<u><u>\$ 11,441,935</u></u>

See accompanying notes to financial statements.

The Poteau Valley Improvement Authority

Statements of Cash Flows Years ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 4,532,248	\$ 4,112,006
Payments to vendors	(2,049,789)	(1,525,329)
Payments to employees	(573,019)	(480,468)
Payments to retirement plan	(76,512)	(64,090)
Other receipts (payments)	13,571	75,095
	1,846,499	2,117,214
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(458,126)	(106,447)
Interest paid	(14,896)	(23,549)
Payments on line of credit	(455,104)	(306,451)
	(928,126)	(436,447)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net source water monitoring	(77,625)	(138,408)
Receipts of interest	86,554	2,598
	8,929	(135,810)
NET CHANGE IN CASH AND CASH EQUIVALENTS	927,302	1,544,957
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,102,299	2,557,342
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 5,029,601	\$ 4,102,299

See accompanying notes to financial statements.

The Poteau Valley Improvement Authority

Statements of Cash Flows Years ended June 30, 2023 and 2022

	2023	2022
RECONCILIATION OF OPERATING INCOME TO		
NET CASH FROM OPERATING ACTIVITIES:		
Operating income	\$ 691,365	\$ 1,268,853
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	954,084	941,820
Net change in pension liability (asset)	280,500	(171,741)
Change in:		
Accounts receivable	51,589	12,538
Accounts receivable - other	-	69,469
Prepaid expenses	(7,836)	(13,144)
Accounts payable	(123,767)	9,494
Accrued liabilities	564	(75)
	1,155,134	848,361
Net Cash From Operating Activities	\$ 1,846,499	\$ 2,117,214

See accompanying notes to financial statements.

The Poteau Valley Improvement Authority

Notes to Financial Statements June 30, 2023 and 2022

NOTE 1: NATURE OF BUSINESS

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Type

The Authority is an enterprise fund, used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination 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.

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

The Poteau Valley Improvement Authority

Notes to Financial Statements June 30, 2023 and 2022

Use of Estimates

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

Cash Equivalents

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

Accounts Receivable

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

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation of property, plant, and equipment is computed on the straight-line method over the estimated useful lives of the assets, which range from three to fifty years. Depreciation expense for the years ended June 30, 2023 and 2022 was \$954,084 and \$941,820, respectively. The Authority had fully depreciated assets still in use with an original cost of \$4,465,024 and \$4,410,558 at June 30, 2023 and 2022, respectively.

Long-Lived Assets

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

Capitalization of Interest Costs

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

The Poteau Valley Improvement Authority

Notes to Financial Statements June 30, 2023 and 2022

Deferred Inflows and Outflows of Resources

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

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

Pensions

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

Net Position

The Authority's net position is classified as follows:

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

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

Income Taxes

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

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

The Poteau Valley Improvement Authority

Notes to Financial Statements June 30, 2023 and 2022

NOTE 3: CASH AND CASH EQUIVALENTS

Deposits in financial institutions are financial instruments that could potentially subject the Authority to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. At June 30, 2023, all deposits were in two financial institutions and carried at cost. The amounts of these deposits are displayed on the Statements of Net Position as Cash and cash equivalents.

	Bank Balance	Book Balance
Insured (FDIC)	\$ 500,000	\$ 483,470
Collateralized	4,690,471	4,546,031
Uninsured/uncollateralized	<u>-</u>	<u>-</u>
	<u>\$ 5,190,471</u>	<u>\$ 5,029,501</u>

Also included in Cash and cash equivalents on the Statements of Net Position at June 30, 2023 is petty cash amounting to \$100.

NOTE 4: DESIGNATED CASH

As of June 30, 2023 and 2022, the Authority's Board of Trustees designated \$1,552,502 and \$3,069,689, respectively, of unrestricted cash for capital improvements.

NOTE 5: CONCENTRATION OF CREDIT RISK

The Authority sells water to various local water districts in the Poteau, Oklahoma area. The Authority operates from its primary facilities in Wister, Oklahoma. The Authority grants credit to customers, all of whom are local water districts, located in the vicinity of the operating location. The Authority had extended credit to regular customers (accounts receivable) of \$342,719 and \$394,308 at June 30, 2023 and 2022, respectively.

NOTE 6: CONTRIBUTED CAPITAL

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

The Poteau Valley Improvement Authority

Notes to Financial Statements June 30, 2023 and 2022

NOTE 7: CHANGES IN PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant, and equipment during the years ended June 30, 2023 and 2022 are as follows:

	Balance July 1, 2022	Additions	Deletions	Transfers	Balance June 30, 2023
Land	\$ 81,534	\$ -	\$ -	\$ -	\$ 81,534
Construction in progress	73,401	209,725	-	-	283,126
Water plant buildings, facilities and improvements	8,859,228	210,267	-	-	9,069,495
Storage tanks	3,782,191	-	-	-	3,782,191
Water lines	15,757,329	-	-	-	15,757,329
Machinery and equipment	2,293,795	87,813	-	-	2,381,608
Trucks and trailers	270,296	-	-	-	270,296
Boats and garage	96,303	-	-	-	96,303
Office equipment	21,187	-	-	-	21,187
	<u>31,235,264</u>	<u>507,805</u>	<u>-</u>	<u>-</u>	<u>31,743,069</u>
Less: accumulated depreciation	<u>16,128,036</u>	<u>954,084</u>	<u>-</u>	<u>-</u>	<u>17,082,120</u>
	<u>\$ 15,107,228</u>	<u>\$ (446,279)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,660,949</u>
	Balance July 1, 2021	Additions	Deletions	Transfers	Balance June 30, 2022
Land	\$ 81,534	\$ -	\$ -	\$ -	\$ 81,534
Construction in progress	153,320	50,081	-	(130,000)	73,401
Water plant buildings, facilities and improvements	8,686,754	51,922	9,448	130,000	8,859,228
Storage tanks	3,782,191	-	-	-	3,782,191
Water lines	15,757,329	-	-	-	15,757,329
Machinery and equipment	2,248,750	45,045	-	-	2,293,795
Trucks and trailers	270,296	-	-	-	270,296
Boats and garage	96,303	-	-	-	96,303
Office equipment	21,065	1,281	1,159	-	21,187
	<u>31,097,542</u>	<u>148,329</u>	<u>10,607</u>	<u>-</u>	<u>31,235,264</u>
Less: accumulated depreciation	<u>15,196,823</u>	<u>941,820</u>	<u>10,607</u>	<u>-</u>	<u>16,128,036</u>
	<u>\$ 15,900,719</u>	<u>\$ (793,491)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,107,228</u>

The Poteau Valley Improvement Authority

Notes to Financial Statements June 30, 2023 and 2022

NOTE 8: NONCASH INVESTING AND FINANCING ACTIVITIES

The Authority had capital expenditures for equipment and other capital items during the years ended June 30, 2023 and 2022 as follows:

	<u>2023</u>	<u>2022</u>
Purchase price	\$ 507,805	\$ 148,329
Capital contribution	(49,679)	(41,882)
Cash paid	<u>\$ 458,126</u>	<u>\$ 106,447</u>

During the years ended June 30, 2023 and 2022, the Authority disposed of fully depreciated assets in the amount of \$-0- and \$10,607, respectively.

NOTE 9: LINE OF CREDIT

During the year ended June 30, 2018, the Authority secured a \$3,000,000 line of credit expiring May 1, 2028. The line of credit is collateralized by gross revenues and bore a fixed interest rate of 3.88% until May 1, 2021. The rate was then reset to a fixed rate of interest equal to the then *Wall Street Journal* Prime rate less 87 basis points, which was 2.38% until May 1, 2024. At that time, the rate will be reset until May 1, 2027. At no time may the interest rate exceed the maximum rate as provided for by the laws of the State of Oklahoma. The Authority had outstanding borrowings associated with this line of credit of \$350,617 and \$805,721 at June 30, 2023 and 2022, respectively.

NOTE 10: PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Authority participates in the Oklahoma Public Employees Retirement Plan (OPERS). Contributions to the retirement system are made by the Authority as required by law. During the years ended June 30, 2023 and 2022, amounts equal to 14% and 13%, respectively, of employee wages were contributed to the system with no percentage adjustment at different wage levels. Any overtime earned by the employees is not subject to employer contribution. In addition to the amounts contributed by the Authority during the years ended June 30, 2023 and 2022, employees must contribute 6% of their monthly compensation to the system.

Plan Description

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

The Poteau Valley Improvement Authority

Notes to Financial Statements June 30, 2023 and 2022

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

Benefits Provided

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

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

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

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

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

The Poteau Valley Improvement Authority

Notes to Financial Statements June 30, 2023 and 2022

Contributions

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

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

OPERS Fiduciary Net Position

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

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

The collective Net Pension Liability (Asset) for OPERS of \$840,564,814 and \$(1,342,160,731) was measured as of June 30, 2022 and 2021, respectively, and the total pension liability used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of July 1, 2022 and 2021. Each employer's proportion of the Net Pension Liability (Asset) was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers. At June 30, 2023 and 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Beginning balance, July 1, 2021	\$ 268,199	\$ (305,281)
Differences between expected and actual experience	-	(7,465)
Net difference between projected and actual earnings on pension plan investments	-	(331,082)
Changes in assumptions	21,876	-
Prior year contributions recognized in the current year	(60,781)	-
Contributions subsequent to measurement date	64,090	-
Balance as of June 30, 2022	293,384	(643,828)
Differences between expected and actual experience	-	(8,526)
Net difference between projected and actual earnings on pension plan investments	189,017	-
Prior year contributions recognized in the current year	(60,537)	-
Contributions subsequent to measurement date	76,512	-
Balance as of June 30, 2023	\$ 498,376	\$ (652,354)

The Poteau Valley Improvement Authority

Notes to Financial Statements

June 30, 2023 and 2022

Actuarial Assumptions

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

- Investment return – 6.50% for 2022 and 2021 compounded annually net of investment expense and including inflation
- Salary increases – 3.25% to 9.25% for 2022 and 2021 per year including inflation
- Mortality rates for 2022 – In 2022 and 2021, Pub-2010 Below Media, General Membership Active/Retiree Healthy Mortality Table with base rates projected to 2030 using Scale MP-2019. Male rates are unadjusted, and female rates are set forward two years
- No annual post-retirement benefit increases
- Assumed inflation rate – 2.50% for 2022 and 2021
- Payroll growth – 3.25% per year for 2022 and 2021
- Actuarial cost method – Entry age
- Select period for the termination of employment assumptions – 10 years

The actuarial assumptions used in the July 1, 2022, valuation are based on the results of the most recent actuarial experience study, which cover the three-year period ended June 30, 2019. The experience study report is dated May 13, 2020.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The HISP represents a subsidy that is capped at \$105 per month per retiree.

The Poteau Valley Improvement Authority

Notes to Financial Statements June 30, 2023 and 2022

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2019 are summarized in the following table:

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

Discount Rate

The discount rate used to measure the total pension liability net of investment expenses was 6.50% for 2022 and 2021. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current System members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

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

The following presents the net pension liability (asset) of the employer calculated using the discount rate of 6.50% for 2022 and 2021, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

Asset Class	June 30, 2022		
	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Net pension liability (asset)	\$ 441,377	\$ 180,080	\$ (40,901)

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

The Poteau Valley Improvement Authority

Notes to Financial Statements June 30, 2023 and 2022

NOTE 11: COMMITMENTS

The Authority has entered into agreements with the U.S. Geological Survey (U.S.G.S.) totaling \$120,900 for the monitoring of source water obtained by the Authority from Lake Wister. These agreements ended on June 30, 2022. As of June 30, 2022, \$105,850 had been paid toward these agreements. The Authority extended the contract through the year ended June 30, 2023 for an additional cost of \$60,700. As of June 30, 2023, the Authority has paid \$45,525.

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

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

NOTE 12: RISKS AND UNCERTAINTIES

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

NOTE 13: SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 7, 2023, the date that the financial statements were available to be issued.

Supplementary Information

The Poteau Valley Improvement Authority

Budgetary Comparison Schedule Year ended June 30, 2023

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
OPERATING REVENUES			
Water sales	\$ 4,612,100	\$ 4,480,659	\$ (131,441)
Miscellaneous income	4,000	13,571	9,571
	<u>4,616,100</u>	<u>4,494,230</u>	<u>(121,870)</u>
OPERATING EXPENSES			
Chemicals	800,000	746,494	(53,506)
Communications	10,000	-	(10,000)
Depreciation	720,000	954,084	234,084
Engineering services	10,000	3,941	(6,059)
Equipment rental	1,000	27,224	26,224
Insurance	199,000	182,402	(16,598)
Laundry	7,000	6,106	(894)
Legal and accounting	25,000	21,859	(3,141)
Licenses/fees/school	3,000	3,144	144
Management expenses	2,000	287	(1,713)
Office supplies	5,000	4,061	(939)
Payroll taxes	48,000	47,658	(342)
Plant supplies	30,000	24,476	(5,524)
Postage and freight	1,200	3,576	2,376
Radio control	8,000	10,014	2,014
Raw water storage costs	10,000	9,122	(878)
Repairs and maintenance	175,500	146,599	(28,901)
Retirement plan expense (income)	75,000	357,012	282,012
Salaries	622,000	573,583	(48,417)
Telephone	3,500	3,172	(328)
Testing and lab supplies	60,000	43,481	(16,519)
Truck expenses	35,000	35,539	539
Utilities	512,000	598,456	86,456
Water easements	1,000	575	(425)
	<u>3,363,200</u>	<u>3,802,865</u>	<u>439,665</u>
OPERATING INCOME	<u>1,252,900</u>	<u>691,365</u>	<u>(561,535)</u>

See Independent Auditor's Report.

The Poteau Valley Improvement Authority

Budgetary Comparison Schedule Year ended June 30, 2023

	BUDGET	ACTUAL	VARIANCE
NON-OPERATING REVENUES (EXPENSE)			
Source water monitoring expense, net	(100,000)	(77,625)	22,375
Interest income	6,000	86,554	80,554
Interest expense	(27,000)	(14,896)	12,104
	(121,000)	(5,967)	115,033
CHANGE IN NET POSITION	\$ 1,131,900	\$ 685,398	\$ (446,502)
ADDITIONAL AMOUNTS BUDGETED:			
Large repairs, reoccurring maintenance and capital outlays	\$ 7,190,000	\$ 458,126	\$ 6,731,874

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.

See Independent Auditor's Report.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
The Poteau Valley Improvement Authority
Wister, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of **The Poteau Valley Improvement Authority** (the Authority) which comprise the statement of net position as of June 30, 2023, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended and the related notes to the financial statements and have issued our report thereon dated November 7, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Trustees
The Poteau Valley Improvement Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Landmark PLC

Fort Smith, Arkansas
November 7, 2023