



City of Poteau, Oklahoma

Report on Audit

Of

Financial Statements

June 30, 2013

Mayor

Jeff Shockley

Councilors

Ward 1

Tommy Robertson

Clay Bennett

Ward 2

Jim Holstead

Paul Quirk

Ward 3

David White

B.J. Johnson

Ward 4

Winford Webb

Earl Jobe

City Attorney

Marc Bovos

City Clerk

Tami Conner



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City of Poteau, Oklahoma
Report on Audit of Financial Statements
June 30, 2013

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Ronald C. Cottrell, CPA

Independent Auditor's Report

City Council
City of Poteau
Poteau, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Poteau, Oklahoma as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Poteau's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 auditor's 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 opinions.

Ronald C. Cottrell, CPA

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Poteau as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Errors

As described in Note V.F. to the financial statements, the City of Poteau restated its beginning net position in the government-wide and proprietary fund financial statements and beginning fund balance in the governmental fund financial statements to correct errors in the prior year financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the managements' discussion and analysis, budgetary comparison information, and schedule of funding progress on pages 4-12 and 39-42 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 sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Poteau's basic financial statements. The combining financial statements and the schedule of debt service coverage included as other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying combining financial statements and the schedule of debt service coverage are the responsibility of management and were derived from and relate 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 combining financial statements and the schedule of debt service coverage are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Ronald C. Cottrell, CPA

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2014, on our consideration of City of Poteau's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 City of Poteau's internal control over financial reporting and compliance.

Ronald C. Cottrell, CPA

Ronald C. Cottrell, CPA
Kansas, Oklahoma
May 16, 2014

Required Supplementary Information

City of Poteau, Oklahoma
Management's Discussion and Analysis
June 30, 2013

The following discussion and analysis of the City of Poteau's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the City's financial statements, which begin on page 13.

Financial Highlights

- ❖ The combined assets and deferred outflows of the City of Poteau exceeded its combined liabilities and deferred inflows at the close of the most recent fiscal year by \$ 28,786,460 (net position). Of this amount, \$ 6,137,033 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- ❖ The government's total net position decreased by \$ 459,822 for the year ended June 30, 2013.
- ❖ As of the close of the current fiscal year the City of Poteau's governmental funds reported combined ending fund balances of \$ 5,630,271, a decrease of \$ 3,893,629 in comparison with the prior year. \$ 5,262,135 of the ending fund balance is available for spending at the government's discretion (unassigned fund balance).
- ❖ At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 6,005,052, or 90 % of total general fund expenditures.
- ❖ The City of Poteau's total debt increased by \$ 87,384 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Poteau's basic financial statements. The City of Poteau's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad view of the City of Poteau's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City of Poteau's assets, deferred outflows and inflows, and liabilities with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Poteau is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

See disclaimer in accompanying Independent Auditor's Report.

Both of the government-wide financial statements distinguish functions of the City of Poteau that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Poteau include general government, public safety, public works, culture and recreation, and economic development. The business-type activities of the City of Poteau, which include the City's water, wastewater, and sanitation utility operations, include the Poteau Public Works Authority.

The government-wide financial statements include not only the City of Poteau itself (known as the primary government), but also the legally separate authority (Poteau Public Works Authority). Financial information for this component unit is blended with the primary government itself. The Poteau Public Works Authority, although also legally separate, functions for all practical purposes as a department of the City of Poteau, and, therefore, has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 13–14 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Poteau, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Poteau can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains twelve (12) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the library building fund, and the Poteau Industrial Authority, all of which are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general and other governmental funds. Budgetary comparison statements have been provided for the general fund and major special revenue fund the Poteau Industrial Authority, to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 15–17 of this report.

Proprietary funds. The City maintains one proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses its enterprise fund to account for its utility operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Poteau Public Works Authority, which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 18–20 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City’s own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City does not report any fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 21–38 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning progress in funding its obligation to provide pension and other post-employment benefits to its employees and the City’s actual revenues and expenditures on a budgetary basis compared with the original and final budgets for the general fund and the Poteau Industrial Authority. Required supplementary information can be found on pages 39–42 of this report.

The combining statements referred to earlier, in connection with nonmajor governmental funds and nonmajor enterprise funds, are presented immediately following the required supplementary information on budget and actual revenues and expenditures for the major governmental funds. Combining and individual fund statements and schedules can be found on pages 43–50 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City, combined assets and deferred outflows exceeded combined liabilities and deferred inflows by \$ 28,786,460 at the close of the most recent fiscal year.

One portion of the City’s net position (78 %) reflects its investment in capital assets (e.g., land, buildings, improvements, vehicles, and equipment) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Poteau
Statement of Net Position
June 30, 2013 and 2012

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Assets	\$ 31,956,721	\$ 30,052,028	\$ 5,662,208	\$ 6,281,065	\$ 37,618,929	\$ 36,333,093
Deferred outflows of resources	-	-	-	-	-	-
Combined assets & deferred outflows	<u>31,956,721</u>	<u>30,052,028</u>	<u>5,662,208</u>	<u>6,281,065</u>	<u>37,618,929</u>	<u>36,333,093</u>
Liabilities	7,488,477	7,284,708	1,343,992	1,509,429	8,832,469	8,794,137
Deferred inflows of resources	-	-	-	-	-	-
Combined liabilities & deferred inflows	<u>7,488,477</u>	<u>7,284,708</u>	<u>1,343,992</u>	<u>1,509,429</u>	<u>8,832,469</u>	<u>8,794,137</u>
Net position:						
Investment in capital assets	20,423,811	18,304,949	2,039,887	2,178,318	22,463,698	20,483,267
Restricted	185,729	1,637,997	-	-	185,729	1,637,997
Unrestricted	3,858,704	2,824,374	2,278,329	2,593,318	6,137,033	5,417,692
Total net position	<u>\$ 24,468,244</u>	<u>\$ 22,767,320</u>	<u>\$ 4,318,216</u>	<u>\$ 4,771,636</u>	<u>\$ 28,786,460</u>	<u>\$ 27,538,956</u>

An additional portion of the City's net position (1 %) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$ 6,137,033) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net position decreased by \$ 459,822 during the current fiscal year. This decrease was due to:

- Income was not as high as projected but expenses remained static.

City of Poteau
Statement of Activities
Years Ended June 30, 2013 and 2012

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	\$ 831,223	\$ 1,043,281	\$ 2,478,714	\$ 2,518,293	\$ 3,309,937	\$ 3,561,574
Grants/contributions	633,803	2,095,780	-	-	633,803	2,095,780
General revenues	6,353,746	6,204,490	29,174	14,519	6,382,920	6,219,009
Total revenues	<u>7,818,772</u>	<u>9,343,551</u>	<u>2,507,888</u>	<u>2,532,812</u>	<u>10,326,660</u>	<u>11,876,363</u>

See disclaimer in accompanying Independent Auditor's Report.

City of Poteau
Statement of Activities
Years Ended June 30, 2013 and 2012

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Expenses:						
General government/administration	803,224	1,212,339	373,449	-	1,176,673	1,212,339
Public safety	2,851,207	2,577,690	-	-	2,851,207	2,577,690
Public works	2,203,584	1,726,732	-	-	2,203,584	1,726,732
Culture and recreation	1,626,449	2,347,562	-	-	1,626,449	2,347,562
Economic development	128,064	153,302	-	-	128,064	153,302
Interest expense on long-term debt	88,532	148,371	-	-	88,532	148,371
Water	-	-	1,294,547	1,365,673	1,294,547	1,365,673
Wastewater	-	-	986,393	1,021,510	986,393	1,021,510
Sanitation	-	-	431,033	487,906	431,033	487,906
Total expenses	7,701,060	8,165,996	3,085,422	2,875,089	10,786,482	11,041,085
Increase in net position before transfers	117,712	1,177,555	(577,534)	(342,277)	(459,822)	835,278
Transfers, net	(389,739)	19,002	389,739	(19,002)	-	-
Increase in net position	(272,027)	1,196,557	(187,795)	(361,279)	(459,822)	835,278
Net position, beginning, restated	24,740,271	23,543,714	4,506,011	4,867,290	29,246,282	28,411,004
Net position, ending	<u>\$ 24,468,244</u>	<u>\$ 24,740,271</u>	<u>\$ 4,318,216</u>	<u>\$ 4,506,011</u>	<u>\$ 28,786,460</u>	<u>\$ 29,246,282</u>

Decreases in revenues were the result of:

- No longer receiving grant income for construction of Don W. Reynolds Center.
- No longer receiving a refund from Worker's Comp plan due to elimination of this refund program by OMAG.
- Fewer land sales in 2013 compared to 2012.
- Franchise tax collections were down for the year.

Changes in expenses were due to:

- Reduction in expenses due to fewer capital projects in Government Activities.
- Decrease in interest due to decreasing loan balances.

Governmental activities. Governmental activities decreased the City's net position by \$ 272,027. The key elements of this decrease were:

- Income was not as high as projected but expenses remained static.

See disclaimer in accompanying Independent Auditor's Report.

City of Poteau
 Governmental Activities
Years Ended June 30, 2013 and 2012

	Program Revenues		Cost of Services	
	2013	2012	2013	2012
General government	\$ 4,750	\$ 1,100,990	\$ 803,224	\$ 1,212,339
Public safety	647,306	1,971,549	2,851,207	2,577,690
Public works	238,018	1,435,132	2,203,584	1,726,732
Culture and recreation	574,952	396,928	1,626,449	2,347,562
Economic development	-	(26,035)	128,064	153,302
Interest on long-term debt	-	148,371	88,532	148,371
Total governmental activities	<u>\$ 1,465,026</u>	<u>\$ 5,026,935</u>	<u>\$ 7,701,060</u>	<u>\$ 8,165,996</u>

Business-type activities. Business-type activities decreased the City's net position by \$ 187,795. The key elements of this decrease were:

- Income was not as high as projected but expenses remained static.

City of Poteau
 Business-Type Activities
Years Ended June 30, 2013 and 2012

	Program Revenues		Cost of Services	
	2013	2012	2013	2012
Water	\$ 1,119,110	\$ 1,257,847	\$ 1,294,547	\$ 1,365,673
Wastewater	823,431	818,545	986,393	1,021,510
Sanitation	445,121	441,901	431,033	487,906
Administration	91,052	-	373,449	-
Total business-type activities	<u>\$ 2,478,714</u>	<u>\$ 2,518,293</u>	<u>\$ 3,085,422</u>	<u>\$ 2,875,089</u>

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 5,630,271, a decrease of \$ 3,893,629 in comparison with the prior year. The key element to this decrease was:

- Capital outlay expenditures for the library building were made in the current year while revenues received were in the prior year.

See disclaimer in accompanying Independent Auditor's Report.

The general fund is the chief operating fund of the City. As of the end of the current fiscal year, unassigned fund balance of the general fund was \$ 6,005,052.

The fund balance of the City's general fund increased \$ 385,261 during the current fiscal year. The key factor in this increase was:

- Excess of income over expenditures for the fiscal year.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Poteau Public Works Authority as of the end of the year amounted to \$ 2,278,329. The total decrease in net position was \$ 187,795. Operating revenues decreased \$ 39,579 over the previous year due to:

- Water sales were down in 2013. A large portion of this drop was due to a large factory closing during this year.

Operating expenses increased by \$ 221,337, as a result of:

- Capital Projects completed in 2013.

General Fund Budgetary Highlights

There were no differences between the original budget and the final budget for the general fund.

Overall, actual revenues and transfers in on the budgetary basis for the general fund of \$ 6,959,716 were \$ 128,787 more than the estimated revenues in the budget of \$ 6,830,929. This resulted from higher than expected collections of miscellaneous revenues.

Actual expenditures and transfers out of \$ 6,631,183 were \$ 277,779 less than the \$ 6,908,962 approved in final budget appropriations.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounts to \$ 28,577,556 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, and vehicles.

City of Poteau
Capital Assets
June 30, 2013 and 2012
(net of depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Land	\$ 4,078,072	\$ 4,078,072	\$ 23,500	\$ 23,500	\$ 4,101,572	\$ 4,101,572
Construction in progress	-	941,875	-	-	-	941,875
Buildings	13,841,159	9,066,108	-	-	13,841,159	9,066,108
Machinery and equipment	1,128,566	1,116,346	170,097	88,627	1,298,663	1,204,973
Vehicles	1,032,340	863,844	43,722	47,114	1,076,062	910,958
Other improvements	5,632,039	5,764,233	-	-	5,632,039	5,764,233
Infrastructure	26,251	11,751	-	-	26,251	11,751
Utility systems	-	-	2,601,810	2,956,052	2,601,810	2,956,052
Capital assets, net	<u>\$ 25,738,427</u>	<u>\$ 21,842,229</u>	<u>\$ 2,839,129</u>	<u>\$ 3,115,293</u>	<u>\$ 28,577,556</u>	<u>\$ 24,957,522</u>

Major capital asset events during the current fiscal year included the following:

- Construction of the new Patrick Lynch Public Library was completed in 2013.
- A new fleet of cars were purchased for the Police Department.
- Additional Sidewalks were constructed throughout the City.

Additional information of the City's capital assets can be found in Note III.C. on pages 29–30 of this report.

Long-term debt. As of the end of the current fiscal year, the City had total long-term liabilities of \$ 8,150,635. This represents debt secured solely by capital leases of \$ 157,797; notes payable of \$ 7,455,852; accrued compensated absences of \$ 276,156; and other post-employment benefits liability of \$ 260,830.

City of Poteau
Outstanding Debt
June 30, 2013 and 2012

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Capital lease obligations	\$ 157,797	\$ -	\$ -	\$ -	\$ 157,797	\$ -
Notes payable	6,656,609	6,731,609	799,243	929,321	7,455,852	7,660,930
Compensated absences	207,344	149,888	68,812	54,419	276,156	204,307
Other post-employment benefits	201,652	152,086	59,178	45,928	260,830	198,014
Total outstanding debt	<u>\$ 7,223,402</u>	<u>\$ 7,033,583</u>	<u>\$ 927,233</u>	<u>\$ 1,029,668</u>	<u>\$ 8,150,635</u>	<u>\$ 8,063,251</u>

The City's total debt increased \$ 87,384 during the current fiscal year. Key factors in this increase were due to:

- Lease of the new fleet of cars for the Police Department.
- Increase in benefits payable in 2013.

See disclaimer in accompanying Independent Auditor's Report.

Additional information on the City's long-term debt can be found in Notes III.E. on pages 30–32 of this report.

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when setting the fiscal-year 2014 budget, tax rates, and fees that will be charged for the proprietary fund type activities. One of these factors is the economy. The downturn of the national economy has affected the local economy. Unemployment is up and sales tax revenues have been flat for the last several years.

These indicators were taken into account when adopting the City's budget for 2014.

- ❖ Rising costs of Health Care
- ❖ Predicting increases in sales/use tax due to upswing in local economy.

During the current fiscal year, unreserved fund balance in the general fund increased by \$ 385,261.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Poteau's city clerk, City of Poteau, 111 Peters Street, Poteau, Oklahoma 74953.

Basic Financial Statements

City of Poteau, Oklahoma
Statement of Net Position
June 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 617,710	\$ 707,392	\$ 1,325,102
Investments	4,233,936	1,525,785	5,759,721
Receivables, net of allowance for uncollectibles	1,371,106	280,637	1,651,743
Internal balances	(43,780)	43,780	-
Prepaid expenses	434	-	434
Inventories	38,888	-	38,888
Restricted assets - cash and investments	-	258,640	258,640
Debt issuance costs, net of accumulated amortization	-	6,845	6,845
Capital assets, net of accumulated depreciation	<u>25,738,427</u>	<u>2,839,129</u>	<u>28,577,556</u>
Total assets	<u>31,956,721</u>	<u>5,662,208</u>	<u>37,618,929</u>
Deferred outflows of resources			
	-	-	-
Combined assets and deferred outflow of resources	<u>31,956,721</u>	<u>5,662,208</u>	<u>37,618,929</u>
Liabilities			
Accounts payable and accrued liabilities	265,075	155,755	420,830
Payable from restricted assets:			
Accrued interest	-	3,133	3,133
Customer deposits	-	257,872	257,872
Noncurrent liabilities:			
Due within one year	5,199,799	141,090	5,340,889
Due in more than one year	<u>2,023,603</u>	<u>786,142</u>	<u>2,809,745</u>
Total liabilities	<u>7,488,477</u>	<u>1,343,992</u>	<u>8,832,469</u>
Deferred inflows of resources			
	-	-	-
Combined liabilities and deferred inflows of resources	<u>7,488,477</u>	<u>1,343,992</u>	<u>8,832,469</u>
Net position			
Investment in capital assets	20,423,811	2,039,887	22,463,698
Restricted:			
Expendable	146,407	-	146,407
Nonexpendable	39,322	-	39,322
Unrestricted	<u>3,858,704</u>	<u>2,278,329</u>	<u>6,137,033</u>
Total net position	<u>\$ 24,468,244</u>	<u>\$ 4,318,216</u>	<u>\$ 28,786,460</u>

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

City of Poteau, Oklahoma
Statement of Activities
Year Ended June 30, 2013

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 803,224	\$ 4,750	\$ -	\$ -
Public safety	2,851,207	364,779	155,845	126,682
Public works	2,203,584	238,018	-	-
Culture and recreation	1,626,449	223,676	351,276	-
Economic development	128,064	-	-	-
Interest expense on long-term debt	88,532	-	-	-
Total governmental activities	<u>7,701,060</u>	<u>831,223</u>	<u>507,121</u>	<u>126,682</u>
Business-type activities:				
Administration	373,449	91,052	-	-
Water	1,294,547	1,119,110	-	-
Wastewater	986,393	823,431	-	-
Sanitation	431,033	445,121	-	-
Total business-type activities	<u>3,085,422</u>	<u>2,478,714</u>	<u>-</u>	<u>-</u>
Total government	<u>\$ 10,786,482</u>	<u>\$ 3,309,937</u>	<u>\$ 507,121</u>	<u>\$ 126,682</u>

General revenues:

Taxes:

Sales and use

Franchise

Other

Interest income

Miscellaneous

Gain on sale of assets

Transfers

Total general revenues and transfers

Change in net position

Net position, beginning - restated

Net position, ending

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

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (798,474)	\$ -	\$ (798,474)
(2,203,901)	-	(2,203,901)
(1,965,566)	-	(1,965,566)
(1,051,497)	-	(1,051,497)
(128,064)	-	(128,064)
(88,532)	-	(88,532)
<u>(6,236,034)</u>	<u>-</u>	<u>(6,236,034)</u>
-	(282,397)	(282,397)
-	(175,437)	(175,437)
-	(162,962)	(162,962)
-	14,088	14,088
-	<u>(606,708)</u>	<u>(606,708)</u>
<u>(6,236,034)</u>	<u>(606,708)</u>	<u>(6,842,742)</u>
5,116,823	-	5,116,823
375,434	-	375,434
348,761	-	348,761
40,045	10,782	50,827
149,220	18,392	167,612
323,463	-	323,463
<u>(389,739)</u>	<u>389,739</u>	<u>-</u>
<u>5,964,007</u>	<u>418,913</u>	<u>6,382,920</u>
<u>(272,027)</u>	<u>(187,795)</u>	<u>(459,822)</u>
<u>24,740,271</u>	<u>4,506,011</u>	<u>29,246,282</u>
<u>\$ 24,468,244</u>	<u>\$ 4,318,216</u>	<u>\$ 28,786,460</u>

City of Poteau, Oklahoma
Balance Sheet
Governmental Funds
June 30, 2013

	General Fund	Library Building Fund	Poteau Industrial Authority	Other Governmental Funds
Assets				
Cash and cash equivalents	\$ 877,350	\$ (283,683)	\$ 344,269	\$ (320,226)
Investments	4,047,712	-	-	186,224
Receivables:				
Accounts, net of allowance	373,097	-	-	-
Due from other governments	948,623	-	-	5,262
Taxes	38,228	-	-	-
Accrued interest	5,724	-	-	172
Due from other funds	347,026	-	-	-
Prepaid expenses	434	-	-	-
Inventories	-	-	-	38,888
Total assets	<u>\$ 6,638,194</u>	<u>\$ (283,683)</u>	<u>\$ 344,269</u>	<u>\$ (89,680)</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable and accrued liabilities	\$ 255,661	\$ -	\$ 2,278	\$ 7,136
Due to other funds	54,099	-	335,207	1,500
Deferred revenue	322,948	-	-	-
Total liabilities	<u>632,708</u>	<u>-</u>	<u>337,485</u>	<u>8,636</u>
Fund balances:				
Nonspendable	434	-	-	38,888
Restricted	-	-	-	185,124
Committed	-	-	-	-
Assigned	-	-	6,784	136,906
Unassigned	6,005,052	(283,683)	-	(459,234)
Total fund balances	<u>6,005,486</u>	<u>(283,683)</u>	<u>6,784</u>	<u>(98,316)</u>
Total liabilities and fund balances	<u>\$ 6,638,194</u>	<u>\$ (283,683)</u>	<u>\$ 344,269</u>	<u>\$ (89,680)</u>

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

Total
Governmental
Funds

\$ 617,710
4,233,936

373,097
953,885
38,228
5,896
347,026
434
38,888

\$ 6,609,100

\$ 265,075
390,806
322,948
978,829

39,322
185,124
-
143,690
5,262,135

5,630,271
\$ 6,609,100

City of Poteau, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2013

	General Fund	Library Building Fund	Poteau Industrial Authority	Other Governmental Funds
Revenues				
Taxes	\$ 5,635,570	\$ -	\$ -	\$ -
Licenses and permits	15,518	-	-	-
Intergovernmental	460,910	-	-	51,016
Fines and forfeitures	260,936	-	-	9,208
Charges for services	247,127	-	2,000	206,238
Other	446,780	-	-	-
Interest	24,844	13,226	240	1,736
Total revenues	<u>7,091,685</u>	<u>13,226</u>	<u>2,240</u>	<u>268,198</u>
Expenditures				
Current:				
General government	651,302	-	-	141,256
Public safety	2,556,052	-	-	16,543
Public works	1,411,567	-	-	289,417
Culture and recreation	1,075,506	30,824	-	-
Economic development	-	-	113,908	-
Debt service	83,253	124,064	39,468	-
Capital outlay	883,990	4,134,065	-	14,500
Total expenditures	<u>6,661,670</u>	<u>4,288,953</u>	<u>153,376</u>	<u>461,716</u>
Excess of revenues over (under) expenditures	430,015	(4,275,727)	(151,136)	(193,518)
Other Financing sources (uses)				
Proceeds from capital lease	241,050	-	-	-
Proceeds from sale of assets	-	-	323,463	-
Capital grants	121,963	-	-	-
Transfers in	6,278	-	-	24,306
Transfers (out)	(414,045)	-	-	(6,278)
Total other financing sources (uses)	<u>(44,754)</u>	<u>-</u>	<u>323,463</u>	<u>18,028</u>
Net change in fund balances	385,261	(4,275,727)	172,327	(175,490)
Fund balances, beginning - restated	<u>5,620,225</u>	<u>3,992,044</u>	<u>(165,543)</u>	<u>77,174</u>
Fund balances, ending	<u>\$ 6,005,486</u>	<u>\$ (283,683)</u>	<u>\$ 6,784</u>	<u>\$ (98,316)</u>

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

Total
Governmental
Funds

\$ 5,635,570
15,518
511,926
270,144
455,365
446,780
40,046
7,375,349

792,558
2,572,595
1,700,984
1,106,330
113,908
246,785
5,032,555
11,565,715

(4,190,366)

241,050
323,463
121,963
30,584
(420,323)
296,737

(3,893,629)

9,523,900
\$ 5,630,271

City of Poteau, Oklahoma
Reconciliation of Governmental Funds and
Government-Wide Financial Statements
Year Ended June 30, 2013

Total fund balance - governmental funds	\$ 5,630,271
Amounts reported for governmental activities in the statement of net assets are different because:	
Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Capital assets	25,738,427
Long-term assets not available to pay current expenditures	322,948
Long-term liabilities are not due and payable in the current period and therefore are not reported in funds:	
Capital lease obligation	(157,797)
Notes payable	(6,656,609)
Accrued compensated absences	(207,344)
Accrued OPEB liability	<u>(201,652)</u>
Net position of governmental activities	<u>\$ 24,468,244</u>
Net change in fund balances – total governmental funds	\$ (3,893,629)
Adjustments for the statement of activities:	
Governmental funds report capital outlays and debt issuance costs as expenditures. However, in the statement of activities, the cost of these assets are allocated over their estimated useful lives as depreciation or amortization expense.	
Capital outlay expenditures	5,032,555
Depreciation expense	(1,268,806)
The issuance of long-term debt provides current financial resources to governmental funds while the repayment of principal of long-term debt consumes the current financial resources of government funds. Neither transaction, however, has any affect on net assets.	
Proceeds from capital lease obligations	(241,050)
Long-term debt principal payments	158,253
Some revenues and expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported in governmental funds.	
Accrued compensated absences, net change	(9,784)
Accrued OPEB liability, net change	<u>(49,566)</u>
Change in net position of governmental activities	<u>\$ (272,027)</u>

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

City of Poteau, Oklahoma
Statement of Net Position
Proprietary Fund
June 30, 2013

	<u>Poteau Public Works Authority</u>
Assets	
Cash and cash equivalents	\$ 707,392
Investments	1,525,785
Receivables:	
Accounts, net of allowance for uncollectibles	277,877
Accrued interest	2,760
Due from other funds	54,746
Restricted assets - cash and investments	258,640
Debt issuance costs, net of accumulated amortization	6,845
Capital assets, net of accumulated depreciation	<u>2,839,129</u>
Total assets	<u>5,673,174</u>
Deferred outflows of resources	
Combined assets and deferred outflows of resources	<u>-</u> <u>5,673,174</u>
Liabilities	
Accounts payable and accrued liabilities	155,755
Due to other funds	10,966
Payable from restricted assets:	
Accrued interest	3,133
Customer deposits	257,872
Noncurrent liabilities:	
Due within one year	141,090
Due in more than one year	<u>786,142</u>
Total liabilities	<u>1,354,958</u>
Deferred inflows of resources	
Combined liabilities and deferred inflows of resources	<u>-</u> <u>1,354,958</u>
Net position	
Investment in capital assets	2,039,887
Restricted:	
Expendable	-
Unrestricted	<u>2,278,329</u>
Total net position	<u>\$ 4,318,216</u>

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

City of Poteau, Oklahoma
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
Year Ended June 30, 2013

	<u>Poteau Public Works Authority</u>
Operating revenues	
Charges for services:	
Water	\$ 1,119,110
Wastewater	823,431
Sanitation	445,121
Penalties	88,782
Licenses and permits	1,608
Other	662
Total operating revenues	<u>2,478,714</u>
Operating expenses	
Water	1,138,306
Wastewater	713,121
Sanitation	431,033
Administration	354,666
Depreciation and amortization	409,675
Bad debt expense	14,906
Total operating expenses	<u>3,061,707</u>
Net operating income (loss)	(582,993)
Nonoperating revenues (expenses)	
Miscellaneous	18,392
Interest	10,782
Interest expense and fiscal charges	(23,715)
Total nonoperating revenues (expenses)	<u>5,459</u>
Operating transfers	
Transfers in	409,739
Transfers (out)	(20,000)
Total operating transfers	<u>389,739</u>
Net income (loss)	(187,795)
Net position, beginning	<u>4,506,011</u>
Net position, ending	<u><u>\$ 4,318,216</u></u>

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

City of Poteau, Oklahoma
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2013

	<u>Poteau Public Works Authority</u>
Cash flows from operating activities	
Net operating income (loss)	\$ (582,993)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	409,675
Changes in assets and liabilities:	
(Increase) decrease in receivables	26,004
Increase (decrease) in accounts payable and accrued liabilities	(72,725)
Increase (decrease) in customers deposits	6,591
Increase (decrease) in accrued compensated absences	14,393
Increase (decrease) in OPEB liability	13,250
Net cash provided (used) by operating activities	<u>(185,805)</u>
Cash flows from noncapital financing activities	
Miscellaneous revenues	18,392
Transfers in (out)	389,739
Net cash provided (used) by noncapital financing activities	<u>408,131</u>
Cash flows from capital and related financing activities	
Principal paid on long-term debt	(130,078)
Interest expense and fiscal charges	(31,109)
(Acquisition) disposition of capital assets	(133,511)
Net cash provided (used) by capital and related financing activities	<u>(294,698)</u>
Cash flows from investing activities	
Interest income	9,551
(Increase) decrease in investments	(8,963)
Net cash provided (used) by investing activities	<u>588</u>
Net increase (decrease) in cash and cash equivalents	(71,784)
Cash and cash equivalents, beginning	<u>887,021</u>
Cash and cash equivalents, ending	<u>\$ 815,237</u>

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

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2013

I. Organization

The City of Poteau, Oklahoma, (the City) operates under an aldermanic form of government under Title 11 of the *Oklahoma Statutes*. The City provides the following services to its citizens: public safety (police and fire), streets and highways, sanitation, social services, culture and recreation, public improvements, utilities, planning and zoning, and general administrative services.

II. Summary of significant accounting policies

A. Reporting entity

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations. The City's financial statements do not include any discretely presented component units, which would be reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City. In determining the financial reporting entity, the City follows the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," and includes all component units for which the City is financially accountable.

Blended Component Unit. The Poteau Public Works Authority (PPWA) was created as a public trust pursuant to Title 60 of the Oklahoma Statutes to finance, develop, and operate the electric, water, wastewater, and solid waste activities of the City. The current City Council serves as the governing body of the PPWA. Debt issued by the PPWA requires approval of the City Council. The City is the beneficiary of the trust. The City owns the utility systems operated by the PPWA and leases such assets to the trust. PPWA is reported as an enterprise fund. PPWA does not issue separate financial statements.

Poteau Industrial Authority (PIA) promotes industrial and economic development and expansion and secures industrial development within the City.

The Poteau Library Building Project, Inc. (PLBP) was established as a non-profit entity under Section 501(c)(3) of the Internal Revenue Code by the City of Poteau with its purpose to develop and construct a public library for the City of Poteau. Its board of directors is comprised of the mayor and two – four council members of the City. The City is the sole member of the corporation. The balances and activity of PLBP are included in the accompanying governmental fund financial statements as the library building fund.

B. Government-wide and fund financial statements

1. Government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and

intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported, instead, as general revenues.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

2. Fund financial statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Poteau Industrial Authority – The PIA promotes and secures industrial and economic development and expansion within the City.

Poteau Library Building Project – The PLBP accounts for the construction and development of a new library building.

The City reports the following major proprietary funds:

Poteau Public Works Authority – The PPWA accounts for the operations of the water, wastewater, and sanitation services of the City.

C. Measurement focus, basis of accounting, and financial statement presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured, such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

In proprietary funds, operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services in connection with the principle ongoing operations of the fund. All revenues and expenses not meeting this definition are reported as non-operating items.

Non-exchange transactions, in which the City receives (or gives) value without directly giving (or receiving) equal value in exchange, include sales, use, and other taxes; grants and donations. Recognition standards are based on the characteristics and classes on non-exchange transactions. Sales, use, and other taxes, franchise fees, licenses and permits, and fines and forfeitures are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Grants, entitlements, and donations are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as deferred revenue.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments are recorded only when payment is due.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. 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 the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from these estimates.

E. Assets, liabilities, and net position

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

City policy is that deposits can only be made in financial institutions insured by the Federal Deposit Insurance Corporation. The City invests its funds in an effort to ensure preservation of capital, remain sufficiently liquid and attain a reasonable market rate of return, while remaining within the guidelines as provided by the City's investment policy.

Investments for the City, as well as for its component units are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Receivables in governmental funds and governmental activities include tax accruals and intergovernmental revenues such as grant requests, since they are both measurable and available. Revenue from non-exchange transactions collectible but not available are deferred.

Proprietary fund and business-type activities receivables include revenues earned at year end but not yet received. Utility accounts receivable, both billed and unbilled, comprise the majority of the receivables.

All trade and tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles.

3. Inventory and prepaid items

Inventory is valued at average cost. The cost of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenses/expenditures when consumed rather than when purchased.

4. Restricted assets

Funds received from utility customers for water meter deposits are maintained in separate accounts and held for refund to the customer upon their discontinuance of service, provided all outstanding balances are paid.

5. Capital assets

Capital assets, which include buildings and improvements, water distribution system, equipment, and vehicles, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$ 2,500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the asset constructed.

Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	40
Improvements other than buildings	15–40
Machinery and equipment	3–15
Vehicles	5–10
Utility improvements and infrastructure	30–40

6. *Compensated absences*

All full-time City employees earn vacation at varying rates depending upon eligible service. All vacation pay (and sick pay for certain employee classifications) is accrued when incurred in the government-wide and proprietary fund financial statements. Vacation leave, which is unused and vested to the employee in good standing, is payable upon termination. In governmental funds, amounts accrued are expected to be liquidated with available financial resources and are reported as an expenditure. For governmental activities, compensated absences are generally liquidated by the general fund.

Full-time employees with at least one year of service earn vacation of five to fifteen days per year. Employees may carry over unused vacation up to a maximum of one year's accrual. Sick leave may be accumulated up to a maximum of 240 hours. Unused sick leave benefits will not be paid to employees while they are employed or upon termination of employment.

7. *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

8. *Unbilled revenue*

The City bills customers for water and sewer services after usage based upon meter readings made during the month. The City records a receivable for unbilled revenue at June 30 for estimated usage for which bills have not been sent.

9. *Fund balances and net position*

Fund balances – Governmental fund balances are classified as nonspendable, restricted, committed, assigned, and unassigned as follows:

- a. *Nonspendable* – includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.
- b. *Restricted* – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.

- c. *Committed* – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city’s highest level of decision-making authority. The city’s highest level of decision-making authority is made by ordinance.
- d. *Assigned* – includes amounts that are constrained by the city’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has designated that authority.
- e. *Unassigned* – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the city’s policy to first use restricted fund balance prior to the use of unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The city’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net position – Net position is displayed in three components as follows:

- a. *Net investment in capital assets* – consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any debt or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.
- b. *Restricted* – consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted* – all other net position that do not meet the definitions of “invested in capital assets, net of related debt” or “restricted”.

It is the city’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

10. Internal and interfund balances and transfers

Interfund transfers and balances are eliminated in the government-wide financial statements to avoid grossing up the balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements. Internal transfers and balances between funds are not eliminated in the fund financial statements.

11. New accounting pronouncements adopted in 2013

The City implemented the following Governmental Accounting Standards Board (GASB) pronouncements during the fiscal year ended June 30, 2013:

GASB Statement No. 60 – *Accounting and Financial Reporting for Service Concession Arrangements*. This had no impact on the City’s financial report.

GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus*. This had no impact on the City’s financial report.

GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. A few sentences were removed from Note II. C. to eliminate references to FASB pronouncements and APB opinions issued on or before November 30, 1989.

GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Changes were made for early implementation of this statement by changing the words “Net Assets” to “Net Position”.

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This had no impact on the financial report.

12. Budgetary information

Annual budgets are adopted for all governmental funds and proprietary funds. All un-encumbered annual appropriations lapse at fiscal year-end. Actual expenditures within a fund may not legally exceed 90% of the adopted budget.

Prior to June of each year, all department heads of the City submit requests for appropriations to the city manager so that a budget may be prepared. The city council meets with the city manager and the department heads to review the needs, estimates, and requests of the departments. The council holds a public hearing prior to June 15, and a final budget is formally approved and adopted by the city council in July.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations between classification categories within a department or between departments within a fund require the approval of the council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the object classification level within a department. Object classifications include personal services, materials and supplies, other services and charges, capital outlay, and debt service.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances.

III. Detailed notes on all funds

A. Deposits and investments

Deposits

The City’s carrying amount of deposits was \$ 1,400,282 as of June 30, 2013, and the bank balances totaled \$ 1,743,305. Deposits are carried at cost.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2013, \$ 1,225,661 of the City’s bank balances of \$ 1,743,305 was exposed to custodial credit risk as follows:

Collateral held by the pledging bank not in the City’s name	<u>\$ 1,225,661</u>
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Investments

As of June 30, 2013, the City had the following investments.

Investment	Maturities	Fair Value
Certificates of deposit	< 1 year	\$ 5,941,925

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State statutes limit investments by a municipality to the following: a) direct obligations of the U.S. Government, its agencies or instrumentalities; b) collateralized or insured certificates of deposit within the state, and insured certificates only if out of state; c) savings accounts or savings certificates; d) fully collateralized prime banker acceptances, prime commercial paper, repurchase agreements, or SEC regulated money market funds; e) obligations to the payment of which the full faith and credit of the state is pledged; f) county, municipal, or school district and valorem tax funded debt; g) bonds, notes, or money judgments of a county, municipality, or school district; h) revenue anticipation notes of a public trust of which the municipality is beneficiary; or i) any bond, note, or other debt of any public trust of which the municipality is sole beneficiary, or other entities whose governing boards were appointed by the municipality. The City has no investment policy that would further limit its investment choices. As of June 30, 2013, the City's investments in U.S. treasury mutual funds were all federally insured.

Concentration of Credit Risk. The City places no limit on the amount it may invest in any one issuer. One hundred percent (100%) of the City's investments are in certificates of deposit.

B. Receivables

Receivables as of June 30, 2013, for the City of Poteau's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Nonmajor Governmental Funds	Poteau Public Works Authority	Total
Receivables:				
Accounts	\$ 23,834	\$ -	\$ 357,461	\$ 381,295
Court fines	605,940	-	-	605,940
Taxes	38,228	-	-	38,228
Due from other governments	948,623	5,262	-	953,885
Accrued interest	5,724	172	2,760	8,656
Gross receivables	1,622,349	5,434	360,221	1,988,004
Less: allowance for uncollectibles	(256,678)	-	(79,584)	(336,262)
Net total receivables	<u>\$ 1,365,671</u>	<u>\$ 5,434</u>	<u>\$ 280,637</u>	<u>\$ 1,651,742</u>

C. Capital assets

Capital asset balances and activities for the year ended June 30, 2013, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 4,078,072	\$ -	\$ -	\$ 4,078,072
Construction in progress	941,875	-	(941,875)	-
Total capital assets, not being depreciated	<u>5,019,947</u>	<u>-</u>	<u>(941,875)</u>	<u>4,078,072</u>
Capital assets, being depreciated:				
Buildings	12,764,153	5,254,911	-	18,019,064
Machinery and equipment	2,927,577	208,110	-	3,135,687
Vehicles	2,749,299	383,010	(57,047)	3,075,262
Other improvements	13,997,190	253,568	-	14,250,758
Infrastructure	5,741,251	14,500	-	5,755,751
Total capital assets, being depreciated	<u>38,179,470</u>	<u>6,114,099</u>	<u>(57,047)</u>	<u>44,236,522</u>
Less accumulated depreciation for:				
Buildings	(3,698,045)	(479,860)	-	(4,177,905)
Machinery and equipment	(1,811,231)	(195,890)	-	(2,007,121)
Vehicles	(1,885,455)	(207,294)	49,827	(2,042,922)
Other improvements	(8,232,957)	(385,762)	-	(8,618,719)
Infrastructure	(5,729,500)	-	-	(5,729,500)
Total accumulated depreciation	<u>(21,357,188)</u>	<u>(1,268,806)</u>	<u>49,827</u>	<u>(22,576,167)</u>
Total capital assets, being depreciated, net	<u>16,822,282</u>	<u>4,845,293</u>	<u>(7,220)</u>	<u>21,660,355</u>
Total governmental activities capital assets, net	<u>\$ 21,842,229</u>	<u>\$ 4,845,293</u>	<u>\$ (949,095)</u>	<u>\$ 25,738,427</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 23,500	\$ -	\$ -	\$ 23,500
Total capital assets, not being depreciated	<u>23,500</u>	<u>-</u>	<u>-</u>	<u>23,500</u>
Capital assets, being depreciated:				
Buildings	45,750	-	-	45,750
Utility system improvements	17,410,505	-	-	17,410,505
Machinery and equipment	536,424	106,539	-	642,963
Vehicles	532,160	26,972	-	559,132
Total capital assets, being depreciated	<u>18,524,839</u>	<u>133,511</u>	<u>-</u>	<u>18,658,350</u>
Less accumulated depreciation for:				
Buildings	(45,750)	-	-	(45,750)
Utility system improvements	(14,454,453)	(354,242)	-	(14,808,695)
Machinery and equipment	(447,797)	(25,069)	-	(472,866)
Vehicles	(485,046)	(30,364)	-	(515,410)
Total accumulated depreciation	<u>(15,433,046)</u>	<u>(409,675)</u>	<u>-</u>	<u>(15,842,721)</u>
Total capital assets, being depreciated, net	<u>3,091,793</u>	<u>(276,164)</u>	<u>-</u>	<u>2,815,629</u>
Total business-type activities capital assets, net	<u>\$ 3,115,293</u>	<u>\$ (276,164)</u>	<u>\$ -</u>	<u>\$ 2,839,129</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 5,660
Public safety	246,793
Public works	309,203
Culture and recreation	511,107
Industrial Authority	14,156
Airport	181,887
Total depreciation expense – governmental activities	<u>\$ 1,268,806</u>
Business-type activities:	
Water	\$ 156,241
Wastewater	199,085
Administration	3,877
Sewer plant	50,472
Total depreciation expense – business-type activities	<u>\$ 409,675</u>

D. Deposits subject to refund

Utility customers are required to make a meter deposit, which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2013, restricted, cash and investments included \$ 258,640 available for refund of customer deposits, while the liability to customers was \$ 257,872.

E. Long-term debt

Long-term liabilities of the City of Poteau as of June 30, 2013, are summarized as follows:

Governmental Activities

Compensated absences	\$ 207,344
Other post-employment benefits	201,652
Capital lease obligations:	
Capital lease agreement with Arvest Bank; dated January 10, 2013, in the amount of \$ 157,797, payable in two (2) annual installments of \$ 80,810, including interest at 2.38%, for the lease purchase of police vehicles.	157,797
Notes Payable:	
Note payable to Central National Bank, original issue amount of \$ 1,500,000 dated July 19, 2007, renewed October 5, 2012, issued by the Poteau Industrial Authority, payable in one installment with interest rate of 2.0% above the Central National Bank certificate of deposit rate, with a final maturity of April 2013.	1,499,790
Note payable to Central National Bank, original issue amount of \$ 4,081,875 dated July 6, 2012, renewed July 6, 2013, issued by the City of Poteau, payable in one installment with interest of 2.25% due monthly, with a final maturity of January 2015.	3,621,144
Note payable to Meta Markets OK, LLC from the Poteau Library Building Project, Inc. in the amount of \$ 1,535,675 dated July 18, 2011 for the tax credit investment in the library construction project. Loan will be forgiven after seven years.	<u>1,535,675</u>
Total notes payable	<u>6,656,609</u>
Total governmental activities	<u>\$ 7,223,402</u>

Business-Type Activities

Compensated absences	\$ 68,812
Other post-employment benefits	59,178
Notes Payable:	
Note payable to the Oklahoma Water Resources Board, dated July 22, 1997, in the amount of \$ 2,335,000, due and payable in semi-annual installments including interest at 0.8% plus an administrative fee of .5%, for water system improvements, with a final maturity of September 2018.	<u>799,243</u>
Total business-type activities	<u>927,233</u>
Total long-term debt	<u>\$ 8,150,635</u>

Long-term liabilities transactions for the year ended June 30, 2013, and changes therein were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities					
Compensated absences	\$ 149,888	\$ 57,456	\$ -	\$ 207,344	\$ -
Capital lease obligations	-	241,050	(83,253)	157,797	78,865
Notes payable	6,731,609	-	(75,000)	6,656,609	5,120,934
Other post-employment benefits	152,086	49,566	-	201,652	-
Total governmental-type activities	<u>\$ 7,033,583</u>	<u>\$ 348,072</u>	<u>\$ (158,253)</u>	<u>\$ 7,223,402</u>	<u>\$ 5,199,799</u>
Business-type activities					
Compensated absences	\$ 54,419	\$ 14,393	\$ -	\$ 68,812	\$ -
Notes payable	929,321	-	(130,078)	799,243	141,090
Other post-employment benefits	45,928	13,250	-	59,178	-
Total business-type activities	<u>1,029,668</u>	<u>27,643</u>	<u>(130,078)</u>	<u>927,233</u>	<u>141,090</u>
Total long-term liabilities	<u>\$ 8,063,251</u>	<u>\$ 375,715</u>	<u>\$ (288,331)</u>	<u>\$ 8,150,635</u>	<u>\$ 5,340,889</u>

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ending June 30,	Governmental Activities			
	Notes Payable		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2014	\$ 5,120,934	\$ 48,720	\$ 78,865	\$ 1,945
2015	-	-	78,932	1,879
2016	-	-	-	-
2017	-	-	-	-
2018	-	-	-	-
2019-2023	1,535,675	-	-	-
2024-2028	-	-	-	-
Totals	<u>\$ 6,656,609</u>	<u>\$ 48,720</u>	<u>\$ 157,797</u>	<u>\$ 3,824</u>

Year Ending June 30,	Business-Type Activities	
	Notes Payable	
	Principal	Interest
2014	\$ 70,274	\$ 5,270
2015	70,816	4,728
2016	71,205	4,339
2017	71,737	3,807
2018	72,147	3,397
2019-2023	368,014	9,705
2024-2028	75,050	495
Totals	<u>\$ 799,243</u>	<u>\$ 31,741</u>

F. Debt issuance costs

Costs incurred in issuing revenue bonds are recorded as deferred charges in the financial statements. These costs include attorney fees, trustee fees, financial consultant fees, printing costs and other miscellaneous costs. Debt issuance costs are amortized over the term of the relevant debt on a straight-line basis. As of June 30, 2013, unamortized debt issuance costs were \$ 6,845 and current year amortization was \$ 2,282.

G. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2013, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General fund	Poteau Industrial Authority	\$ 335,207
General fund	Non-major governmental	1,500
General fund	Poteau Public Works Authority	10,319
Poteau Public Works Authority	General fund	54,099
Poteau Public Works Authority	Meter fund	648
Totals		<u>\$ 401,773</u>

The outstanding balances between funds result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payment between funds are made.

Interfund transactions:

Transfer in:	Transfer out:			Totals
	General Fund	Non-major Governmental	Poteau Public Works Authority	
General fund	\$ -	\$ 6,278	\$ -	\$ 6,278
Poteau Insurance Fund	-	-	20,000	20,000
Non-major governmental	4,306	-	-	4,306
Poteau Public Works Authority	409,739	-	-	409,739
Totals	<u>\$ 414,045</u>	<u>\$ 6,278</u>	<u>\$ 20,000</u>	<u>\$ 440,323</u>

IV. Revenues, expenditures and expenses

A. Sales tax

The sales tax rate in the City of Poteau is 9.00%. The State of Oklahoma receives 4.50%, the City 3.00% and LeFlore County 1.50%. The 3.00% for the City of Poteau is broken down as follows:

- 2.75% remains in the General Fund to fund City operations.
- 0.25% is transferred to the Poteau Public Works Authority for debt service.

The use tax mirrors the sales tax rate and applies to purchases by a resident or business in Poteau for the use, storage or consumption of goods in Oklahoma that were purchased outside of the state.

V. Other information

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City has insurance for the major risks such as property and general liability. Commercial insurance is used to cover general liability claims and the risk of loss to City buildings and mobile equipment. Judgments against the City may be paid by a property tax assessment over a three-year period.

B. Employee retirement systems and pension plans

The City of Poteau participates in the Oklahoma State Police Pension and Retirement System (OPPRS) and the Oklahoma State Firefighters' Pension and Retirement System (OFPRS), both of which are cost-sharing multiple-employer defined benefit pension plans administered by the State of Oklahoma. Additionally, for other City employees not covered by the other plans, the City of Poteau maintains a defined benefit plan—the Oklahoma Municipal Retirement Fund Employee Retirement System of Poteau (the Plan).

Oklahoma State Police Pension and Retirement System (OPPRS)

Plan Description – The OPPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OPPRS. The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information for the police employees of the City. That report may be obtained by writing to the Oklahoma State Police Pension and Retirement System, 1001 N.W. 63rd Street, Suite 305, Oklahoma City, Oklahoma 73116-7339, or by calling 1-405-840-3555.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary, and the City of Poteau contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OPPRS for the year ended June 30, 2013, for employees and employer were \$ 68,163 and \$ 110,764, respectively, on covered payroll of \$ 852,830. The State of Oklahoma made on-behalf payments to OPPRS totaling \$ 100,118 (or 11.74% of covered payroll) for the fiscal year.

Oklahoma State Firefighters' Pension and Retirement System (OFPRS)

Plan Description – The OFPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OFPRS. The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the firefighting employees of the City. That report may be obtained by writing to the Oklahoma State Firefighters' Pension and Retirement System, 4545 North Lincoln Boulevard, Suite 265, Oklahoma City, Oklahoma 73105, or by calling 1-405-525-7813.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary and the City of Poteau contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OFPRS for the year ended June 30, 2013, for employees and employer were \$ 14,861 and \$ 24,148, respectively, on covered payroll of \$ 185,757. The State of Oklahoma made on-behalf payments of \$ 55,727 (or 30.0% of covered payroll) for the fiscal year.

Oklahoma Municipal Retirement Fund Employee Retirement System of Poteau, Oklahoma

Plan Description – The Oklahoma Municipal Retirement Fund Employee Retirement System of Poteau, Oklahoma (the Plan) is a defined benefit retirement plan covering City employees not covered by other plans. The Plan operates as a trust maintained by the Oklahoma Municipal Retirement Fund (OMRF). The OMRF board of trustees retains JP Morgan Chase Bank (JP Morgan) as custodian to hold the Plan assets which are invested by various professional managers. All regular, full-time City employees not covered by other plans are required to participate in the Plan. Benefits vest after ten years of service. Employees, who retire at age 65 or completion of 10 years of service, if later, are entitled to an annual retirement benefit, payable monthly in an amount equal to 3.00% of final average compensation multiplied by the number of years of credited service.

An employee is eligible for an early retirement benefit once he has attained age 55 and has completed 10 years of service. The amount of benefit is determined based on the final average salary and credited service as of the date of termination. If benefit payments are to begin before age 65, the amount of benefit will be actuarially reduced. A late retirement benefit is computed in the same manner as a normal retirement based on average salary and credited service as of the termination of employment.

A participant who becomes totally and permanently disabled after completion of ten years of service will be entitled to a disability benefit computed as an early retirement benefit based on average salary and service as of the date of disability but without actuarial reduction for payments beginning prior to normal retirement age if the employee is also eligible for a disability benefit from Social Security.

Employee contributions are returned with interest if their employment is terminated prior to completion of ten years of service. A death benefit is payable after ten years of service based on 50% of the employee's accrued benefit. This benefit is payable for life or until remarriage of the surviving spouse. For a vested single participant, 50% of the accrued benefit is payable for 60 months certain.

Funding Policy – The following amount shown as the actuarial accrued liability is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding

status of the Plan on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits, and is independent of the funding method used to determine contributions to the Plan.

The actuarial accrued liability was computed as part of an actuarial valuation performed as of January 1, 2013. Significant actuarial assumptions used in the valuation include 1) a rate of return on the investment of present and future assets of 7.50% compounded annually, and 2) future salary increases of 4.00% to 7.42% per year.

The total actuarial liability exceeded the net assets available for benefits by \$ 5,069,585 at January 1, 2013, as follows:

Actuarial accrued liability	\$ 5,889,841
Net assets available for benefits (actuarial value)	4,817,548
Unfunded actuarial accrued liability	<u>\$ 1,072,293</u>

The Plan’s funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so sufficient assets will be available to pay benefits when due. Required contributions are determined using the aggregate entry age normal cost method. Unfunded actuarial accrued liabilities are being amortized as a level dollar amount over 30 years from the valuation date.

For the year ended June 30, 2013, employees were required to contribute 4.25% of annual compensation while the City contributed the remaining amounts necessary to fund the pension plan using an actuarial basis. The City’s contribution rate, for the year ended June 30, 2013, was 10.00%. Contributions to the Plan for payroll for the year ended June 30, 2013, for employees and employer were \$ 72,038 and \$ 169,503, respectively.

For the year ended June 30, 2013, the City’s covered payroll was \$ 1,695,023. Covered payroll refers to all compensation paid by the City of Poteau to active employees covered by the Plan on which contributions are based.

Significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation as described above.

The schedule of funding progress for the Plan is presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The amounts shown for valuation prior to January 1, 1998, are the pension benefit obligation (PBO) as defined in GASB Statement No. 5, *Accounting for Contingencies*. GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, which replaced GASB Statement No. 5, requires that the actuarial accrued liability used to fund the Plan be used to measure funding progress.

C. Other Post-employment Benefits (OPEB)

Plan Description – The City provides postemployment benefit options for medical and prescription drug benefits for retired employees and their dependents that elect to make required contributions. The benefits are provided in accordance with State law, police and firefighter’s union contracts and the Consolidated Omnibus Budget Reconciliation Act of 1985

(COBRA). The relationship for these benefits is not formalized in a contract or plan document. These benefits are considered for accounting purposes to be provided in accordance with a single employer substantive plan. A substantive plan is one in which the plan terms are understood by the City and plan members. This understanding is based on communications between the employer and plan members and the historical pattern of practice with regard to the sharing of benefit costs. Substantially all of the City's employees may become eligible for those post-retirement benefits if they reach normal retirement age while working for the City. As of June 30, 2013, approximately 6 retired employees and their spouses were receiving benefits under this plan.

Funding Policy – The contribution requirement of the City is an implicit subsidy. The implicit subsidy is not a direct payment from the employer on behalf of the member but rather stems from retiree contribution levels that are less than the claims cost at retiree ages. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members may pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retiree. The amount required to fund the implicit rate is based on projected pay-as-you-go financing requirements. For fiscal year 2013, Plan member receiving benefits contributed \$ 19,246, or 100% of the total premiums, through their required contribution of \$ 385 per month for retiree-only coverage and \$ 805 per month for retiree and spouse medical coverage.

Annual OPEB Cost and Net OPEB Obligation – The City's annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the City's net OPEB obligation:

Annual required contribution	\$ 98,177
Interest on net OPEB obligation	8,911
Adjustment to annual required contribution	<u>(25,025)</u>
Annual OPEB cost	82,063
Total annual employer contribution (pay-as-you-go)	<u>(19,246)</u>
Increase in net OPEB obligation	62,817
Net OPEB obligation – beginning of the year	<u>198,014</u>
Net OPEB obligation – end of year	<u>\$ 260,831</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contribution to the plan, and the net OPEB obligation for 2013 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 74,988	12%	\$ 260,831
6/30/2012	74,988	12%	198,014
6/30/2011	74,988	12%	132,009
6/30/2010	74,987	12%	66,004

Funded Status and Funding Progress – As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$ 574,080 and the actuarial value of assets was \$ 0, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 574,080. The covered payroll (annual payroll of active employees covered by the plan) was \$ 16,037,027, and the ratio of the UAAL to the covered payroll was 11%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2010 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.5% investment rate of return based on the City's rate of return on investments for 2010, and an annual healthcare cost trend rate of 9% for 2011, and then reduced by decrements of one-half percent annually to an ultimate rate of 7% after eight years. The UAAL is being amortized on a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010 was 30 years.

D. Commitments and contingencies

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

City employees can carryover unused sick leave to a maximum limit of 30 calendar days (240 work hours). Accrual of sick leave will be suspended until the employee has reduced the balance below the limit. Employees are not compensated for unused sick leave at the time of their termination of employment.

E. Subsequent events

Management of the City of Poteau has evaluated subsequent events through May 16, 2014, the date which the financial statements were available to be issued.

F. Prior period adjustments

Beginning net position was restated on the accompanying statement of activities to correct errors in certain account balances presented in the financial statements as of and for the year ended June 30, 2012.

These adjustments were made to correctly reflect financial presentation in accordance with accounting principles generally accepted in the United States of America.

The following is a summary of the adjustments made:

Government-wide financial statements:

Governmental activities –	
Capital assets	\$ 1,822,608
Due from other governments – taxes receivable	200,018
Compensated absences	(49,675)
	<u>\$ 1,972,951</u>

Business-type activities –	
Capital assets	\$ (253,296)
Compensated absences	(12,329)
	<u>\$ (265,625)</u>

Governmental fund financial statements:

General fund –	
Due from other governments – taxes receivable	\$ 200,018
Accrued liabilities	29,933
Library building fund –	
Due from other funds	(232,431)
	<u>\$ (2,480)</u>

Proprietary fund financial statements:

Poteau Public Works Authority	
Capital assets	\$ (253,296)
Compensated absences	(12,329)
	<u>\$ (265,625)</u>

Required Supplementary Information

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City of Poteau, Oklahoma
Budgetary Comparison Schedule
General Fund and Major Special Revenue Funds (Budgetary Basis)
Year Ended June 30, 2013

	General Fund			Variance with Final Budget Positive (Negative)
	Budget		Actual	
	Original	Final		
Fund balance, beginning	\$ 2,458,515	\$ 2,458,515	\$ 3,787,327	\$ 1,328,812
Resources				
Taxes	5,671,627	5,671,627	5,610,517	(61,110)
Licenses and permits	13,947	13,947	15,518	1,571
Intergovernmental	297,180	297,180	306,692	9,512
Fines and forfeitures	250,000	250,000	259,892	9,892
Charges for services	253,043	253,043	247,127	(5,916)
Miscellaneous	289,464	289,464	513,348	223,884
Interest	55,668	55,668	6,622	(49,046)
Operating transfers	-	-	-	-
Total resources	<u>6,830,929</u>	<u>6,830,929</u>	<u>6,959,716</u>	<u>128,787</u>
Amounts available for appropriation	9,289,444	9,289,444	10,747,043	1,457,599
Charges to appropriations:				
Managerial	211,115	211,115	229,303	(18,188)
City clerk	-	-	1,370	(1,370)
Treasurer	14,827	14,827	9,952	4,875
City attorney	36,949	36,949	31,923	5,026
Communications 911	239,763	239,763	189,259	50,504
Police	1,567,440	1,567,440	1,564,704	2,736
Fire	491,541	491,541	441,902	49,639
Refuse	179,758	179,758	175,356	4,402
Streets	1,025,564	1,025,564	972,494	53,070
PARC	461,712	461,712	451,814	9,898
Swimming pool	86,561	86,561	66,572	19,989
Parks	145,296	145,296	182,484	(37,188)
Planning commission	2,500	2,500	-	2,500
General government	399,964	399,964	368,738	31,226
Library	42,900	42,900	45,061	(2,161)
Cemetery	152,888	152,888	166,666	(13,778)
Code enforcement	12,500	12,500	532	11,968
Emergency management	3,000	3,000	2,950	50
Animal control	84,136	84,136	61,625	22,511
Municipal court	149,534	149,534	119,829	29,705
Civic center	339,920	339,920	329,822	10,098
Building inspection	20,251	20,251	24,842	(4,591)
General nutrition	50,760	50,760	69,041	(18,281)
Economic development	-	-	-	-
Debt service	83,084	83,084	83,253	(169)
Capital outlay	529,643	529,643	627,646	(98,003)
Operating transfers	577,356	577,356	414,045	163,311
Total charges to appropriations	<u>6,908,962</u>	<u>6,908,962</u>	<u>6,631,183</u>	<u>277,779</u>
Fund balances, ending	<u>\$ 2,380,482</u>	<u>\$ 2,380,482</u>	<u>\$ 4,115,860</u>	<u>\$ 1,735,378</u>

See disclaimer in accompanying Independent Auditor's Report.

City of Poteau, Oklahoma
Reconciliation of Budgetary Comparison Schedule on a Budgetary Basis
With Fund Financial Statements on a GAAP Basis
Year Ended June 30, 2013

Budgetary funds	General Fund	Poteau Industrial Authority
Financial statement major funds		
Revenues		
Actual amounts (budgetary basis) "resources" from the budgetary comparison schedules	\$ 6,959,716	\$ 325,703
Adjustments:		
<i>Budgetary</i> general fund revenues are reported on the cash basis, rather than the modified accrual basis	(23,876)	-
State on-behalf pension contributions	155,845	-
Proceeds from sale of assets	-	(323,463)
	-	(323,463)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	\$ 7,091,685	\$ 2,240
Expenditures		
Actual amounts (budgetary basis) "charges to appropriations" from the budgetary comparison schedules	\$ 6,631,183	\$ 154,125
Adjustments:		
Encumbrances for goods and services ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for GAAP reporting	444,532	(749)
Operating transfers out	(414,045)	-
	(414,045)	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	\$ 6,661,670	\$ 153,376
Other financing sources (uses)		
Actual amounts (budgetary basis) from the budgetary comparison schedules	\$ -	\$ -
Adjustments:		
Amounts reported in "resources" and "charges to appropriations" in the budgetary comparison schedule		
Proceeds from capital lease	241,050	-
Capital grants	121,963	-
Proceeds from sale of assets	-	323,463
Operating transfers in	6,278	-
Operating transfers out	(414,045)	-
	(414,045)	-
Total other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	\$ (44,754)	\$ 323,463

See disclaimer in accompanying Independent Auditor's Report.

City of Poteau, Oklahoma
Notes to Budgetary Comparison Schedules
Year Ended June 30, 2013

Budgetary Accounting: The annual operating budgets are prepared and presented on the modified accrual basis of accounting. The City of Poteau utilizes encumbrance accounting during the year on a limited basis for certain purchase orders and other commitments for the expenditure of funds which are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at year-end, therefore, encumbrances outstanding at year-end are not considered expenditures for budgetary purposes, as the City of Poteau will provide for supplemental appropriations in the following budget year.

City of Poteau, Oklahoma
Schedule of Funding Progress
Pension Plan and Post-Retirement Medical Plan
For the Year Ended June 30, 2013

Oklahoma Municipal Retirement Fund - Defined Benefit Pension Plan

Actuarial Valuation Date	Value of Assets Available for Benefits	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Percentage Funded	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
1/1/2013	\$ 4,817,548	\$ 5,889,841	\$ 1,072,293	81.80%	\$ 1,697,660	63.16 %
1/1/2012	4,496,058	5,473,773	977,715	82.10%	1,606,348	60.86 %
1/1/2011	4,284,816	5,275,793	990,977	81.20%	1,604,465	61.76 %
1/1/2010	3,998,213	4,909,824	911,611	81.40%	1,603,135	56.86%
1/1/2009	3,813,529	4,684,186	870,657	81.40%	1,605,373	54.23 %
1/1/2008	4,023,656	4,676,753	653,097	86.00%	1,474,617	44.29 %
1/1/2007	3,744,558	4,441,362	696,804	84.30%	1,375,838	50.64 %
1/1/2006	3,461,180	4,156,913	695,733	83.30%	1,320,173	52.70 %
1/1/2005	3,265,622	3,688,402	422,780	88.50%	1,299,600	32.53 %
1/1/2004	3,074,457	3,396,982	322,525	90.50%	1,270,416	25.39 %

Other Post-Employment Benefits Plan

7/1/2012	-	713,847	713,847	0.00%	2,695,000	26.00%
7/1/2009	-	574,080	574,080	0.00%	1,800,000	32.00%

See disclaimer in accompanying Independent Auditor's Report.

Other Supplementary Information

City of Poteau, Oklahoma
Combining Balance Sheet
General Fund
June 30, 2013

	General Fund	General Fund Reserve	Total
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and cash equivalents	\$ 877,350	\$ -	\$ 877,350
Investments	1,661,274	2,386,438	4,047,712
Receivables:			
Accounts, net of allowance	373,097	-	373,097
Due from other governments	948,623	-	948,623
Taxes	38,228	-	38,228
Accrued interest	5	5,719	5,724
Due from other funds	347,026	-	347,026
Prepaid expenses	434	-	434
Inventories	-	-	-
Total assets	<u>\$ 4,246,037</u>	<u>\$ 2,392,157</u>	<u>\$ 6,638,194</u>
 Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 255,661	\$ -	\$ 255,661
Due to other funds	54,099	-	54,099
Deferred revenue	<u>322,948</u>	<u>-</u>	<u>322,948</u>
Total liabilities	<u>632,708</u>	<u>-</u>	<u>632,708</u>
 Fund balances:			
Nonspendable	434	-	434
Restricted	-	-	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	<u>3,612,895</u>	<u>2,392,157</u>	<u>6,005,052</u>
Total fund balances	<u>3,613,329</u>	<u>2,392,157</u>	<u>6,005,486</u>
Total liabilities and fund balances	<u>\$ 4,246,037</u>	<u>\$ 2,392,157</u>	<u>\$ 6,638,194</u>

City of Poteau, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
General Fund
Year Ended June 30, 2013

	General Fund	General Fund Reserve	Total
Revenues			
Taxes	\$ 5,635,570	\$ -	\$ 5,635,570
Licenses and permits	15,518	-	15,518
Intergovernmental	460,910	-	460,910
Fines and forfeitures	260,936	-	260,936
Charges for services	247,127	-	247,127
Other	446,780	-	446,780
Interest	6,331	18,513	24,844
Total revenues	<u>7,073,172</u>	<u>18,513</u>	<u>7,091,685</u>
Expenditures			
Current:			
General government	651,302	-	651,302
Public safety	2,556,052	-	2,556,052
Public works	1,411,567	-	1,411,567
Culture and recreation	1,075,506	-	1,075,506
Economic development	-	-	-
Debt service	83,253	-	83,253
Capital outlay	883,990	-	883,990
Total expenditures	<u>6,661,670</u>	<u>-</u>	<u>6,661,670</u>
Excess of revenues over (under) expenditures	411,502	18,513	430,015
Other Financing sources (uses)			
Proceeds from capital lease	241,050	-	241,050
Proceeds from sale of assets	-	-	-
Capital grants	121,963	-	121,963
Transfers in	6,278	-	6,278
Transfers (out)	(414,045)	-	(414,045)
Total other financing sources (uses)	<u>(44,754)</u>	<u>-</u>	<u>(44,754)</u>
Net change in fund balances	366,748	18,513	385,261
Fund balances, beginning - restated	<u>3,246,581</u>	<u>2,373,644</u>	<u>5,620,225</u>
Fund balances, ending	<u>\$ 3,613,329</u>	<u>\$ 2,392,157</u>	<u>\$ 6,005,486</u>

City of Poteau, Oklahoma
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013

	Special Revenue			
	Robert S. Kerr Airport Fund	Law Enforcement Grant Fund	Juvenile Court Fund	Police Drug Fund
Assets				
Cash and cash equivalents	\$ (340,182)	\$ -	\$ 36,181	\$ 53,413
Investments	-	-	-	65,709
Receivables:				
Due from other governments	-	-	-	-
Accrued interest	-	-	-	-
Inventories	38,888	-	-	-
Total assets	<u>\$ (301,294)</u>	<u>\$ -</u>	<u>\$ 36,181</u>	<u>\$ 119,122</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 3,512	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-
Total liabilities	<u>3,512</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances				
Nonspendable	38,888	-	-	-
Restricted	-	-	36,181	117,527
Committed	-	-	-	-
Assigned	-	-	-	1,595
Unassigned	(343,694)	-	-	-
Total fund balances	<u>(304,806)</u>	<u>-</u>	<u>36,181</u>	<u>119,122</u>
Total liabilities and fund balances	<u>\$ (301,294)</u>	<u>\$ -</u>	<u>\$ 36,181</u>	<u>\$ 119,122</u>

Special Revenue			Capital Projects	Total
Police Court Fund	Poteau Insurance Fund	Poteau Nutrition Fund	Cemetery Care Fund	Nonmajor Governmental Funds
\$ 2,390	\$ 14,624	\$ (118,068)	\$ 31,416	\$ (320,226)
-	120,515	-	-	186,224
-	-	5,262	-	5,262
-	172	-	-	172
-	-	-	-	38,888
<u>\$ 2,390</u>	<u>\$ 135,311</u>	<u>\$ (112,806)</u>	<u>\$ 31,416</u>	<u>\$ (89,680)</u>
\$ 890	\$ -	\$ 2,734	\$ -	\$ 7,136
1,500	-	-	-	1,500
<u>2,390</u>	<u>-</u>	<u>2,734</u>	<u>-</u>	<u>8,636</u>
-	-	-	-	38,888
-	-	-	31,416	185,124
-	0	-	-	-
-	135,311	-	-	136,906
-	-	(115,540)	-	(459,234)
-	135,311	(115,540)	31,416	(98,316)
<u>\$ 2,390</u>	<u>\$ 135,311</u>	<u>\$ (112,806)</u>	<u>\$ 31,416</u>	<u>\$ (89,680)</u>

City of Poteau, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2013

	Special Revenue			
	Robert S. Kerr Airport Fund	Law Enforcement Grant Fund	Juvenile Court Fund	Police Drug Fund
Revenues				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	9,208	-
Charges for services	206,238	-	-	-
Interest	-	8	72	264
Total revenues	<u>206,238</u>	<u>8</u>	<u>9,280</u>	<u>264</u>
Expenditures				
Current:				
General government	-	-	-	-
Public safety	-	-	16,543	-
Public works	289,417	-	-	-
Culture and recreation	-	-	-	-
Economic development	-	-	-	-
Debt service	-	-	-	-
Capital outlay	14,500	-	-	-
Total expenditures	<u>303,917</u>	<u>-</u>	<u>16,543</u>	<u>-</u>
Excess of revenues over (under) expenditures	(97,679)	8	(7,263)	264
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers (out)	-	(6,278)	-	-
Total other financing sources (uses)	<u>-</u>	<u>(6,278)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(97,679)	(6,270)	(7,263)	264
Fund balances, beginning, restated	<u>(207,127)</u>	<u>6,270</u>	<u>43,444</u>	<u>118,858</u>
Fund balances, ending	<u>\$ (304,806)</u>	<u>\$ -</u>	<u>\$ 36,181</u>	<u>\$ 119,122</u>

Special Revenue			Capital Projects	Total
Police Court Fund	Poteau Insurance Fund	Poteau Nutrition Fund	Cemetery Care Fund	Nonmajor Governmental Funds
\$ -	\$ -	\$ 51,016	\$ -	\$ 51,016
-	-	-	-	9,208
-	-	-	-	206,238
-	1,316	-	76	1,736
-	1,316	51,016	76	268,198
-	25,103	116,153	-	141,256
-	-	-	-	16,543
-	-	-	-	289,417
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	14,500
-	25,103	116,153	-	461,716
-	(23,787)	(65,137)	76	(193,518)
-	20,000	-	4,306	24,306
-	-	-	-	(6,278)
-	20,000	-	4,306	18,028
-	(3,787)	(65,137)	4,382	(175,490)
-	139,098	(50,403)	27,034	77,174
\$ -	\$ 135,311	\$ (115,540)	\$ 31,416	\$ (98,316)

City of Poteau, Oklahoma
Combining Statement of Net Position
Enterprise Funds
June 30, 2013

	Poteau Public Works Authority		
	PPWA	PPWA Reserve	Meter Deposit Fund
Assets			
Cash and cash equivalents	\$ 707,392	\$ -	\$ -
Investments	1,090,691	435,094	-
Receivables:			
Accounts, net of allowance for uncollectibles	277,877	-	-
Accrued interest	2,203	557	-
Due from other funds	54,746	-	-
Restricted assets - cash and investments	-	-	258,640
Debt issuance costs, net of accumulated amortization	6,845	-	-
Capital assets, net of accumulated depreciation	2,839,129	-	-
Total assets	<u>4,978,883</u>	<u>435,651</u>	<u>258,640</u>
Deferred outflows of resources	-	-	-
Combined assets and deferred outflows of resources	<u>4,978,883</u>	<u>435,651</u>	<u>258,640</u>
Liabilities			
Accounts payable and accrued liabilities	155,755	-	-
Due to other funds	10,198	-	768
Payable from restricted assets:			
Accrued interest	3,133	-	-
Customer deposits	-	-	257,872
Noncurrent liabilities:			
Due within one year	141,090	-	-
Due in more than one year	786,142	-	-
Total liabilities	<u>1,096,318</u>	<u>-</u>	<u>258,640</u>
Deferred inflows of resources	-	-	-
Combined assets and deferred inflows of resources	<u>1,096,318</u>	<u>-</u>	<u>258,640</u>
Net position			
Investment in capital assets	2,039,887	-	-
Restricted:			
Expendable	-	-	-
Unrestricted	1,842,678	435,651	-
Total net position	<u>\$ 3,882,565</u>	<u>\$ 435,651</u>	<u>\$ -</u>

Total
Enterprise
Fund

\$ 707,392
1,525,785

277,877

2,760

54,746

258,640

6,845

2,839,129

5,673,174

-

5,673,174

155,755

10,966

3,133

257,872

141,090

786,142

1,354,958

-

1,354,958

2,039,887

-

2,278,329

\$ 4,318,216

City of Poteau, Oklahoma
Combining Statement of Revenues, Expenses, and Changes in Net Position
Enterprise Funds
Year Ended June 30, 2013

	Poteau Public Works Authority		
	PPWA	PPWA Reserve	Meter Deposit Fund
Operating revenues			
Charges for services:			
Water	\$ 1,119,110	\$ -	\$ -
Wastewater	823,431	-	-
Sanitation	445,121	-	-
Penalties	88,782	-	-
Licenses and permits	1,608	-	-
Other	662	-	-
Total operating revenues	<u>2,478,714</u>	<u>-</u>	<u>-</u>
Operating expenses			
Water	1,138,306	-	-
Wastewater	713,121	-	-
Sanitation	431,033	-	-
Administration	354,666	-	-
Depreciation and amortization	409,675	-	-
Bad debt expense	14,906	-	-
Total operating expenses	<u>3,061,707</u>	<u>-</u>	<u>-</u>
Net operating income (loss)	(582,993)	-	-
Nonoperating revenues (expenses)			
Miscellaneous	18,392	-	-
Interest	8,512	2,270	-
Interest expense and fiscal charges	(23,715)	-	-
Total nonoperating revenues (expenses)	<u>3,189</u>	<u>2,270</u>	<u>-</u>
Operating transfers			
Transfers in	409,739	-	-
Transfers (out)	(20,000)	-	-
Total operating transfers	<u>389,739</u>	<u>-</u>	<u>-</u>
Net income (loss)	(190,065)	2,270	-
Net position, beginning - restated	<u>4,072,630</u>	<u>433,381</u>	<u>-</u>
Net position, ending	<u>\$ 3,882,565</u>	<u>\$ 435,651</u>	<u>\$ -</u>

Total
Enterprise
Fund

\$ 1,119,110
823,431
445,121
88,782
1,608
662

2,478,714

1,138,306
713,121
431,033
354,666
409,675
14,906

3,061,707

(582,993)

18,392
10,782
(23,715)

5,459

409,739
(20,000)

389,739

(187,795)

4,506,011

\$ 4,318,216

City of Poteau, Oklahoma
Combining Statement of Cash Flows
Enterprise Funds
Year Ended June 30, 2013

	Poteau Public Works Authority		
	PPWA	PPWA Reserve	Meter Deposit Fund
Cash flows from operating activities			
Net operating income (loss)	\$ (582,993)	\$ -	\$ -
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	409,675	-	-
Changes in assets and liabilities:			
(Increase) decrease in receivables	26,004	-	-
Increase (decrease) in accounts payable and accrued liabilities	(72,725)	-	-
Increase (decrease) in customers deposits	-	-	6,591
Increase (decrease) in accrued compensated absences	14,393	-	-
Increase (decrease) in OPEB liability	13,250	-	-
Net cash provided (used) by operating activities	<u>(192,396)</u>	<u>-</u>	<u>6,591</u>
Cash flows from noncapital financing activities			
Miscellaneous revenue	18,392	-	-
Transfers in (out)	389,739	-	-
Net cash provided (used) by noncapital financing activities	<u>408,131</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities			
Principal paid on long-term debt	(130,078)	-	-
Interest expense and fiscal charges	(31,109)	-	-
(Acquisition) disposition of capital assets	(133,511)	-	-
Net cash provided (used) by capital and related financing activities	<u>(294,698)</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities			
Interest income	7,611	1,940	-
(Increase) decrease in investments	(7,023)	(1,940)	-
Net cash provided (used) by investing activities	<u>588</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	<u>(78,375)</u>	<u>-</u>	<u>6,591</u>
Cash and cash equivalents, beginning	<u>785,767</u>	<u>-</u>	<u>101,254</u>
Cash and cash equivalents, ending	<u>\$ 707,392</u>	<u>\$ -</u>	<u>\$ 107,845</u>

Total
Enterprise
Fund

\$ (582,993)

409,675

26,004

(72,725)

6,591

14,393

13,250

(185,805)

18,392

389,739

408,131

(130,078)

(31,109)

(133,511)

(294,698)

9,551

(8,963)

588

(71,784)

887,021

\$ 815,237

City of Poteau, Oklahoma
Schedule of Debt Service Coverage
Year Ended June 30, 2013

	OWRB Note Payable
Gross revenue available for debt service:	
Operating revenues (water and sewer)	\$ 2,031,323
Transfer of dedicated sales tax	409,739
Total gross revenues available	2,441,062
Operating expenses	2,220,999
Net revenues available for debt service	\$ 220,063
 Debt service requirement:	
Notes payable (principal and interest)	\$ 153,793
Total debt service requirement	\$ 153,793
 Coverage	1.43
Coverage requirement	1.25

Compliance and Internal Control

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Ronald C. Cottrell, CPA

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*

City Council
City of Poteau
Poteau, Oklahoma

We have audited, in accordance with the 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 of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Poteau, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Poteau's basic financial statements, and have issued our report thereon dated May 16, 2014. We did not audit management's discussion and analysis, the budgetary comparison information, and the schedule of funding progress, which is required supplementary information, and therefore expressed no opinion on it.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Poteau'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Poteau's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Poteau's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2013-1, 2013-2, and 2013-3 to be material weaknesses.

Ronald C. Cottrell, CPA

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2013-4, 2013-5, and 2013-6 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Poteau'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and responses as items 2013-7, 2013-8, 2013-9, and 2013-10.

Entity's Response to Findings

The City of Poteau's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City of Poteau's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 City of Poteau's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ronald C. Cottrell, CPA

Ronald C. Cottrell, CPA
Kansas, Oklahoma
May 16, 2014

City of Poteau, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2013

2013-1 Municipal Court

Criteria – Responsibilities for collection and deposit of funds, disbursements, maintenance of accounting records, and reconciliations should be segregated among employees. Proper supporting documentation of all transactions should be maintained and reconciled with control totals in the general ledger and other accounting records. Collections should be deposited in a timely manner.

Condition – The following items were noted in the municipal court process:

- The court clerk handles all the accounting and reporting duties for the municipal court including the recording of tickets in the court accounting system, maintenance of the court docket, collection of payments for fines, counting of the funds collected, preparation of the deposit slip, posting of collections to the court accounting system, and writing and signing checks.
- Hand-written receipts are prepared for payments received rather than computer generated receipts.
- Dismissed and deferred citations are not properly documented in the court accounting system.
- Time payments made on fines are not all entered into the court accounting system due to system limitations. Such payments are noted on the citation jacket manually.
- No receipt journal is generated from the court system to reconcile back to the deposit.
- No reconciliation is made of daily collections to the court system or deposit.
- No reconciliation is made of the court accounting system with the City's general ledger accounting system.
- Citation books are not properly signed out to officers.
- Deposit of court collections were made about once a week.
- Payments of fines are made to the court clerk in the police department.
- Municipal court is held in the police department training room rather than City Hall.
- The court clerk's office is located in the police department rather than City Hall.

Cause and Effect – The court clerk controls all phases of the municipal court process of collection, recording, and reporting. Funds could be received and not deposited since proper reconciliations are not made. Incorrect balances could be reflected in the court records since there is no assurance that transactions have been recorded correctly or at all. Fund could be taken since deposits are not made on a daily basis.

Recommendation – The court duties should be segregated so that one employee does not have responsibility or control over the collection, deposit, recording, disbursement, and reconciliation processes. Collections should be made at City Hall and processed directly through the accounting system so that receipts are automatically posted to the customer's account and a computer receipt is generated. Daily collection reports should be printed from the court system and reconciled with the deposit. Deposits should be made on a daily basis, as required by State Statutes. The court accounting system should be reconciled on a monthly basis with the City's general ledger accounting system. Municipal court should be held in the council room at City Hall, and the court clerk should be relocated to City Hall. A log should be maintained of all citation books and who they were checked out to. The books should be issued in numerical order.

Management's Response – We have taken these recommendations into consideration and have changed the following: Disbursement of funds and reconciliation duties have been given to other employees. The Court Clerk no longer will perform these duties. Daily deposits and reports will

be generated. After discussing the location of the Municipal Court with the local judge, we have decided to leave the location as is.

2013-2 General Ledger Accounting System

Criteria – General ledger accounting records should include all transactions and balances to ensure that reports prepared reflect accurate account balances and activity.

Condition – Numerous audit adjustments made in the two previous fiscal years were not recorded in the general ledger accounting records.

Cause and Effect – Audit adjusting entries were not reviewed with the finance director. The general ledger accounting records did not accurately reflect the account balances, nor did they reconcile with the audited financial statements.

Recommendation – Any proposed audit adjustments should be reviewed and approved by the finance director for the City and posted to the general ledger accounting records. The final accounting trial balance should be reconciled with the draft audit report and financial statements.

Management's Response – Finance Director will work with the current auditor to insure that the adjusting entries are made to reconcile with adjustments made by the auditor.

2013-3 Capital Assets

Criteria – Detailed supporting records should be reconciled with the general ledger control accounts on a periodic basis to ensure that all transactions have been recorded and account balances are accurate. Physical inventories of assets should be taken periodically and reconciled with the detailed asset records to ensure that all assets are recorded and all assets recorded actually exist.

Condition – The capital asset detailed records did not reconcile with the general ledger control accounts. Additionally, not all asset additions in the current year were included in the capital asset detail records. No physical inventory of capital assets has been taken for several years.

Cause and Effect – Capital asset balances in the general ledger did not reflect the total assets on hand. Without a physical inventory of assets, there is no assurance that all assets have been recorded or that all assets recorded actually exist.

Recommendation – The City should take a complete physical inventory and compare the inventory with the detailed capital asset records and make any necessary adjustments. The detailed asset records should then be reconciled with the general ledger control account balances. Procedures should be established to ensure that all asset acquisitions and dispositions are properly recorded in the detailed asset records and the general ledger.

Management's Response – The City Clerk and Finance Director will work together to try to implement processes to insure the physical assets are documented properly.

2013-4 Information Technology

Criteria – The City's computer system and operations should be properly controlled and secured to prevent unauthorized access or use.

Condition – Employee passwords do not periodically expire. Access is not restricted to the computer server. We were able to access the code enforcement computer without a password. The City does not have written policies and procedures for the computer system to include emergency plan, computer and network usage policy, passwords, and annual risk assessment.

Cause and Effect – If passwords are not periodically changed then unauthorized access could result to restricted information such as accounting records, payroll, and personnel. Unrestricted access to the server could result in damages to the system including loss of data.

Recommendation – Specific written policies and procedures should be established for the proper use and access of the City’s computer system. Employees should periodically change their passwords and all computers should be password protected. The server area should be adequately protected and access should be restricted.

Management’s Response – Management will work with the IT Department to review policies on these matters.

2013-5 Employee Utility Discounts

Criteria – Customer accounting records should be maintained on a current basis to ensure that discounts are properly applied.

Condition – Our review of the utility accounts receivable aging report for the employee discount code noted overdue amounts for current and former employees, account balances for former employees still receiving the discount, and accounts for customers who were not, or had never been, employees, but were living at an address of a former employee, still receiving the employee discount.

Cause and Effect – When customer changes occur, such as termination of an employee, or an employee moving from an address, the account code for employee discounts is not changed. As a result, the employee discounts are pretty much tied to an address, rather than the employee.

Recommendation – The employee discount code should be periodically reviewed to ensure that only current employees are receiving the discount on their utility billings. Past-due account balances of employees should be handled in the same manner as any other customer whereby services are cut-off for non-payment and reconnect fees are applied.

Management’s Response – Finance Director will review discounts on a quarterly basis to insure discounts are maintained properly. Also, a review of past due accounts for employees will be reviewed on the same basis.

2013-6 Airport Fuel Sales

Criteria – Account activity should be properly supported and recorded in the general ledger accounting records. Detail supporting records should be reconciled with the general ledger control account balances on a periodic basis.

Condition – Proper documentation was not available to support the fuel sales and inventory at the airport. Fuel tanks were not gauged to determine the amount of fuel on hand. No reconciliation was made of fuel purchases, sales, and inventory on hand with general ledger accounting records. The gross profit as a percentage of fuel sales revenue was 37% for FY2012 and 9% for FY 2013.

Cause and Effect – Without proper supporting documentation and a reconciliation process for fuel sales and inventory there is no assurance that all fuel sales have been recorded or paid for.

Recommendation – Daily fuel sales reports should be generated from the system at the airport and reconciled with the deposit and credit card reports and receipts. The fuel tanks should be gauged on a weekly basis and the inventory reconciled with fuel purchases and sales. Monthly reconciliations should be made with the general ledger control balances. An analysis should be made of the gross profit percentage each month, taking into consideration the purchases made and

the inventory balances, as well as the sales price versus the cost of the fuel. The fuel sales price should be monitored.

Management's Response – Management will work with Airport personnel to track these processes better and more consistent.

2013-7 Budgets

Criteria – Oklahoma Statutes require cities to appropriate funds for expenditure by approved budgets. The budgets are generally approved by expenditure categories for each department and fund for the city. Procurement of goods or services may not be made without adequate appropriation for that particular line item in the budget. Budget appropriations may generally be transferred between budget categories and departments, or additional amounts may be appropriated from new unanticipated revenue sources or previously unappropriated funds available.

Condition – Expenditures in the following funds and departments were made in excess of the approved budget appropriation for the particular department.

General fund:

Managerial	\$	18,188
City clerk		1,370
Parks		37,188
Library		2,161
Cemetery		13,778
Building inspection		4,591
General nutrition		18,281
Debt service		169
Capital outlay		98,003

Poteau Industrial Authority:

Economic development	\$	9,658
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Total expenditures in the general fund and Poteau Industrial Authority were \$ 277,779 and \$ 35,875, respectively, less than the approved budget appropriations.

Cause and Effect – No amendments or adjustments were made during the year to the original approved budget. Over-expenditure of budget amounts can result in non-allowable expenditures.

Recommendation – Procedures should be established to review remaining budget amounts for a particular line item before purchase orders are approved for expenditures. If sufficient budget appropriations do not remain then funds should be moved from another department or budget category before the funds are expended.

Management's Response – Overall, expenditures were less than income for each fund. A closer review of each department will be conducted to make proper transfers to departments having additional expenses during the course of the year.

2013-8 Negative Fund Balances

Criteria – Oklahoma Statutes prohibit negative fund balances for any accounting fund.

Condition – The following accounting funds had an overall deficit in fund balance as of June 30, 2013:

Library building fund	\$ (283,683)
Robert S. Kerr airport fund	(304,806)
Poteau nutrition fund	(115,540)

Cause and Effect – Expenditures exceeded revenues and other sources on a cumulative basis in each of the funds. Each fund was part of the pooled cash account so disbursements were not made in excess of cash available in the bank account. However, cash from other funds were needed to cover the excess expenditures.

Recommendation – Transfers should be made from another fund, such as the general fund, to cover the deficits in fund balance.

Management's Response – Transfers will be made from general fund and a closer review of each department will be conducted to make proper transfers to departments having additional expenses during the course of the year.

2013-9 Free Water Service

Criteria – The loan indenture with the Oklahoma Water Resources Board prohibits the Poteau Public Works Authority from offering any free services to customers, other than usage by the City itself.

Condition – We noted that one water customer has not paid for water usage for several years.

Cause and Effect – Providing free water services is in violation of the loan agreement and could cause the PPWA to be in default on the loan.

Recommendation – All utility customers, except City usage, should be billed for the services in accordance with the loan indenture.

Management's Response – One account was brought to light as not having been billed for water services. After identification, this account is now being charged for water services. It is the City's policy to charge all customers with the exception of City usage.

2013-10 Non-Collusion Affidavits

Criteria – Oklahoma Statutes require a non-collusion affidavit be obtained for all services of \$ 25,000 or more.

Condition – In our disbursement sample we noted the City did not obtain the required affidavit for 8 of the 9 disbursements reviewed that would have required the affidavit.

Cause and Effect – Requirement of the statute were not communicated to the city clerk during her training so she was unaware of the statute. Failure to obtain the affidavit could result in unallowable payments being made.

Recommendation – Procedures should be established to help ensure that the required affidavits are obtained from vendors prior to approval for payment of vendor invoices.

Management's Response – Since identification of this oversight, non-collusion affidavits are now issued for services \$25,000 or more.

City of Poteau, Oklahoma
Summary Schedule of Prior Audit Findings

Financial Statement Findings

2012-1 Segregation of Duties

Condition – Incompatible duties exist within several departments.

Status – This condition has been resolved.

2012-2 Inadequate Collateralization of Deposits

Condition – The City has certain funds on deposit with local financial institutions that were not adequately insured or collateralized at June 30, 2012. City deposits of approximately \$ 1,606,000 and Poteau Public Works Authority deposits of approximately \$ 1,700 were uninsured or uncollateralized.

Status – This condition has been resolved.

Federal Award Findings and Questioned Costs

There were no matters reported in the prior year's audit report.