BKD LLP
CPAs & Advisors

400 W. Capitol Avenue, Suite 2500
P.O. Box 3667
Little Rock, AR 72203-3667
501.372.1040 Fax 501.372.1250 www.bkd.com

August 7, 2012

Office of the State Auditor and Inspector
Attn: Nancy Grantham
2300 N. Lincoln Blvd., Room 100
Oklahoma City, OK 73105

In accordance with O.S. Title 74 Section 212A.A.2 and O.S. Title 11, Section 17-105.1, we have enclosed the following for the reporting entity of the City of Poteau for the year ended June 30, 2011:

- The audited financial statements, with the accompanying auditor's reports thereon
- Annual Survey of City and Town Finances (SA&I Form 2643), with the accompanying accountants compilation report thereon
- The $100.00 filing fee payable to the Office of the State Auditor and Inspector

The entities included in the City of Poteau reporting entity are the following:

- The City of Poteau
- The Poteau Public Works Authority
- The Poteau Industrial Authority

Should you need any additional information or have any questions regarding this filing, please contact Andy Richards at 501.372.1040 or arichards@bkd.com.

Sincerely,

Andrew Richards

Andrew Richards, CPA
Partner

Enclosures
ar:sl

experience BKD

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

BKD LLP
CPAs & Advisors

400 W. Capitol Avenue, Suite 2500
P.O. Box 3667
Little Rock, AR 72203-3667
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Independent Accountant's Compilation Report on Annual Survey of City and Town Finances Pursuant to Section 17-105.1 of Title 11 of the Oklahoma Statutes

Honorable Mayor and City Council
City of Poteau, Oklahoma

We have compiled the schedules of revenues, expenditures, debt, and cash and investments as of and for the year ended June 30, 2011, of the City of Poteau, Oklahoma, included in the accompanying Annual Survey of City and Town Finances (SA&I Form 2643). We have not audited or reviewed the accompanying financial schedules and, accordingly, do not express an opinion or provide any assurance about whether the financial schedules are in accordance with the form prescribed by the Office of the State Auditor & Inspector of the State of Oklahoma.

Management is responsible for the preparation and fair presentation of the schedules in the form prescribed by the Office of the State Auditor & Inspector of the State of Oklahoma and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial schedules.

Our responsibility is to conduct the compilation in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting the financial schedules in the form prescribed by the Office of the State Auditor & Inspector of the State of Oklahoma without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial schedules.

These financial schedules are presented in accordance with the reporting requirements of the Office of the State Auditor & Inspector of the State of Oklahoma, which differ from accounting principles generally accepted in the United States of America. Accordingly, the financial schedules contained in the accompanying form are not designed for those who are not informed about such differences.

BKD, LLP

August 7, 2012

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Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

2011

DUE DATE: **December 31, 2011**

FORM **SA&I 2643**
(7-18-2011)

OFFICE OF THE STATE AUDITOR AND INSPECTOR
STATE OF OKLAHOMA
STEVE BURRAGE, AUDITOR AND INSPECTOR
ANNUAL SURVEY OF CITY AND TOWN FINANCES

IMPORTANT

This report is to be compiled by your auditor from the audited financial statements of the municipality as required by Oklahoma Statutes, Section 17-105.1 of Title 11.
This report details the funds available to the municipality and the use of those funds including information relating to the duly constituted authorities of the muncipality (public trusts, etc.) for the fiscal year ending June 30, **2011**. *See supplementary instructions (coverage of this report) for information related to entities and activities to be included in this report on page 5 of this document.*
This report, principally for planning purposes at the local, State, and national level, is used by the Office of the State Auditor, the Oklahoma Municipal League, public interest groups, State and Federal agencies and universitities.
For assistance in completing this report, please call the Office of the State Auditor at (401) 521-3424. When completed, please return this form to the Office of the State Auditor at the address below.

CITY OF POTEAU

111 PETERS ST.

POTEAU, OK 74953

RETURN TO
Office of the Auditor and Inspector
State of Oklahoma
2300 North Lincoln Blvd. Room 100
Oklahoma City, OK 73105

Part I TAX REVENUES

Items 1-3 — Report collections from all taxes imposed by your government. Include current and delinquent amounts, penalties, and interest. Do not include receipts from service charges, special assessments, interest earnings, fines or any other sources that are not taxes or licenses.

Item	Amount *(Omit cents)*	Item	Amount *(Omit cents)*
1. Property taxes — General fund, building fund, and sinking fund	T01 **0**	**d.** Use tax	T99 **172,839**
2. Local sales taxes — Taxes on goods and services, measured as a percent of sales or receipts, or as an amount per unit sold (gallon, package, etc.). Report only these taxes imposed by your government; shares of taxes imposed by another government are to be reported under part 1A below.	T09	**3. Occupation and business licensing and permits** **a.** 'Enter here licenses and inspection charges on occupations and businesses - for example, inspection of restrooms, restaurants, and food manufacturing plants; food handler permits; plumbing permits; taxicab licenses; tags; animal tags; vending licenses, and liquor licenses; business licenses; etc.	T28 **21,522**
a. General sales tax	**4,850,808**		
b. Franchise fee or tax	T15 **379,357**		
c. Cigarette Tax	T16 **70,809**	**b.** Other licensing and permits	T29 **0**
c. Hotel/Motel	T19 **0**	**4. Other** — *Specify*	T99 **0**

Part IA INTERGOVERNMENTAL REVENUE

Report all amounts received by your government from other governments, including grants, shares of taxes imposed by other governements, payments in lieu of taxes and reimbursements for services performed for other governments, excluding loans. Also exclude here and report as "Tax Revenues" in part I, any taxes imposed by your government which were collected for it by another government.

Column (a) — Report all amounts your government received from the State (other than as collection fees), including any amounts financed wholly or in part from Federal grants to the State.

Column (c) — Report only amounts received directly from the Federal Government.

Purpose for which received	Amount *(Omit cents)* From State (a)	From other local governments (b)	From Federal Government (directly) ©
General support—Total amts rec'd (as per capita grants, shared taxes, etc.) without restrictions as to particular programs or purposes to be financed. **1.** Alcoholic beverage tax	C30 **59,146**	D30 **0**	B30 **0**
2. Street and highways	C46 **72,166**	D46 **0**	B46 **0**
3. Health or Hospital (Nutrition Fund)	C42 **0**	D42 **0**	B42 **61,178**
4. Grants received for water utilities	C91 **0**	D91 **0**	B91 **0**
5. Grants received for waste water utilities	C80 **0**	D80 **0**	B80 **0**
6. Grants received for housing, economic, & community development	C50 **0**	D50 **0**	B50 **0**
7. Airports	C89 **0**	D89 **0**	B01 **230,632**
8. Mass transit rail and/or bus system	C94 **0**	D94 **0**	B94 **0**
9. Grants received for transportation (Ind. Park Roads)	C89 **162,928**	D89 **0**	B89 **0**
10. ALL OTHER (From State - code C89; From Fed. Gov't. - Code B89) — *Include in the appropriate box, receipts from various payments such as* — **a.** Parks and recreation (BOR or HUD)	C89 **0**	D89 **0**	B89 **0**
b. Public Safety	C89 **0**	D89 **0**	B89 **0**
c. Job training	C89 **0**	D89 **0**	B89 **0**
d. Library grants	C89 **0**	D89 **0**	B89 **0**
Other - *Specify* **e. On Behalf Payments made by State**	C89 **130,732**	D89 **0**	B89 **0**
f.	C89 **0**	D89 **0**	B89 **0**

Part IB OTHER REVENUES — Other than tax and intergovernmental revenues

Enter below amounts of the stated types of revenue (net of refunds and interfund transfers) received by your government during the fiscal year. Be sure to include revenues of all funds other than the exceptions noted in the special instructions.

	Amount *(Omit cents)*		Amount (Omit cents)
1. Utility sales revenue — Gross receipts of any water, electric, gas or transit systems operated by your governement, from utility sales and charges. *Exclude any amounts paid to such utilities by the parent government.* **a.** Water supply system	A91 **1,095,585**	**2. Other** sales and service revenue - Gross receipts from sales, rentals, maintenance assessments, and other charges for municipal services, aside from utility receipts (carried in item 1) and exclude of amounts received from other governments. **a.** Sewerage charges	A80 **828,608**
b. Electric power system	A92 **0**	**b.** Refuse collection charges	A81 **440,276**
c. Gas supply system	A93 **0**	**c.** Hospital charges received on behalf of individual patients under the Medicare program or other insurance-type arrangements. *Exclude Medicaid and amounts for hospital purposes received from other governments.*	A36 **0**
d. Transit	A94 **0**		

SEE ACCOUNTANTS COMPILATION REPORT

Part IB **OTHER REVENUES — Other than tax and intergovernmental revenues — Continued**

Enter below amounts of the stated types of revenue (net of refunds and interfund transfers) received by your government during the fiscal year. Be sure to include revenues of all funds other than the exceptions noted in the special instructions.

2. Other sales and service revenue — Continued	Amount *(Omit cents)*	**5. Interest earnings-** Interest received on all deposits & investment holdings of your government and its agencies excluding earnings of any employee pension fund.	Amount (Omit cents)
d. Recreation charges (swimming, golf, auditoriums etc.	A61 **144,836**		U20 **82,849**
e. Airports — *Include rentals and gross sales of gas and oil.*	A01 **166,613**	**6. Rents-** *Exclude rev. reported in Item 2*	U40 **1,500**
		7. Royalties- *Compensation or portion of proceed from extraction of natural resources*	U41 **0**
f. Parking facilities (parking lots, garages, parking meters)	A60 **0**	**8. Fines & forfeitures (City or Town share only**	U30 **182,939**
		9. Private donations	U50 **5,643,385**
g. Municipal housing project rentals (gross)	A50 **0**	**10. Miscellaneous other revenue** — Revenue of your government and its agencies not covered by items above, except tax and intergovernmental revenues, *Include insurance adjustments, etc. DO NOT include: (1) proceeds from borrowing; (2) receipts from sale of holdings; (3) transfers between funds or agencies of your government; or (4) employee's contributions to, and interest earnings of, any employee pension fund.*	
h. Ambulance services	A89 **0**		
i. Miscellaneous commercial activities (cemeteries)	A03 **22,124**		
j. Other (including miscellaneous fee collections)	A89 **0**		
3. Special assessments — Compulsory contributions and reimbursements from owners or property benefited by improvements (streets, sewers, sidewalks, water extensions, etc.) *Do not include proceeds from sales of special assessment bonds. Report maintenance assessments under item 2 on page 1.*	U01 **0**	**a. MISC.**	U99 **420,411**
		b.	**0**
4. Receipts from sale of property — Amounts from sale of realty, other than by tax sales, including property sold to other governments.	U11 **0**	**c.**	**0**
		Total misc other revenue Sum of items 10a-10c →	U99 **420,411**

Part II **DIRECT EXPENDITURES BY PURPOSE AND TYPE**

Please note that payments made to other governments (State or local) should NOT be included in amounts reported here, but should be reported at part III.

Enter below all amounts expended during the fiscal year for the purposes listed (net of interfund transfers). Be sure to include expenditures of all funds other than the exceptions noted in the instructions on the first page.

Column (a) — Gross salaries and wages without deduction of withholdings for income taxes, employee contributions for Social Security or retirement coverage, etc. ***Exclude: (1)*** *capital outlay (report in columns (c.) & (d)); and* ***(2)*** *amounts paid to other governments (report in part III).*

Column (b) — Enter in the appropriate functional category direct expenditure for supplies, materials, and contractual services.

Column (c.) — Report construction outlays from all sources; i.e., bond proceeds, assessments, grants, etc.

PURPOSE	EXPENDITURES BY PURPOSE AND TYPE			
			CAPITAL OUTLAY	
	Personal Services (a)	Operations & Maintenance (b)	Construction (c.)	Purchase of land, equip. & structures (d)
GOVERNMENTAL ADMINISTRATION				
1. Financial administration — Office of the finance director, auditor, comptroller, treasurer, tax assessment and collection, central accounting and purchasing services, budgeting, etc. (including related data processing).	E23 **12,404**	E23 **0**	F23 **0**	G23 **0**
2. Judicial and legal — All municipal court and court-related activities including juries, probate officials, prosecutors, public defenders, municipal attorneys, and legal departments. Exclude probation and parole (report in item 16).	E25 **134,603**	E25 **15,349**	F25 **0**	G25 **0**
3. Central administration — City council, aldermen or commissioners, mayor, manager, city clerk's office, recorder, planning, zoning, and personnel.	E29 **415,027**	E29 **105,191**	F29 **0**	G29 **0**
HEALTH AND WELFARE				
4. Social services (General Nutrition)	E79 **100,523**	E79 **55,904**	F79 **0**	G79 **10,353**
5. Own hospitals — Construction and operation of hospitals by your government. Nursing homes are to be reported in item 7.	E36 **0**	E36 **0**	F36 **0**	G36 **0**
6. Other hospitals — Payments to hospitals operated privately. *Exclude here and report in item 6, any payments under public welfare programs. Report payments to hospitals operated by other governments in part III.*	**0**	**0**	**0**	**0**
7. Welfare institutions — Construction and operation of nursing homes and welfare institutions by your government for veterans and needy persons.	E77 **0**	E77 **0**	F77 **0**	G77 **0**
8. Health (other than hospitals) — All public health acitivities except provision of hospital care. *Include environmental health activities; health regulation and inspection, water and air pollution control, mosquito control, and inspection of food handling establishments. Also include public health nursing, vital statistics collection, and all other services performed directly by the public health department. Report in item 6 payments under public welfare programs.*	E32 **0**	E32 **0**	F32 **0**	G32 **0**
TRANSPORTATION				
9. Highways — Construction and maintenance of municipal streets, sidewalks, bridges and toll facilities. Also includes street lighting, snow removal, and highway engineering, control, and safety. *Exclude here and report in item 21f, street cleaning, expenditure. Include in part III any payments to the State or county for highway purposes. Report interest on highway debt in item 22e.*	E44 **371,906**	E44 **435,052**	F44 **0**	G44 **220,975**
10. Toll highways and facilities — Operation and maintenance of highways, roads and bridges operated on fee or toll basis	E45 **0**	E45 **0**	F45 **0**	G45 **0**
11. Municipal airports	E01 **59,862**	E01 **144,927**	F01 **0**	G01 **372,277**
12. Parking facilities — Municipal garages, parking lots, etc. and all purchase and maintenance of meters (including on-street meters).	E60 **0**	E60 **0**	F60 **0**	G60 **0**
PUBLIC SAFETY				
13. Police — Include municipal police agencies for preventing, controlling, or reducing crime; coroners, medical examiners; special police for highways, tunnels, bridges, and vehicular control; vehicular inspection activiities; and traffic control and safety activities. ***Exclude*** *highway engineering and planning (report in item 9).*	E62 **1,580,902**	E62 **367,252**	F62 **0**	G62 **78,994**
14. Fire — All costs incurred for firefighting and fire prevention, including contributions to volunteer fire units. Include any municipal contribution to a State fire pension fund.	E24 **384,067**	E24 **104,640**	F24 **0**	G24 **43,735**

SEE ACCOUNTANTS COMPILATION REPORT

PART II **DIRECT EXPENDITURES BY PURPOSE AND TYPE — Continued**

PURPOSE	EXPENDITURES BY PURPOSE AND TYPE			
			CAPITAL OUTLAY	
	Personal Services (a)	Operations & Maintenance (b)	Construction (c.)	Purchase of land, equip. & structures (d)
PUBLIC SAFETY — Continued				
15. Correction institutions — Operation of facilities for confinement, correction and rehabilition of adults or juveniles.	E05 **0**	E05 **0**	F05 **0**	G06 **0**
16. Other corrections — Probation and parole activities - But exclude "lock up" operations (report in item 16).	E04 **0**	E04 **0**	F04 **0**	G04 **0**
17. Protection inspection and regulation, n.e.c. — Regulation of private enterprize for the protection of the public and inspection of hazardous activities (including building inspection), except when related to major functions, such as health, natural resources, etc.	E66 **25,148**	E66 **8,510**	F66 **0**	G66 **0**
AMBULANCE				
18. All expenditures for city operated or subsidized ambulance services	E32 **0**	E32 **0**	F32 **0**	G32 **0**
CULTURE AND RECREATION				
19. Parks, cultural activities, and other recreation — Include playgrounds, golf courses, swimming pools, museums, marinas, community music, drama, celebrations, and zoos.	E61 **353,756**	E61 **273,355**	F61 **0**	G61 **6,754,706**
20. Libraries — Include payments to nongovernmental libraries as well as libraries operated by the city. *Aid to other governmental libraries should be excluded and reported in part III.*	E52 **12,122**	E52 **21,282**	F52 **0**	G52 **198,391**
UTILITIES				
21. Gross expenditures for utility systems operated by your government. *Exclude interest (report in item 19); also exclude utility contributions to the parent government and deduct the cost of providing services to the parent government (e.g., for street lighting, hydrant rental, etc.).*				
a. Water supply system	E91 **237,891**	E91 **759,802**	F91 **0**	G91 **0**
b. Electric power system	E92 **0**	E92 **0**	F92 **0**	G92 **0**
c. Gas supply system	E93 **0**	E93 **0**	F93 **0**	G93 **0**
d. Transit	E94 **0**	E94 **0**	F94 **0**	G94 **0**
e. Sewers and storm sewers — Construction, maintenance and operation of sanitary and storm systems and sewage disposal plants	E80 **381,132**	E80 **247,747**	F80 **0**	G80 **0**
f. Solid waste and landfill — The collection and disposal of garbage and landfill operations	E81 **90,293**	E81 **436,335**	F81 **0**	G81 **0**
INTEREST ON DEBT				
22. Amounts of interest paid, including any interest on short-term or nonguaranteed obligations, as well as general obligations.				
a. Water supply system		I91 **0**		
b. Electric power system		I92 **0**		
c. Gas supply system		I93 **0**		
d. Transit		I94 **0**		
e. All interest not covered by items 19a through 19d		I89 **86,736**		
ALL OTHER EXPENDITURES				
23. Include any amounts which have not been allocated above by purpose, such as: your employer contribution to a State administered retirement system or to the Federal Social Security System; judgements and insurance premiums; and municipal service agencies, such as a central garage or an engineering department, which serve more than one functional agency, and whose expenses are not allocated to the various departments.				
Do not include: (1) *Payments for retirement of debt,* ***(2)*** *payments for purchase of securities,* ***(3)*** *transfer between funds or agencies of your government, or* ***(4)*** *benefits and payments from distinct employee pension funds.*				
a. Housing and community development — Gross expenditure for urban renewal, slum clearance, municipal housing projets, and similar activities.	E50 **0**	E50 **0**	F50 **0**	G50 **0**
b. Economic development (Industrial)	E89 **0**	E89 **103,220**	F89 **0**	G89 **27,408**
c. Civil defense	E89 **0**	E89 **0**	F89 **0**	G89 **0**
d. Cemetery operations and maintenance	E89 **120,791**	E89 **48,115**	F89 **0**	G89 **122,112**
e. Miscellaneous commercial activities	E03 **0**	E03 **0**	F03 **0**	G03 **0**
Other — *Specify* **f. General Gov't.**	E89 **224,582**	E89 **234,522**	F89 **0**	G89 **20,000**
g.	**0**	**0**	**0**	**0**
h.	**0**	**0**	**0**	**0**

Part III INTERGOVERNMENTAL EXPENDITURES

Please detail all payments made to other governments for services or programs performed on a reimbursement or cost-sharing basis — e.g., for hospital care, highways, school tuition, or support, etc. (Such amounts should be excluded from expenditure figures reported in column (b) of part II.) *Enter "None" if your government made no reportable payments to other governments during the fiscal year.*

Item	Type of recipient government(s) (County, State, school districts, etc.) (a)	Amount *(Omit cents)* (b)	Item	Type of recipient government(s) (County, State, school districts, etc.) (a)	Amount *(Omit cents)* (b)
1.		0	5.		0
2.		0	6.		0
3.		0	7.		0
4.		0	8.		0

Part IV SALARIES, WAGES, AND FORCE ACCOUNT

Report the total expenditure for salaries and wages included in column (a) of part II, as well as any salaries and wages paid on force account construction projects.

Amount *(Omit cents)*

Z00 **2,685,775**

Part V DEBT OUTSTANDING, ISSUED, AND RETIRED — *Report special obligations of all agencies of your government as well as general city or town debt.*

1. Long term debt — Bonds, mortgages, etc., with an original term of more than one year issued in the name of your government or of particular agencies. *Include revenue and nonguaranteed special assessment bonds payable solely from pledged earnings or special assessments on property owners (column (e)). Report also general obligations and any debt backed by pledged resources but guaranteed by your government if these sources are insufficient (column (f)).*
When an advance refunding has resulted in a legal or an insubstance defeasance, the debt may be considered extinguished, reported as retired in the year of defeasance and should not be reported herein in subsequent years.

	AMOUNT, BY PURPOSE *(Omit cents)*				DETAIL OF LONG-TERM DEBT OUTSTANDING	
	Outstanding at beginning of fiscal year (a)	DURING FISCAL YEAR Issued (b)	DURING FISCAL YEAR Retired ©	Outstanding total (a) plus (b) minus © (d)	Revene and nonguaranteed bonds (e)	Guaranteed bonds (f)
a. Sewer debt	19X 1,176,592	29X 0	39X 121,590	1,055,002	44X 1,055,002	41X 0
b. Water supply system debt	19A 0	29A 0	39A 0	0	44A 0	41A 0
c. Electric power system debt	19B 0	29B 0	39B 0	0	44B 0	41B 0
d. Gas supply system debt	19C 0	29C 0	39C 0	0	44C 0	41C 0
e. Transit	19D 0	29D 0	39D 0	0	44D 0	41D 0
f. Industrial revenue and pollution control debt	19T 1,500,000	24T 0	34T 0	1,500,000	44T 1,500,000	0
g. All other purposes	19X 27,905	29X 0	39X 27,905	0	44X 0	41X 0

2. Short-term (interest-bearing) debt — Tax anticipation notes, bond anticipation notes, interest-bearing warrants, and other obligations with a term of one year or less — *Exclude accounts payable and other noninterest-bearing obligations.*

	Amount *(Omit cents)*
a. Amount outstanding at beginning of fiscal year	61V 0
b. Amount outstanding at end of fiscal year	64V 0

Part VI CASH AND INVESTMENTS HELD AT END OF FISCAL YEAR

Report separately for each of the three types of funds listed below, the total amount of cash on hand and on deposit and investments in Federal Government, Federal agency, State and local government, and non-governmental securities. Report all investments at carrying value. *Include in the sinking fund total any mortgages and notes receivable held as offsets to housing and industrial financing loans. Exclude accounts receivable, value of real property, and all non-security assets. Assets obtained and held pursuant to an advance refunding that results in a legal or in-substance defeasance should not be reported herein.*

Type of fund	Amount at end of fiscal year *(Omit cents)*
1. Sinking funds — Reserves held for redemption of long-term debt. All cash held for statutory sinking fund and revenue bond related accounts and any other reserves held for redemption of long-term debt.	W01 0
2. Bond funds — Unexpended proceeds from sale of G.O. and revenue bond issues held pending disbursement.	W31 0
3. All other funds except employee retirement funds.	W61 7,316,528
4. Retirement systems — Single employer plans only	0

SEE ACCOUNTANTS COMPILATION REPORT

V98

Part VII **AUDITOR INFORMATION**

NOTE – This report will not be considered complete unless an accompanying "accountants compilation report on financial statements included in certain prescripted forms" is attached to the report. The municipality's auditor should follow the in AR Section 300 of the AICPA Professional Standards in preparing such compilation report.

Auditor's firm name

BKD CPAs & Advisors

Adress – *Number and street*			TELEPHONE		
			Area Code	Number	Extension
5000 Rogers Ave., Suite 700					
City	State	ZIP Code			
Fort Smith	**AR**	**72903**	**479**	**452-1040**	

Name of contact person/Email

Andrew Richards arichards@bkd.com

COVERAGE OF THIS REPORT

The financial reporting entity for which information is to be presented should comply with generally accepted accounting principles for governments. Current authoritative guidance is provided in GASB Codification Section 2100 and/or GASB Statement No. 14. These statements prescribe that the financial reporting entity should consist of the primary government or oversight unit and all blended and discreetly presently component units.

Oklahoma Statutes, Section 17-105.1 of Title 11 require that municipalities include information relating to all of its duly constituted authorities. Copies of this form may be distributed to component units for their completion. Forms completed by component units should not be filed separately but should be returned to the appopriate municipality for inclusion in the report filed for the financial reporting entity. Such component units would include special districts, hospitals, boards, trusts, and authorities meeting the inclusion criteria of the statements reference above.

SUPPLEMENTARY INSTRUCTIONS FOR OKLAHOMA MUNICIPALTIES
2007 ANNUAL SURVEY OF CITY AND TOWN FINANCES

COVERAGE OF THIS REPORT

In addition to the fiscal activities of your general government, **include** the revenues, expenditures, assets and debt of the following types of agencies, if they are operative in your city or town.

- City water districts
- Medical center authorities
- Joint airport boards
- Municipal parking districts
- Rural water, sewer, gas, and solid waste management districts with ex officio boards
- Public trust (Title 60, Section 176 of the Oklahoma Statutes)
- Separate road districts
- Sewer districts
- Utilities authorities
- Zoning districts

Part I — TAX REVENUES

This part refers to all city-imposed taxes. It does not include service charges, special assessments (such as those for paving districts), or interest earnings, fines, or any other sources which are not taxes or licenses.

1. Property taxes (code T01)

Also include city-imposed ad valorem property taxes collected by the county and paid to the city for the repayment of G.O. bonds.

2. Local sales taxes

a. General salex tax (code T09)

Report revenue from city-imposed sales tax only. This tax is collected by the State and paid back to the city minus a small percentage withheld by the State for handling expenses. Be sure to enter only the amount of the check received from the State.

b. Franchise fee or tax, public utilities (code T15)

Enter here any franchise tax collected from a private utility to operate within the city such as gas, electric, telephone, cable TV, etc.

d. Other — *Specify any sales tax not mentioned above.*

3. Licenses, permits, and other taxes

a. Occupation and business licensing and permits (code T28)

Enter here licenses and inspection charges on occupation and business.

b. Report only licenses and permits not included in 3a. (code T29)

Part IA — INTERGOVERNMENTAL REVENUE

1. General support

From State (code C30) — Enter amount received from alcoholic beverage tax county distribution.

2. Streets and highways (codes C46, D46, and B46)

Enter receipts from commercial vehicle tags, gasoline tax, bus mileage tax, registration tags.

3. Health or hospitals (codes C42, D42, and B42)

In the appropriate column, list any intergovernmental revenues received for operation of a hospital, health facility or health department, (grants, not loans) or funds received from other government jurisdictions for health services or facilities operated by your government.

4. Grants received for utilities (codes C91 to B91)

7. Grants received for mass transit and/or bus systems (codes C94 to B94)

9. All other (From State — code C-89; From Federal Government — code B89)

Include in the appropriate box, receipts from various payments such as:

- Park and recreation (BOR or HUD)
- Community development and urban renewal
- Civic defense
- Airports
- Wate and sewer facilities
- Manpower planning and utilization

Part IB — OTHER REVENUE

3. Special assessment funds

Include —

- All transactions of special assessment funds established to finance streets, sidewalks, or other local improvements within the city.
- Assessments collected from property owners at part IB, item 3.
- Expenditure from improvements at part II. Report as capital outlay.
- Interest paid on special assessment obligations as part II, Item 19e.
- Transactions of special assessment bonds at part V.
- Cash and security holdings of special assessment funds at part VI.

Part IV — SALARIES, WAGES, AND FORCE ACCT.

Report salaries and wages for all employees full- and part-time. Include salaries paid for employees of any utility owned and operated by your government. Report salaries in gross amounts before deductions for income taxes, Social Security, or retirement coverage.

Part V — DEBT OUTSTANDING, ISSUED & RETIRED

Also include industrial revenue or pollution control bonds, if issued by your city or town.

Hospitals — The following hospitals are classified as agencies of various municipal governments and their transactions should be included in the appropriate parts of this report.

Municipality	Hospital
Anadarko	Anadarko Municipal Hospital
Bethany	Bethany General Hospital
Carnegie	Carnegie Tri-County Municipal Hospital
Cleveland	Cleveland Area Hospital
Clinton	Clinton Regional Hospital
El Reno	Park View Hospital
Fairfax	Fairfax Municipal Hospital
Fairview	Fairview Hospital
Healdton	Healdton Municipal Hospital
Holdenville	Holdenville General Hospital
Lindsay	Lindsay Municipal Hospital
Mangum	Mangum City Hospital
Norman	Norman Municipal Hospital
Okeene	Okeene Municipal Hospital
Pauls Valley	Pauls Valley General Hospital
Pawnee	Pawnee Municipal Hospital
Sayre	Sayre Memorial Hospital
Seminole	Seminole Municipal Hospital
Tahlequah	Tahlequah City Hospital
Watonga	Watonga Municipal Hospital

THE CITY OF POTEAU, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT ACCOUNTANTS' REPORTS

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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TABLE OF CONTENTS

Page

Independent Accountants' Report on Financial Statements and Supplementary Information 5-6

Management's Discussion and Analysis 7-14

The Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Assets 16
Statement of Activities 17

Governmental Funds Financial Statements:

Balance Sheet 19
Statement of Revenues, Expenditures, and Changes in Fund Balance 20
Reconciliation of Governmental Fund and Government-Wide Financial Statements 21
Changes in Fund Balances – Changes in Net Assets Reconciliation 22

Proprietary Funds Financial Statements:

Statement of Net Assets 24
Statement of Revenues, Expenses and Changes in Net Assets 25
Statement of Cash Flows 26

Footnotes to the Basic Financial Statements 27-46

Required Supplementary Information:

Budgetary Comparison Information

Budgetary Comparison Schedule (Budgetary Basis) – General Fund 48
Budgetary Comparison Schedule (Budgetary Basis) – Poteau Industrial Authority 49
Footnotes to Budgetary Comparison Schedule 49

Pension Plan Information:

Schedule of Funding Progress 50

Other Postemployment Benefits Information:

Schedule of Funding Progress 50

Supplementary Information:

Nonmajor Governmental Combining Statements

Combining Balance Sheet – Nonmajor Governmental Funds 52
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds 52

Combining General Fund Account Schedules

Combining Balance Sheet – General Fund Accounts.....53
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – General Fund Accounts 54

Combining Enterprise Fund Account Schedules

Combining Schedule of Net Assets – Enterprise Fund Accounts.....55
Combining Schedule of Revenues, Expenses and Changes in Net Assets – Enterprise Fund Accounts 56

Schedule of Expenditures of Federal and State Awards Information

Schedule of Expenditures of Federal and State Awards..... 57
Footnotes to Schedule of Expenditures of Federal and State Awards..... 57

Debt Service Coverage Information

Schedule of Debt Service Coverage..... 58

Internal Control and Compliance over Financial Reporting

Independent Accountants' Reports on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards 59-60
Schedule of Findings and Responses..... 61-64

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Independent Accountants' Report on Financial Statements and Supplementary Information

The Honorable Mayor and Members of the City Council
City of Poteau, Oklahoma
Poteau, Oklahoma

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, Oklahoma as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 8* to the financial statements, in 2011 the City changed its method of accounting for fund balances in accordance with the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund-Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2012 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis and budgetary and pension and other post-employment benefit information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

June 28, 2012

As Management of the City of Poteau (the "City"), we offer readers this narrative overview and analysis of the financial activities of the City of Poteau for the fiscal year ended June 30, 2011. We encourage readers to use this information in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total net assets increased by approximately $6.3 million and the assets of the City continued to exceed its liabilities at June 30, 2011, by $26.7 million (net assets). Of this amount, $4.8 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- At June 30, 2011, the City's governmental funds reported combined ending fund balances of $4.8 million. Of this amount, $0.7 million is available for spending at the government's discretion (unassigned fund balance).

- At the end of fiscal year 2011, unassigned fund balance for the General Fund was 7.2% of General Fund total revenues.

- At June 30, 2011, the business-type activities reported combined net assets of $5.1 million. $2.4 million of this amount is invested in capital assets, net of related debt. The remaining balance of unrestricted net assets, $2.7 million, may be used to meet the Authority's ongoing obligations to citizens and creditors.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Poteau (the "City"), the Poteau Public Works Authority (the "Authority") and the Poteau Industrial Authority ("PIA"). Included in this report are government-wide statements for each of two categories of activities – governmental and business-type.

The government-wide financial statements present the complete financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately and combined. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt).

Reporting the City as a Whole - Statements of Net Assets and Activities

This discussion and analysis is intended to serve as an introduction to the City of Poteau's basic financial statements. The Statement of Net Assets and the Statement of Activities (on pages 16 and 17, respectively) report information about the City as a whole and about its activities in a way that helps answer questions about the City's financial activities. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in net assets from the prior year. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial condition or position. Over time, increases or decreases in the City's net assets are one

indicator of whether its financial health is improving, deteriorating, or remaining steady. However, you must consider other non-financial factors, such as changes in the City's tax base, the condition of the City's roads, and the quality of services to assess the overall health of the City.

The Statement of Net Assets and the Statement of Activities are divided into two types of activities:

- Governmental activities – Most of the City's basic services are reported here, including the police, fire, general administration, streets, and parks. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities.

- Business-type activities – Activities where the City charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The City's water, sewer, and sanitation utilities are reported as business-type activities.

Reporting the City's Most Significant Funds - Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Some funds are required to be established by state law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. All of the funds of the City of Poteau can be divided into two categories: governmental funds and proprietary funds.

Governmental funds – Most of the City's basic services are reported in governmental funds, which focus on near-term inflows and outflows of spendable resources, as well as spendable resources available at the end of the fiscal year. These funds are presented on the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized when "measurable and available". The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the Governmental Fund financial statements to those in the Government-Wide financial statements are explained in a reconciliation following each Governmental Fund financial statement.

Proprietary funds – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Enterprise funds are one type of proprietary fund and are used to report the same functions presented as business-type activities in the governmental-wide financial statements. The City uses enterprise funds to account for its water and sewer operations and its solid waste collection and disposal services. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 27-45 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, budgetary comparison schedules for the General Fund and PIA. Required supplementary information can be found on pages 46-49 of this report.

THE CITY AS A WHOLE

For the fiscal year ended June 30, 2011, net assets for the governmental activities and business-type activities increased approximately $6.3 million. The results indicate the City, as a whole, improved its financial condition from the prior year due mainly to the donation of $5.6 million for the construction of the Reynolds Center.

The City of Poteau's Net Assets
(In Thousands)

Following is a summary comparison of change in net assets from last year for the City of Poteau.

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2010		2011	2010		2011	2010	
Current assets	$ 6,058	$ 6,368	-5%	$ 3,208	$ 2,748	17%	$ 9,266	$ 9,116	2%
Capital assets, net	18,305	11,144	64%	3,493	3,808	-8%	21,798	14,952	46%
Other non-current assets	-	-	0%	8	9	-11%	8	9	-11%
Total assets	24,363	17,512	39%	6,709	6,565	2%	31,072	24,077	29%
Current liabilities	1,043	334	212%	185	67	176%	1,228	401	206%
Non-current liabilities	1,750	1,744	0%	1,391	1,497	-7%	3,141	3,241	-3%
Total liabilities	2,793	2,078	34%	1,576	1,564	1%	4,369	3,642	20%
Net assets									
Invested in capital assets, net of related debt	16,805	9,616	75%	2,446	2,632	7%	19,251	12,248	57%
Restricted	2,667	3,078 *	-13%	-	-	0%	2,667	3,078 *	-13%
Unrestricted	2,098	2,740 *	-23%	2,687	2,369	13%	4,785	5,109 *	-6%
Total net assets	$ 21,570	$ 15,434	40%	$ 5,133	$ 5,001	3%	$ 26,703	$ 20,435	31%

* $1,169 of restricted net assets were reclassed as restricted due to the implementation of GASB 54.

The largest portion of the City's net assets reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. This year the investment in capital assets, net of related debt, amounted to $19.2 million. This is an increase of $7 million that resulted mainly from the current construction costs of the Reynolds Center of $6.4 million. 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.

A portion of the City's net assets, $2.7 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $4.8 million, may be used to meet the government's ongoing obligations to citizens and creditors.

Other items that are reporting significant changes include:

Governmental Activities:

Capital assets, net (64% increase) – Increased approximately $7.2 million due mainly to Reynolds Center construction costs of $6.4 million, airport taxiway construction costs of $0.4 million and library land and construction costs of $0.2 million.

Current liabilities (212% increase) – Increased approximately $0.7 million due mainly to retainage and accounts payable related to construction of the Reynolds Center.

Business-type Activities:

Current assets (17% increase) – Increased approximately $0.5 million due mainly to increased cash of $0.4 million. See page 26 (Proprietary Fund Statement of Cash Flows) for components of cash increase.

The City of Poteau's Statement of Activities
(In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2010		2011	2010		2011	2010	
Revenues									
Program revenues:									
Charges for service	$ 713	$ 696	2%	$ 2,476	$2,441	1%	$ 3,189	$ 3,137	2%
Operating grants and contributions	264	325 *	-19%	-	-	-	264	325	-19%
Capital grants and contributions	6,037	447 *	1251%	-	-	-	6,037	447	1251%
General revenues:									
Taxes	5,403	5,387	0%	-	-	-	5,403	5,387	0%
Intergovernmental revenue	130	123	6%	-	-	-	130	123	6%
Investment income	59	88	-33%	23	28	-18%	82	116	-29%
Miscellaneous	218	226	-4%	2	1	100%	220	227	-3%
Total revenues	12,824	7,292	76%	2,501	2,470	1%	15,325	9,762	57%
Program Expenses:									
General government	1,270	1,266	0%	-	-	-	1,270	1,266	0%
Public safety	2,628	2,562	3%	-	-	-	2,628	2,562	3%
Public works	1,160	1,275	-9%	-	-	-	1,160	1,275	-9%
Culture and recreation	719	789	-9%	-	-	-	719	789	-9%
Airport	352	363	-3%	-	-	-	352	363	-3%
Industrial authority	113	1,399	-92%	-	-	-	113	1,399	-92%
Interest on long-term debt	42	65	-35%	-	-	-	42	65	-35%
Water	-	-	-	1,311	1,274	3%	1,311	1,274	3%
Wastewater	-	-	-	986	1,155	-15%	986	1,155	-15%
Sanitation	-	-	-	476	467	2%	476	467	2%
Total expenses	6,284	7,719	-19%	2,773	2,896	-4%	9,057	10,615	-15%
Excess (deficiency) before transfers	6,540	(427)	1632%	(272)	(426)	-36%	6,268	(853)	-835%
Transfers	(404)	(388)	4%	404	388	4%	-	-	-
Change in net assets	6,136	(815)	-853%	132	(38)	-447%	6,268	(853)	-835%
Beginning net assets	15,434	16,249	-5%	5,001	5,039	-1%	20,435	21,288	-4%
Ending net assets	$ 21,570	$ 15,434	40%	$ 5,133	$5,001	3%	$26,703	$20,435	31%

* - Airport capital grant of $87,000 was classified as an operating grant in 2010. The above schedule appropriately reclasses this as a capital grant.

Governmental Activities

The City's governmental activities' increase in net assets of $6.1 million represents a 39.8% increase in net assets from prior year. Capital grants and contributions increased due to a donation for the Reynolds Center of $5.6 million. Expenses for the Industrial Authority decreased $1.3 million due to prior year expenses for an allowance for doubtful accounts for the $1.2 million note receivable from Tiger Trucking who declared bankruptcy in 2010. Net expense for Public Works declined 23% due mainly to a $163,000 capital grant received from ODOT for an industrial road project and decreased expenses for street materials and vehicle and machine expense of about $76,000 combined. Airport net expense decreased 143% (or $150,000) due to increased capital grants from the FAA for a taxiway project.

Net Revenue (Expense) of Governmental Activities
(In Thousands)

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	2011	2010		2011	2010	
General government	$ 1,270	$1,266	0%	($1,166)	($1,099)	6%
Public safety	2,628	2,562	3%	(2,136)	(2,085)	2%
Public works	1,160	1,275	-9%	(924)	(1,202)	-23%
Culture, and recreation	719	789	-9%	5,066	(296)	-1811%
Airport	352	363	-3%	45	(105)	-143%
Industrial authority	113	1,399	-92%	(113)	(1,399)	-92%
Interest on long-term debt	42	65	-35%	(42)	(65)	-35%
Total	$ 6,284	$7,719	-19%	$730	($6,251)	-112%

Business-type Activities

The business-type activities' increase in net assets of about $132,000 represents an approximate 2.6% increase in net assets.

Net Revenue (Expense) of Business-Type Activities
(In Thousands)

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	2011	2010		2011	2010	
Water	$ 1,311	$ 1,274	3%	$(164)	$(142)	15%
Wastewater	986	1,155	-15%	(119)	(289)	-59%
Sanitation	476	467	2%	(16)	(24)	-33%
Total	$ 2,773	$ 2,896	-4%	$(299)	$(455)	-34%

Net revenue for the Wastewater activity declined 58.8% (or $170,000) due mainly to decreased expenses related to fewer staff, repairs, utilities, and uncapitalized capital outlay.

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2011 fiscal year, the governmental funds reported a combined fund balance of $4.8 million, or a 18.9 % decrease from the prior year. The enterprise funds reported combined net assets of $5.1 million, or a 2.6 % increase from the prior year. There was a fund balance restriction of $1,624,936 in the General Fund for debt service on the $1.5 million PIA note. There were no net asset restrictions for June 30, 2011 in the enterprise fund.

Other fund highlights include:

- For the fiscal year ended June 30, 2011, the General Fund's total fund balance decreased by $562,915, or 12.7% primarily due to increased capital outlay. Also, the PIA's total fund balance decreased by $291,694, or 25%, due to a transfer to the General Fund of $110,000 for the Reynolds Center construction and normal debt service and operating costs of about $156,000.
- The Poteau Public Works Authority Fund reported an increase in net assets, after transfers and capital contributions, of $131,903 for the year.

General Fund Budgetary Highlights

For the fiscal year ended June 30, 2011, the General Fund reported actual budgetary basis revenues below final estimates by $1,716,727 or a 14.5% negative variance. The variance is due to budgeting for a capital grant contribution that was not received in the current fiscal year. General Fund actual expenditures were under final appropriations by $1,699,583 or a 14.1% positive variance also due to the aforementioned capital grant revenue not received (and consequently not spent) in the current fiscal year.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2011, the City had approximately $21.8 million (net) invested in capital assets including land, buildings, machinery and equipment, park facilities, water, sewer and sanitation systems, roads and bridges. This represents a net increase of $6.8 million from last year. The major capital asset addition was $6.4 million for the Reynolds Center construction which was still in progress as of June 30, 2011.

Following are details regarding the change in the City's capital assets for the year ended June 30, 2011.[1]

[1] For more detailed information on capital asset activity please refer to page 33-34, Note 6. Capital Assets and Depreciation

The City of Poteau's Capital Assets
(expressed in $ 000's)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	$ 4,078	$ 3,623	$ 24	$ 24	$ 4,102	$ 3,647
Buildings	540	545	-	1	540	546
Imp. other than buildings	4,924	4,322	162	131	5,086	4,453
Machinery, furniture and equipment	1,678	1,902	228	271	1,906	2,173
Infrastructure	-	-	3,079	3,381	3,079	3,381
Construction in progress	7,085	752	-	-	7,085	752
Totals	$ 18,305	$ 11,144	$ 3,493	$ 3,808	$ 21,798	$ 14,952

Debt Administration

At year-end, the City had $2.6 million in long-term debt outstanding, which represents a decrease of $150,000 from the prior year. No debt was issued during the fiscal year ended June 30, 2011.

The City of Poteau's Long-term Debt
(expressed in $ 000's)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Notes payable	1,500	1,500	1,055	1,177	2,555	2,677
Capital leases	-	28	-	-	-	28
Totals	$ 1,500	$ 1,528	$ 1,055	$ 1,177	$ 2,555	$ 2,705

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

The following information outlines significant known factors that will affect subsequent year finances:

- The FY 2012 budget is consistent to prior years.
- Construction of a new public library will continue in FY2012.

The current economic environment presents local governments with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of assets, declines in contributions, governmental support, grant revenue and user fees, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the City.

Current economic conditions have made it difficult for many taxpayers to continue supporting the local economy through the purchasing of goods and services. The result could cause a significant decline in tax revenue that could have an adverse impact on the City's future operating results.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in assets and liabilities, declines in contributions, governmental support, grant revenue and user fees that could negatively impact the City's ability to meet debt covenants or maintain sufficient liquidity.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors 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 Clerk's Office at 111 Peters St., Poteau, Oklahoma 74953 or phone at (918) 647-4191.

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

Statement of Net Assets– June 30, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 132,274	$ 1,680,744	$ 1,813,018
Investments	4,329,205	1,174,305	5,503,510
Interest receivable	11,470	6,522	17,992
Deposit with insurance pool	1,517	-	1,517
Accounts receivable,net of allowance	515,002	288,953	803,955
Franchise tax receivable	47,344	-	47,344
Court fines receivable, net of allowance	274,735	-	274,735
E911 receivable	11,869	-	11,869
Internal balances	(45,498)	45,498	-
Due from other governmental agencies	686,240	-	686,240
Prepaids	61,059	12,403	73,462
Inventory	33,064	-	33,064
Capital Assets:			
Land and construction in progress	11,162,747	23,500	11,186,247
Other capital assets, net of depreciation	7,142,202	3,469,026	10,611,228
Unamortized bond issuance costs	-	7,986	7,986
Total Assets	$ 24,363,230	$ 6,708,937	$ 31,072,167
LIABILITIES			
Accounts payable and accrued expenses	$ 1,038,005	$ 174,443	$ 1,212,448
Accrued interest payable	4,694	10,147	14,841
Long-term liabilities:			
Due within one year	1,554,598	216,502	1,771,100
Due in more than one year	94,418	1,143,673	1,238,091
Other postemployment benefits obligation	100,752	31,257	132,009
Total liabilities	2,792,467	1,576,022	4,368,489
NET ASSETS			
Invested in capital assets, net of related debt	16,804,949	2,445,510	19,250,459
Restricted for:			
Debt service	1,624,936	-	1,624,936
Industrial development	877,374	-	877,374
Other projects	165,158	-	165,158
Unrestricted	2,098,346	2,687,405	4,785,751
Total net assets	$ 21,570,763	$ 5,132,915	$ 26,703,678

See accompanying notes to the basic financial statements.

Statement of Activities – For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Primary government							
Governmental Activities							
General Government	$ 1,269,849	$ 42,582	$ 61,178	$ -	$ (1,166,089)	$ -	$ (1,166,089)
Public Safety	2,628,277	361,373	130,732	-	(2,136,172)	-	(2,136,172)
Public Works	1,159,468	400	72,166	162,928	(923,974)	-	(923,974)
Culture and Recreation	719,250	142,261	-	5,643,385	5,066,396	-	5,066,396
Airport	352,089	166,613	-	230,632	45,156	-	45,156
Industrial Authority	112,901	-	-	-	(112,901)	-	(112,901)
Interest on Long-term debt	41,885	-	-	-	(41,885)	-	(41,885)
Total governmental activities	6,283,719	713,229	264,076	6,036,945	730,531	-	730,531
Business-type activities:							
Water	1,310,822	1,147,143	-	-	-	(163,679)	(163,679)
Wastewater	986,375	867,640	-	-	-	(118,735)	(118,735)
Sanitation	476,420	460,910	-	-	-	(15,510)	(15,510)
Total business-type activities	2,773,617	2,475,693	-	-	-	(297,924)	(297,924)
Total primary government	$ 9,057,336	$ 3,188,922	$ 264,076	$ 6,036,945	730,531	(297,924)	432,607
General revenues:							
Taxes:							
Sales and use taxes					5,023,647	-	5,023,647
Franchise taxes and public service taxes					379,357	-	379,357
Intergovernmental revenue not restricted to specific programs					129,955	-	129,955
Miscellaneous					218,412	2,117	220,529
Unrestricted investment earnings					59,373	23,476	82,849
Transfers - Internal activity					(404,234)	404,234	-
Total general revenues and transfers					5,406,510	429,827	5,836,337
Change in net assets					6,137,041	131,903	6,268,944
Net assets - beginning					15,433,722	5,001,012	20,434,734
Net assets - ending					$ 21,570,763	$ 5,132,915	$ 26,703,678

See accompanying notes to the basic financial statements.

BASIC FINANCIAL STATEMENTS - GOVERNMENTAL FUNDS

Governmental Funds Balance Sheet – June 30, 2011

	General Fund	Poteau Industrial Authority	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 35,569	$ -	$ 96,705	$ 132,274
Investments	4,243,567	-	85,638	4,329,205
Deposits in insurance pool	1,517	-	-	1,517
Interest receivable	11,396	-	74	11,470
Receivable from other governments	678,142	-	8,098	686,240
Due from other funds	8,044	911,231	8,277	927,552
Franchise tax receivable	47,344	-	-	47,344
Court fines receivable, net	274,735	-	-	274,735
E911 receivable	11,869	-	-	11,869
Accounts receivable	26,043	-	-	26,043
Other receivables	488,959	-	-	488,959
Prepaids	61,059	-	-	61,059
Inventory	-	-	33,064	33,064
Total assets	$ 5,888,244	$ 911,231	$ 231,856	$ 7,031,331
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 674,817	$ 33,857	$ 36,520	$ 745,194
Due to other funds	818,705	-	154,345	973,050
Retainage payable	292,811	-	-	292,811
Deferred revenue	220,027	-	-	220,027
Total liabilities	2,006,360	33,857	190,865	2,231,082
Fund balances:				
Nonspendable	61,059	-	33,064	94,123
Restricted	1,624,936	877,374	165,158	2,667,468
Assigned	1,315,978	-	21,921	1,337,899
Unassigned	879,911	-	(179,152)	700,759
Total fund balances	3,881,884	877,374	40,991	4,800,249
Total liabilities and fund balances	$ 5,888,244	$ 911,231	$ 231,856	$ 7,031,331

See accompanying notes to the basic financial statements.

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances – Year Ended June 30, 2011

	General Fund	Poteau Industrial Authority	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 5,403,004	$ -	$ -	$ 5,403,004
Intergovernmental	495,781	-	291,810	787,591
Licenses and permits	18,958	-	-	18,958
Charges for services	115,521	-	166,613	282,134
Fees and fines	170,327	-	12,612	182,939
Investment earnings	55,571	2,221	1,581	59,373
Donations and contributions	5,643,385	-	-	5,643,385
Miscellaneous	362,573	-	-	362,573
Total revenues	12,265,120	2,221	472,616	12,739,957
EXPENDITURES				
Current:				
Administration	213,461	-	103,282	316,743
City Clerk	25,861	-	-	25,861
City Treasurer	12,404	-	-	12,404
City Attorney	31,126	-	-	31,126
Communication 911	193,694	-	-	193,694
Police	1,634,941	-	5,609	1,640,550
Fire	488,707	-	-	488,707
Refuse	112,918	-	-	112,918
Streets	806,958	-	-	806,958
Parc	372,028	-	-	372,028
Swimming Pool	59,817	-	-	59,817
Parks and Recreation	130,032	-	-	130,032
Planning Commission	122	-	-	122
General Government	431,692	-	-	431,692
Library	33,404	-	-	33,404
Cemetary	168,906	-	-	168,906
Code Enforcement	17,069	-	-	17,069
Emergency Management	1,421	-	-	1,421
Animal Control	95,420	-	-	95,420
Municipal Court	118,826	-	-	118,826
Civic Center	65,234	-	-	65,234
Building Inspections	33,658	-	-	33,658
General Nutrition	53,145	-	-	53,145
Nondepartmental	2,074	-	-	2,074
Economic Development	-	103,220	-	103,220
Airport	-	-	204,789	204,789
Capital Outlay	7,449,266	27,408	372,277	7,848,951
Debt Service:				
Principal	-	-	27,905	27,905
Interest and other charges	-	53,287	1,712	54,999
Total Expenditures	12,552,184	183,915	715,574	13,451,673
Excess (deficiency) of revenues over expenditures	(287,064)	(181,694)	(242,958)	(711,716)
OTHER FINANCING SOURCES (USES)				
Transfers in	170,000	-	41,617	211,617
Transfers out	(445,851)	(110,000)	(60,000)	(615,851)
Total other financing sources and (uses)	(275,851)	(110,000)	(18,383)	(404,234)
Net change in fund balances	(562,915)	(291,694)	(261,341)	(1,115,950)
Fund balances - beginning	4,444,799	1,169,068	302,332	5,916,199
Fund balances - ending	$ 3,881,884	$ 877,374	$ 40,991	$ 4,800,249

See accompanying notes to the basic financial statements.

Reconciliation of Governmental Fund and Government-Wide Financial Statements:

Total fund balance, governmental funds	$	4,800,249
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		18,304,949
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		220,027
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		(1,649,016)
Some liabilities, (such as Accrued Interest Payable and Other Post Employment Benefits), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		(105,446)
Net Assets of Governmental Activities in the Statement of Net Assets	$	21,570,763

See accompanying notes to the basic financial statements.

Changes in Fund Balances – Changes in Net Assets Reconciliation:

Net change in fund balances - total governmental funds:	$ (1,115,950)
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period:	
Capital asset purchases capitalized	7,831,250
Depreciation expense	(670,074)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Change in deferred revenue	85,037
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	
Principal payments on long-term debt	27,905
Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
Change in accrued interest payable	13,114
Change in accrued compensated absences	17,093
Change in OPEB liability	(51,334)
Change in net assets of governmental activities	$ 6,137,041

See accompanying notes to the basic financial statements.

BASIC FINANCIAL STATEMENTS - PROPRIETARY FUNDS

Proprietary Funds Statement of Net Assets – June 30, 2011

	Poteau Public Works Authority
ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,591,211
Investments	1,023,510
Restricted:	
Cash and cash equivalents	47,920
Accrued interest	6,522
Due from other funds	52,851
Accounts receivable, net	288,953
Prepaid items	12,403
Total current assets	3,023,370
Non-current assets:	
Restricted:	
Cash and cash equivalents	41,613
Investments	150,795
Capital assets:	
Land and construction in progress	23,500
Other capital assets,net of accumulated depreciation	3,469,026
Unamortized note issue costs	7,986
Total non-current assets	3,692,920
Total assets	6,716,290
LIABILITIES	
Current liabilities:	
Accounts payable	160,707
Salaries payable	13,736
Accrued interest payable	10,147
Due to other funds	7,353
Deposits subject to refund	47,920
Accrued compensated absences	42,900
Notes payable - current	125,682
Total current liabilities	408,445
Non-current liabilities:	
Deposits subject to refund	191,680
Other postemployment benefits obligation	31,257
Accrued compensated absences	22,673
Notes payable	929,320
Total non-current liabilities	1,174,930
Total liabilities	1,583,375
NET ASSETS	
Invested in capital assets, net of related debt	2,445,510
Unrestricted	2,687,405
Total net assets	$ 5,132,915

See accompanying notes to the basic financial statements.

Proprietary Funds Statement of Revenues, Expenses and Changes in Net Assets – Year Ended June 30, 2011

	Poteau Public Works Authority
REVENUES	
Water	$ 1,095,585
Wastewater	828,608
Sanitation	440,176
Penalties	99,389
Licenses and permits	2,564
Refunds and reimbursements	9,421
Total operating revenues	2,475,743
OPERATING EXPENSES	
Administration	306,112
Water	997,693
Wastewater	628,879
Sanitation	413,710
Depreciation	394,345
Total operating expenses	2,740,739
Operating income (loss)	(264,996)
NON-OPERATING REVENUES (EXPENSES)	
Interest and investment revenue	23,476
Miscellaneous revenue	2,067
Amortization expense	(1,141)
Interest expense	(31,737)
Net non-operating revenue (expenses)	(7,335)
Income (loss) before transfers	(272,331)
Transfers in	404,234
Change in net assets	131,903
Total net assets - beginning	5,001,012
Total net assets - ending	$ 5,132,915

See accompanying notes to the basic financial statements.

Proprietary Funds Statement of Cash Flows – Year Ended June 30, 2011

	Poteau Public Works Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 2,476,757
Payments to suppliers	(1,339,613)
Payments to employees	(887,866)
Receipts of customer meter deposits	62,438
Refunds of customer meter deposits	(57,323)
Interfund receipts/payments	6,820
Net cash provided by operating activities	261,213
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(78,421)
Transfers of sales tax for capital related debt service	404,234
Principal paid on debt	(121,590)
Interest and fiscal agent fees paid on debt	(35,013)
Net cash provided by capital and related financing activities	169,210
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(14,122)
Interest and dividends	22,038
Net cash provided by investing activities	7,916
Net increase in cash and cash equivalents	438,339
Balances - beginning of year	1,242,405
Balances - end of year	$ 1,680,744
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	$ 1,591,211
Restricted cash and cash equivalents - current	47,920
Restricted cash and cash equivalents - noncurrent	41,613
Total cash and cash equivalents, end of year	$ 1,680,744
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating income (loss)	$ (264,996)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation expense	394,345
Miscellaneous revenue	2,067
Change in assets and liabilities:	
Due from other funds	277
Due to other funds	6,543
Accounts receivable	(1,053)
Prepaid items	(12,403)
Accounts payable	117,908
Accrued payroll payable	2,941
Deposits subject to refund	5,115
Accrued compensated absences	(4,202)
OPEB liability	14,671
Net cash provided by operating activities	$ 261,213

See accompanying notes to the basic financial statements.

FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Basic Financial Statements:

1. Financial Reporting Entity

The City's financial reporting entity includes the primary government (City of Poteau) and two blended component units as noted below. This annual report includes all activities for which the City of Poteau City Commissioners are financially accountable.

The City of Poteau– operates the public safety, public works, streets and highways, parks and recreation, and administrative activities.

The City of Poteau has a population of 7,939 and is located in southeastern Oklahoma. The City is an aldermanic form of government that provides for three branches of government:

- Legislative – the City Council is an eight-member governing body elected by the citizens at large
- Executive – the Mayor is the Chief Executive Officer and is elected by the citizens
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

The City provides typical municipal services such as public safety, social services, street and alley maintenance, parks and recreation, and certain utility services including water, wastewater, and sanitation.

Component Units:

The Poteau Public Works Authority – operates the water, wastewater and sanitation services of the City.

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

Both component units (Authorities) have the City Commissioners as their governing body (trustees) and the City is able to impose its will on the Authorities through required approval of all debt obligations issued by these entities. Separate financial statements are not issued for these component units.

2. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statement of net assets and activities are reported on the accrual basis of accounting and utilizes an economic resource focus. Under the economic resource focus, all assets and liabilities, including current and non-current are reported. Under the accrual basis of accounting, revenues are recognized when earned and expenses (including depreciation and amortization) are recorded when the liability is incurred or an economic asset is used.

Revenues within the statement of activities that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. The City has the following program revenues in each activity:

- General Government: Licenses and permit revenue, cemetery lot sales, rental fees, and nutrition operating grant
- Public Safety: Fine revenue, E911 revenue, on-behalf pension payments and operating grants
- Public Works: Commercial vehicle and gasoline excise tax shared by the State
- Culture and Recreation: Swimming pool, recreation fees and complex concessions
- Industrial Authority: Operating contributions
- Airport: Airport fees and aviation fuel

All other governmental revenues are reported as general. All taxes are classified as general revenue, even if restricted for a specific purpose.

Governmental Funds:

The City's governmental funds include:

Major Funds:

- General Fund – accounts for all activities not accounted for in other special-purpose funds.
- Poteau Industrial Authority – a special revenue fund that promotes and secures industrial and economic development and expansion within the City.

Aggregated Non-Major Funds (reported as Other Governmental Funds):

- Special Revenue Funds:
  - Nutrition Fund - accounts for revenues and expenditures of various nutrition grants per grant agreement requirements.
  - Law Enforcement Grant Fund – accounts for grant revenues, transfers and expenditures for local law enforcement block grant monies.
  - Juvenile Court Fund – accounts for juvenile court bonds held on behalf of others.
  - Airport Fund – accounts for transfers, revenues and expenditures for airport operations.
  - Police Drug Fund – accounts for monies received from donations and drug seizures and can be used for law enforcement purposes only.
  - Police Court Fund – accounts for court bonds held on behalf of others.
- Capital Project Fund:
  - Cemetery Care Fund - accounts for 25 percent of cemetery revenues (12.5 percent required per State statute) restricted and assigned for cemetery capital improvements.

The governmental funds are reported on a modified accrual basis of accounting and current financial resources measurement focus. Revenues are recorded on the modified accrual basis when earned and collected within 60 days of period end.

The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus and accrual basis of accounting at the government-wide level.

The General Fund and Poteau Industrial Development Authority are considered major funds and are therefore displayed in separate columns. All other governmental funds are considered non-major funds and are aggregated under the column Nonmajor Governmental Funds.

Proprietary Funds:

The City's proprietary funds include:

- Public Works Authority – accounts for the operation of the water, wastewater, and sanitation activities.

The proprietary fund is reported on the accrual basis of accounting and economic resources measurement focus. For business-type activities and proprietary funds, Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

For purposes of the statement of revenues, expenses and changes in net assets, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

3. Cash, Cash Equivalents, and Investments

For the purposes of the statements of net assets, balance sheets, and statement of cash flows, cash and cash equivalents includes all demand and savings accounts, certificates of deposit and short-term investments with an original maturity of three months or less. Time deposits are valued at cost.

At June 30, 2011, the reporting entity held the following deposits and investments:

Type	Maturities	Carrying Value
Deposits:		
Demand deposits		$ 1,814,399
Time deposits, due within one year		5,502,129
Total deposits		$ 7,316,528
Reconciliation to Statement of Net Assets:		
Cash and cash equivalents		$ 1,813,018
Investments		5,503,510
		$ 7,316,528

Custodial Credit Risk – Exposure to custodial credit risk related to deposits exists when the City holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the City's name; or collateralized without a written or approved collateral agreement. The City does not have an investment policy as it relates to custodial credit risk.

As of June 30, 2011, the City had $6,322,618 of bank deposits. Of this amount, $42,050 was not insured or collateralized and exposed to custodial credit risk.

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no investment policy that limits investments based on maturity. The City discloses its exposure to interest rate risk by documenting the maturity dates of its various investments, where applicable.

Investment Credit Risk – The City's investment policy limits investments to the following:

a. Direct obligations of the U. S. Government, its agencies and instrumentalities to which the full faith and credit of the U. S. Government is pledged.
b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements.
d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
f. Money market funds regulated by the SEC and in which consist of the instruments mentioned in the previous paragraphs a., b., c., and d.

Concentration of Investment Credit Risk - Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5 percent are disclosed). Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City has no investment policy regarding concentration of credit risk and was not exposed to concentration of credit risk as defined above.

Restricted Cash and Investments - The amounts reported as restricted assets on the proprietary funds statement of net assets are comprised of amounts held by the Public Works Authority for utility deposits (refunded upon termination of service or applied to final bill). The restricted assets as of June 30, 2011 are as follows:

	Current	Noncurrent	
	Cash and cash equivalents	Cash and cash equivalents	Investments
Meter deposits	$ 47,920	$ 41,613	$ 150,795
Total	$ 47,920	$ 41,613	$ 150,795

4. Accounts and Notes Receivable

Accounts Receivable:

Accounts receivable of the business-type activities consist of utilities services provided to customers, both billed and unbilled, due at year end, reported net of allowance for uncollectible amounts. The governmental activities receivables include a miscellaneous receivable and court fines receivable.

	Accounts Receivable	Less: Allowance for Uncollectible Accounts	Net Accounts Receivable
Governmental Activities:			
Other	515,002	$ -	$ 515,002
Total Governmental Activities	$ 515,002	$ -	$ 515,002
Business-Type Activities:			
Utilities	$ 352,793	$ (63,840)	$ 288,953

Notes Receivable:

The Poteau Industrial Development Authority executed a $1,200,000 note receivable in September 2008 with Tiger Truck Manufacturing, LLC, with an interest rate at 2 percent, per annum and quarterly payments of accrued interest at $6,000 per quarter. The note was secured by a third priority mortgage between Tiger Truck Manufacturing, LLC, and REI New Market Investments, LLC, Series B-6. The note was also guaranteed by Tom L. Ward after proceeds of the collateral have been applied. The note receivable matures in November 2014 when the entire principal balance will be due. If Tiger Truck is operating a truck manufacturing facility in Poteau, Oklahoma, in November 2014, which is functioning and producing assembled trucks, the entire principal balance of the note will be cancelled.

In the prior fiscal year Tiger Truck declared bankruptcy, therefore the City recorded an allowance for doubtful accounts for the $1,200,000 promissory note due to the uncertainty of collection. The total provision for allowance included the principal amount, accrued interest and other receivables from Tiger totaling $1,287,207. However, the City will continue to pursue collection of the outstanding balance from the guarantor.

	Balance 6/30/2010	Additions	Deductions	Balance 6/30/2011	Due Within One Year
Governmental Activities:					
Tiger Truck Manufacturing, LLC	$ 1,200,000	$ -	$ -	$ 1,200,000	$ -
Allowance	(1,200,000)	-	-	(1,200,000)	-
Total Governmental Activities	$ -	$ -	$ -	$ -	$ -

5. Inventory

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

6. Capital Assets and Depreciation

Capital Assets:

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. Capital assets are reported at actual or estimated historical cost. Donated capital assets are recorded at their fair value at the date of donation.

For the year ended June 30, 2011, capital asset balances changed as follows:

	Balance at July 1, 2010	Additions	Transfers	Disposals	Balance at June 30, 2011
Governmental activities:					
Capital assets not being depreciated:					
Land	$ 3,623,148	$ 454,924	$ -	$ -	$ 4,078,072
Construction in progress	752,372	6,877,310	-	545,007	7,084,675
Total capital assets not being depreciated	4,375,520	7,332,234	-	545,007	11,162,747
Other capital assets:					
Buildings	3,927,613	23,216	-	-	3,950,829
Improvements	11,921,478	882,653	(5,343)	-	12,798,788
Machinery, furniture and equipment	5,073,909	138,154	5,343	-	5,217,406
Infrastructure	5,729,500	-	-	-	5,729,500
Total other capital assets at historical cost	26,652,500	1,044,023	-	-	27,696,523
Less accumulated depreciation for:					
Buildings	3,383,412	27,619	-	-	3,411,031
Improvements	7,599,913	274,826	-	-	7,874,739
Machinery, furniture and equipment	3,171,422	367,629	-	-	3,539,051
Infrastructure	5,729,500	-	-	-	5,729,500
Total accumulated depreciation	19,884,247	670,074	-	-	20,554,321
Other capital assets, net	6,768,253	373,949	-	-	7,142,202
Governmental activities capital assets, net	$ 11,143,773	$ 7,706,183	$ -	$ 545,007	$ 18,304,949
Business-type activities:					
Capital assets not being depreciated:					
Land	$ 23,500	$ -	$ -	$ -	$ 23,500
Total capital assets not being depreciated	23,500	-	-	-	23,500
Other capital assets:					
Buildings	45,750	-	-	-	45,750
Improvements	* 2,546,165	33,183	-	-	2,579,348
Machinery, furniture and equipment	1,082,680	27,527	-	-	1,110,207
Infrastructure	* 14,771,420	17,711	-	-	14,789,131
Total other capital assets at historical cost	18,446,015	78,421	-	-	18,524,436
Less accumulated depreciation for:					
Buildings	44,831	919	-	-	45,750
Improvements	2,415,564	2,094	-	-	2,417,658
Machinery, furniture and equipment	811,484	70,887	-	-	882,371
Infrastructure	11,389,186	320,445	-	-	11,709,631
Total accumulated depreciation	14,661,065	394,345	-	-	15,055,410
Other capital assets, net	3,784,950	(315,924)	-	-	3,469,026
Business-type activities capital assets, net	$ 3,808,450	$ (315,924)	$ -	$ -	$ 3,492,526

* - There was $331,396 of beginning accumulated depreciation that was misclassed in the prior year and moved from Improvements to Infrastructure.

Depreciation:

Depreciable capital assets are depreciated on a straight-line basis over their estimated useful lives. A capitalization threshold of $2,500 is used to report capital assets. The range of estimated useful lives by type of asset is as follows: Buildings 30 years, Improvements other than buildings 15-40 years, Machinery, furniture and equipment 3-15 years, Utility property and improvements and infrastructure 30-40 years.

Depreciation of capital assets is included in total expenses and is charged or allocated to the activities primarily benefiting from the use of the specific asset. Depreciation expense has been allocated as follows:

Governmental Activities:		Business-Type Activities:	
General government	$ 31,428	Water	$ 161,899
Public safety	202,461	Wastewater	204,947
Public works	239,669	Administration	3,154
Culture and recreation	39,535	Sewer plant	24,345
Industrial authority	9,681		$ 394,345
Airport	147,300		
	$ 670,074		

7. Long-Term and Short-Term Debt and Debt Service Requirements

Long-Term Debt:

For the year ended June 30, 2011, the reporting entity's long-term debt changed as follows:

Type of Debt	Balance July 01, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year
Governmental Activities:					
Capital lease payable	$ 27,905	$ -	$ 27,905	$ -	$ -
Notes payable	1,500,000	-	-	1,500,000	1,500,000
Accrued compensated absences	166,109	-	17,093	149,016	54,598
OPEB obligation	49,418	51,334	-	100,752	-
Total Governmental Activities	$ 1,743,432	$ 51,334	$ 44,998	$ 1,749,768	$ 1,554,598
Business-Type Activities:					
Notes Payable	$ 1,176,592	$ -	$ 121,590	$ 1,055,002	125,682
Meter deposit liability	234,485	62,438	57,323	239,600	47,920
Accrued compensated absences	69,775	-	4,202	65,573	42,900
OPEB obligation	16,586	14,671	-	31,257	-
Total Business-Type Activities	1,497,438	77,109	183,115	1,391,432	216,502
Total Long-Term Debt	$ 3,240,870	$ 128,443	$ 228,113	$ 3,141,200	$ 1,771,100

Reconciliation to Statement of Net Assets:	
Governmental Activities:	
Due within one year	$ 1,554,598
Due in more than one year	94,418
Other postemployment benefits obligation	100,752
Total Governmental Activities Long-term liabilities	$ 1,749,768
Business-Type Activities:	
Due within one year	$ 216,502
Due in more than one year	1,143,673
Other postemployment benefits obligation	31,257
Total Business-Type Activities Long-term liabilities	$ 1,391,432

Accrued compensated absences and other post employment benefits liabilities within the governmental activities are liquidated by the General Fund.

Governmental activities long-term debt:

Notes Payable:

Note payable to Central National Bank, original issue amount of $1,500,000 dated July 19, 2007, renewed October 5, 2008 issued by the Poteau Industrial Authority, secured by a certificate of deposit, payable in one installment, variable interest rate 2.00 percent above CNB certificate of deposit rate, with a final maturity of October 2011	$	1,500,000
Current portion		1,500,000
Noncurrent portion		-
Total Notes Payable	$	1,500,000

Accrued Compensated Absences:

Current portion	$	54,598
Noncurrent portion		94,418
Total Accrued Compensated Absences	$	149,016

Business-type activities long-term debt:

Notes Payable:

Note payable to Oklahoma Water Resources Board (OWRB), original issue amount of $2,335,000 dated July 22, 1997, issued by the Poteau Public Works Authority, payable in semi-annual installments, interest rate 2.8 percent and an administrative fee of .5 percent, with a final maturity of September 15, 2018	$	1,055,002
Current portion	$	125,682
Noncurrent portion		929,320
Total Notes Payable	$	1,055,002

Meter Deposit Liability:

Current portion	$	47,920
Noncurrent portion		191,680
Total Meter Deposit Liability	$	239,600

Accrued Compensated Absences:

Current portion	$	42,900
Noncurrent portion		22,673
Total Accrued Compensated Absences	$	65,573

Long-term debt service requirements to maturity:

	Governmental Activities		Business-Type Activities	
Year Ending June 30,	Notes Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2012	$ 1,500,000	$ 23,793	$ 125,682	$ 29,088
2013	-	-	129,951	25,479
2014	-	-	134,337	21,748
2015	-	-	138,871	17,892
2016	-	-	143,558	13,905
2017-2019	-	-	382,603	16,427
Totals	$ 1,500,000	$ 23,793	$ 1,055,002	$ 124,539

Pledge of Future Revenues

Sales Tax and Utility Net Revenues Pledge - The City has pledged one-fourth of a cent (or 8.3 percent) of future sales tax revenues and net utility revenues to repay the $2,335,000 Series 1997 OWRB Promissory Note. Proceeds from the note provided for the purchase or construction of capital assets. The note is payable from pledged sales tax revenues and net utility revenues. The note is payable through 2018. The total principal and interest payable for the remainder of the life of this note is $1,179,541. Pledged sales taxes received in the current year were $404,234 and net utility revenues were $68,668. Debt service payments of $156,603 for the current fiscal year were 33.1 percent of pledged sales taxes and net utility revenues.

8. Net Assets and Fund Balances

Net Assets:

Net assets as reported in the government-wide and proprietary fund financial statements are displayed in three components:

a. *Invested in capital assets, net of related debt* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

b. *Restricted net assets* - Consists of net assets 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.

	Enabling Legislation	External Groups	Total
Governmental Activities:			
Debt Service:			
Collateralized Certificates of Deposit	$ -	$ 1,624,936	$ 1,624,936
Industrial Development	877,374	-	877,374
Other			
Law Enforcement Grant Fund	-	6,254	6,254
Juvenile Court Fund	-	41,770	41,770
Police Drug Fund	-	117,134	117,134
Sub-total Other	-	165,158	165,158
TOTAL RESTRICTED NET ASSETS	$ 877,374	$ 1,790,094	$ 2,667,468

c. *Unrestricted net assets* - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

Fund Balances:

Governmental fund equity is classified as fund balance. Since the City has implemented GASB Statement 54, fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) 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 – included 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 while the PIA highest level of decision-making authority is made by resolution.
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 delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.
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 the 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 requires 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.

The following tables show the fund balance classifications as shown in the Governmental Funds Balance Sheet in accordance with GASB Statement 54:

	General Fund	Poteau Industrial Authority	Nonmajor Governmental Fund	Total
Fund Balance:				
Nonspendable:				
Prepaids	$ 61,059	$ -	$ -	$ 61,059
Inventory	-	-	33,064	33,064
Sub-total Nonspendable	61,059	-	33,064	94,123
Restricted For:				
Debt Service	$ 1,624,936	$ -	$ -	$ 1,624,936
Industrial Development	-	877,374	-	877,374
Law Enforcement	-	-	123,388	123,388
Juvenile Court	-	-	41,770	41,770
Sub-total Restricted	1,624,936	877,374	165,158	2,667,468
Assigned to:				
Balance Subsequent Year Budget	1,190,432	-	-	1,190,432
Insurance	125,546	-	-	125,546
Cemetery capital	-	-	20,816	20,816
Law Enforcement	-	-	961	961
Juvenile Court	-	-	144	144
Sub-total Assigned	1,315,978	-	21,921	1,337,899
Unassigned	879,911	-	(179,152)	700,759
Total Fund Balance	$ 3,881,884	$ 877,374	$ 40,991	$ 4,800,249

9. Sales Tax Revenue

Sales tax revenue represents a 3 cent local tax on each dollar of taxable sales within the City (Ordinance 402), that is received and recorded in the General Fund for general operations. One-fourth of one cent is restricted for the payment of debt related to the OWRB debt and transferred to the PPWA.

10. Internal and Interfund Balances and Transfers

The City's policy is to eliminate interfund transfers and balances in the statements of activities and net assets to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances and then offset in the total column in the government-wide statements. Interfund transfers and balances between funds are not eliminated in the fund financial statements.

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2011 were as follows:

Transfer From	Transfer To	Amount	Purpose of Transfer
General Fund	Cemetery Care	$ 5,531	25% cemetery revenue
Cemetery Care	General Fund	60,000	Cemetery wall project
General Fund	Nutrition	36,086	Operating
General Fund	PPWA	404,234	Sales tax transfer
PIA	General Fund	110,000	Reynolds center project
Total		$ 615,851	

Reconciliation to Fund Financial Statements:

	Transfers In	Transfers Out	Net Transfers
Governmental Funds	$ 211,617	$ (615,851)	$ (404,234)
Proprietary Funds	404,234	-	404,234
	$ 615,851	$ (615,851)	-

Balances:

Interfund receivable and payables at June 30, 2011 were as follows:

Due From	Due To	Amount	Nature of Balance
Meter deposit fund	PPWA	$ 810	Partial meter deposits
Police Court Fund	General Fund	1,500	Juvenile cash balance
PPWA	General Fund	6,543	Deposit in wrong fund
General Fund	PPWA	52,042	Sales tax transfer
General Fund	Law Enforcement Fund	6,264	To cover for negative pooled cash
General Fund	PIA	758,386	To cover for negative pooled cash
General Fund	Airport Fund	1,490	Prepaid health insurance
General Fund	Nutrition Fund	523	Prepaid health insurance
Nutrition Fund	PIA	14,404	To cover for negative pooled cash
Airport Fund	PIA	138,441	To cover for negative pooled cash
Total		$ 980,403	

Reconciliation to Fund Financial Statements:

	Due From	Due To	Net Internal Balances
Governmental Funds	$ 927,552	$ (973,050)	$ (45,498)
Proprietary Funds	52,851	(7,353)	45,498
Total	$ 980,403	$ (980,403)	$ -

11. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The City manages these various risks of loss as follows:

- General Liability and Physical Property – Covered through participation in Oklahoma Municipal Assurance Group risk entity pool, with a transfer of risk to the pool.
- Workers' Compensation – Workers' compensation is covered through participation in Oklahoma Municipal Assurance Group risk entity pool, with a transfer of risk to the pool.
- Employee's Group Medical – Covered through participation in commercial insurance.

Management believes such insurance coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

12. Contingencies

Litigation:

The City is a party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City Sinking Fund for the payment of any court assessed judgment rendered against the City. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

Federal and State Award Programs:

The City of Poteau participates in various federal or state grant/loan programs from year to year. In 2011, the City's involvement in federal and state award programs was not material. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements. Any liability for reimbursement which may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

13. Pension Plan Participation

The City of Poteau participates in three pension or retirement plans:

- Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
- Oklahoma Police Pension and Retirement System (OPPRS) – a statewide cost-sharing plan
- Oklahoma Municipal Retirement Fund (OMRF) – an agent multiple employer - defined benefit plan

Firefighters' Plan:

Pursuant to the requirements of Title 11, section 49-102, the City of Poteau participates in the statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Firefighters Pension Board on behalf of both paid and volunteer firefighters. The paid firefighters contribute 8% of compensation to the Plan. The City is required by state law to contribute 13% of compensation per year per paid firefighter to the statewide plan. The Plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the OFPRS, 4545 Lincoln Blvd. Suite 265, Oklahoma City, OK, 73105-3414.

For 2011, the City's annual required contribution was $23,297 for the OFPRS plan and was equal to the City's actual contribution. The state made on-behalf payments of $44,086 (or 24.6% of covered payroll) for the fiscal year.

Police Plan:

Pursuant to the requirements of Title 11, section 50-102, the City of Poteau participates in the statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Police Pension and Retirement System (OPPRS). The paid police officers contribute 6% of compensation to the plan while the required rate is 8%. The City is required by state law to contribute 13% of compensation per year per paid police officer to the statewide plan. However, the City elects to contribute 15%. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OPPRS issues a publicly available report that includes financial statements, which can be obtained from the Oklahoma Police Pension and Retirement System, 1001 N.W. 63rd Street, Oklahoma City, OK, 73116-7335.

For 2011, the City's annual required contribution was $107,650. However, since the City has elected to pay for an additional 2% of the required officer contributions, the actual amount contributed by the employer was $128,935 for the OPPRS plan. The state made on-behalf payments of $81,980 (or 9.9% of covered payroll) for the fiscal year.

OMRF Defined Benefit Plan

The City contributes to the City of Poteau Plan and Trust in the form of The Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust, an agent multiple employer - defined benefit plan, for all eligible employees except for those covered by the Police and Firefighter Pension Systems. Administration of the City's individual plan rests with the City Council. The overall operations of OMRF are supervised by a nine-member Council of Trustees elected by the participating municipalities. JP Morgan Chase of Oklahoma City acts as administrator and securities custodian.

Eligibility Factors, Contribution Methods and Benefit Provisions

Provision	OMRF Plan
a. Eligible to Participate	Full-time, non-uniformed employees of the City upon hire.
b. Contribution Requirements:	
-Authorization	By City ordinance
-Actuarially Determined	Yes
-Employer Rate	9.27% of covered payroll; actual contribution rate was 10%
-Employee Rate	4.25% of earnings
c. Period Required to Vest	10 years of credited service
d. Eligibility for Distribution	-Normal retirement at age 65 with 10 years of service -Early retirement at age 55 with 10 years of service -Disability retirement with 10 years of service -Marital death benefit with 10 years of service
e. Benefit Determination Base	Final average salary - the average of the five highest consecutive annual salaries out of the last 10 calendar years of service
f. Benefit Determination Methods:	
-Normal Retirement	2.25% of final average salary multiplied by credited years of service
-Early Retirement	Actuarially reduced benefit based upon age and years of service at termination
-Disability Retirement	Same as normal retirement
-Death Benefit	50% of employee's accrued benefit, but terminates upon spouse remarriage
-Prior to 10 Years Service	Return of employee contributions with accrued interest
g. Form of Benefit Payments	Normal form is a 60 months certain and life thereafter basis. Employee may elect, with City consent, optional form based on actuarial equivalent.

Actuarial Assumptions

For Plan Year Beginning July 1, 2011 (Date of Last Acutarial Valuation: January 1, 2011)

a. Actuarial Cost Method	Entry age normal
b. Rate of Return on Investments	7.5%
c. Projected Salary Increase	Rates by age
d. Post Retirement Cost-of-Living Increase	N/A
e. Inflation Rate	Separate inflation rate not available; inflation included in projected salary increase
f. Mortality	UP 94 mortality
g. Asset Valuation Method	Actuarial method

Funded Status and Funding Progress

As of January 1, 2011, the funded status of the OMRF agent multiple employer defined benefit plan is as follows:

Actuarial accrued liability (AAL)	$5,275,793
Actuarial value of plan assets	4,284,816
Unfunded actuarial accrued liability (UAAL)	$ 990,977
Funded ratio (actuarial value of plan assets/AAL)	81.2%
Annual covered payroll (active plan members)	1,604,465
UAAL as a percentage of covered payroll	61.8%

The schedule of funding progress, 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.

OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Suite 320, Oklahoma City, Oklahoma, 73105.

Summary of Contributions:

Oklahoma Municipal Retirement Fund

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	$ 143,429	100%	0
2010	166,573	100%	0
2011	160,500	100%	0

Oklahoma Police Pension and Retirement System

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	$ 135,089	100%	0
2010	141,302	100%	0
2011	128,935	100%	0

Oklahoma Firefighter's Pension and Retirement System

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	$ 22,275	100%	0
2010	23,860	100%	0
2011	23,297	100%	0

Other Postemployment Benefits

Plan Description: 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, only a few sentences in the administrative policy. 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 employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs. Substantially all of the government'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, 2011, approximately 2 retired employees and their spouses are receiving benefits under this plan. This plan does not have a separate, audited financial report prepared.

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 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 2011, the City contributed $8,983 to the plan. Plan members receiving benefits contributed $8,983, or approximately 100 percent of the total premiums, through their required contribution of $343 per month for retiree-only coverage and $759 for retiree and spouse medical coverage.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an 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, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the year ended June 30, 2011:

Annual required contribution	$ 189,713
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	189,713
Contributions made	(24,636)
Increase in net OPEB obligation	165,077
Net OPEB obligation—beginning of year	506,452
Net OPEB obligation—end of year	$ 671,529

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and 2011 was as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/10	$74,987	12.0%	$ 66,004
6/30/11	$74,988	12.0%	$132,009

Funded Status and Funding Progress. As of December 20, 2010, the most recent actuarial valuation date, the plan was 100 percent unfunded. The actuarial accrued liability for benefits was $574,080, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $574,080. The covered payroll (annual payroll of active employees covered by the plan) was approximately $2.1 million, and the ratio of the UAAL to the covered payroll was 27.4 percent.

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, when available, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. As of June 30, 2011, there is only two years of OPEB information available.

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 20, 2010, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.50 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7 percent initially, reduced by decrements to an ultimate rate of 5 percent in 2014, based upon dependent rates. There were no assets to determine the actuarial value of assets. The UAAL is being amortized over 30 years as level payments. The remaining amortization period at June 30, 2011, was 28 years.

14. Use of Estimates

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management's best judgments and may vary from actual results.

15. Construction Commitment

As of June 30, 2011 the City has awarded a construction contract to Crossland Construction Company for constructing the Reynolds Civic Center Building. The original contract was for $6,567,550 and there is a remaining balance at June 30, 2011 of $1,004,135.

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule (Budgetary Basis) – General Fund – Year Ended June 30, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Beginning Budgetary Fund Balance:	$ 162,223	$ 162,223	$4,140,666	$3,978,443
Resources (Inflows):				
Taxes	5,174,213	5,174,213	5,411,333	237,120
Intergovernmental	7,391,931	7,391,931	5,430,474	(1,961,457)
Charges for services	117,182	117,182	111,603	(5,579)
Fines and forfeitures	168,850	168,850	148,616	(20,234)
Licenses and permits	18,340	18,340	18,958	618
Investment Income	39,062	39,062	57,493	18,431
Miscellaneous	180,968	180,968	525,342	344,374
Transfers In	60,000	500,000	170,000	(330,000)
Total Resources (Inflows)	13,150,546	13,590,546	11,873,819	(1,716,727)
Amounts available for appropriation	13,312,769	13,752,769	16,014,485	2,261,716
Charges to Appropriations (Outflows):				
Administrative	195,276	185,594	190,601	(5,007)
City Clerk	23,490	25,729	25,502	227
City Treasurer	13,745	12,699	12,704	(5)
City Attorney	30,823	31,615	31,621	(6)
Communication 911	181,212	194,959	193,313	1,646
Police	1,542,942	1,618,374	1,614,261	4,113
Fire	476,029	498,285	494,134	4,151
Refuse	110,656	114,615	113,040	1,575
Streets	1,121,361	1,097,709	1,028,483	69,226
Parc	352,925	386,353	396,941	(10,588)
Swimming Pool	74,897	70,543	65,827	4,716
Parks and Recreation	131,177	137,393	130,259	7,134
Planning Commission	2,500	122	122	-
General Government	429,186	468,859	448,985	19,874
Library	36,119	216,519	231,813	(15,294)
Cemetery	180,899	291,176	291,120	56
Code Enforcement	9,500	2,069	2,069	-
Emergency Management	52,300	1,454	7,694	(6,240)
Animal Control	99,734	102,820	101,713	1,107
Municipal Court	116,321	118,929	119,186	(257)
Civic Center	7,465,585	7,495,504	6,008,510	1,486,994
Building Inspection	36,156	34,701	33,578	1,123
General Nutrition	49,058	66,064	63,498	2,566
Nondepartmental	2,500	2,306	2,074	232
Transfers out	578,378	578,378	446,138	132,240
Total Charges to Appropriations	13,312,769	13,752,769	12,053,186	1,699,583
Ending Budgetary Fund Balance	$ -	$ -	$ 3,961,299	$ 3,961,299

Budgetary Comparison Schedule (Budgetary Basis) – Poteau Industrial Authority – Year Ended June 30, 2011

	POTEAU INDUSTRIAL AUTHORITY			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	$ 470,964	$ 470,964	$ 1,169,068	$ 698,104
Resources (Inflows):				
Investment income	46,890	46,890	2,221	(44,669)
Miscellaneous	721,595	721,595	-	(721,595)
Total Resources (Inflows)	768,485	768,485	2,221	(766,264)
Amounts available for appropriation	1,239,449	1,239,449	1,171,289	(68,160)
Charges to appropriations (outflows):				
Industrial Authority	1,239,449	1,129,449	183,915	945,534
Transfers out	-	110,000	110,000	-
Total Charges to Appropriations	1,239,449	1,239,449	293,915	945,534
Ending Budgetary Fund Balance	$ -	$ -	$ 877,374	$ 877,374

Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedules are reported on a non-GAAP budgetary basis that report revenues and expenditures on a cash basis.

2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation between departments within a fund and all supplemental appropriations require the approval of the City Council.

3. In the General Fund, the City had negative variances in the following departments and for the following amount:

General Fund – Administrative	(5,007)
General Fund – City Treasurer	(5)
General Fund – City Attorney	(6)
General Fund – Parc	(10,588)
General Fund – Library	(15,294)
General Fund – Emergency Management	(6,240)
General Fund – Municipal Court	(257)

4. The budgetary basis differs from the modified accrual basis as shown in the schedule below:

General Fund:	
Total budgetary revenues and transfers	$ 11,873,819
Less: budgetary expenses and transfers	(12,053,186)
Net Change to Budgetary Fund Balance	(179,367)
Add revenue accruals	559,846
Deduct expenditure accruals	(919,511)
Deduct change in Insurance Fund Balance	(23,883)
Change in Fund Balance	$ (562,915)

OMRF Agent Multiple Employer Defined Benefit Pension Plan - Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) – Entry Age	Unfunded Liability UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/05	$3,265,622	$3,688,402	$422,780	88.54%	$1,299,600	32.53%
1/1/06	$3,461,180	$4,156.913	$695,733	83.26%	$1,320,173	52.70%
1/1/07	$3,744,558	$4,441,362	$696,804	84.31%	$1,375,838	50.65%
1/1/08	$4,023,656	$4,676,753	$653,097	86.0%	$1,474,617	44.3%
1/1/09	$3,813,529	$4,684,186	$870,657	81.4%	$1,605,373	54.2%
1/1/10	$3,998,213	$4,909,824	$911,611	81.4%	$1,603,135	56.9%
1/1/11	$4,284,816	$5,275,793	$990,977	81.2%	$1,604,465	61.8%

Other Postemployment Benefits – Schedule of Funding Progress

The funded status and funding progress of the City's defined benefit OPEB plan for the most recent actuarial valuations is as follows:

	July 1, 2009
Actuarial accrued liability - AAL (a)	$574,080
Actuarial value of plan assets (b)	-
Unfunded actuarial accrued liability – UAAL (funding excess) (a) – (b)	574,080
Funded ratio (b)/(a)	0%
Covered payroll (c)	2,092,464
UAAL (funding excess) as a % of covered payroll [UAAL/(c)]	27.4%

Three year trend information is not available because only one actuarial valuation has been done since GASB 45 implementation.

SUPPLEMENTARY INFORMATION

Combining Balance Sheet – Nonmajor Governmental Funds - June 30, 2011

	Special Revenue Funds						Capital Project Fund	
	Nutrition Fund	Law Enforcement Grant Fund	Juvenile Court Fund	Airport Fund	Police Drug Fund	Police Court Fund	Cemetery Care Fund	Total Nonmajor Governmental Funds
ASSETS								
Cash and cash equivalents	$ -	$ -	$ 41,914	$ 100	$ 53,189	$ 1,502	$ -	$ 96,705
Investments	-	-	-	-	64,836	-	20,802	85,638
Interest receivable	-	-	-	-	60	-	14	74
Receivable from other governments	8,098	-	-	-	-	-	-	8,098
Receivable from other funds	523	6,264	-	1,490	-	-	-	8,277
Inventory	-	-	-	33,064	-	-	-	33,064
Total assets	8,621	6,264	41,914	34,654	118,085	1,502	20,816	231,856
LIABILITIES AND FUND BALANCES								
Liabilities.								
Accounts payable	1,913	-	-	34,605	-	2	-	36,520
Due to other funds	14,404	-	-	138,441	-	1,500	-	154,345
Total liabilities	16,317	-	-	173,046	-	1,502	-	190,865
Fund balances (deficits):								
Nonspendable	-	-	-	33,064	-	-	-	33,064
Restricted	-	6,254	41,770	-	117,134	-	-	165,158
Assigned	-	10	144	-	951	-	20,816	21,921
Unassigned	(7,696)	-	-	(171,456)	-	-	-	(179,152)
Total fund balances (deficits)	(7,696)	6,264	41,914	(138,392)	118,085	-	20,816	40,991
Total liabilities and fund balances (deficits)	$ 8,621	$ 6,264	$ 41,914	$ 34,654	$ 118,085	$ 1,502	$ 20,816	$ 231,856

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Governmental Funds – Year Ended June 30, 2011

	Special Revenue Funds						Capital Project Fund	
	Nutrition Fund	Law Enforcement Grant Fund	Juvenile Court Fund	Airport Fund	Police Drug Fund	Police Court Fund	Cemetery Care Fund	Total Nonmajor Governmental Funds
REVENUES								
Fees and fines	$ -	$ -	$ 12,612	$ -	$ -	$ -	$ -	$ 12,612
Intergovernmental	61,178	-	-	230,632	-	-	-	291,810
Charges for services	-	-	-	166,613	-	-	-	166,613
Investment earnings	-	10	144	41	951	-	435	1,581
Donations and contributions	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-
Total revenues	61,178	10	12,756	397,286	951	-	435	472,616
EXPENDITURES								
Current:								
General government	103,282	-	-	-	-	-	-	103,282
Police	-	-	5,609	-	-	-	-	5,609
Airport	-	-	-	204,789	-	-	-	204,789
Debt service.								
Principal retirement	-	-	-	27,905	-	-	-	27,905
Interest	-	-	-	1,712	-	-	-	1,712
Capital outlay	-	-	-	372,277	-	-	-	372,277
Total expenditures	103,282	-	5,609	606,683	-	-	-	715,574
Excess (deficiency) of revenues over expenditures	(42,104)	10	7,147	(209,397)	951	-	435	(242,958)
OTHER FINANCING SOURCES (USES)								
Transfers in	36,086	-	-	-	-	-	5,531	41,617
Transfers out	-	-	-	-	-	-	(60,000)	(60,000)
Total other financing sources and uses	36,086	-	-	-	-	-	(54,469)	(18,383)
Net change in fund balances	(6,018)	10	7,147	(209,397)	951	-	(54,034)	(261,341)
Fund balances (deficits) - beginning	(1,678)	6,254	34,767	71,005	117,134	-	74,850	302,332
Fund balances (deficits) - ending	$ (7,696)	$ 6,264	$ 41,914	$ (138,392)	$ 118,085	$ -	$ 20,816	$ 40,991

Combining Balance Sheet – General Fund Accounts - June 30, 2011

	General Fund	Insurance Fund	Total
ASSETS			
Cash and cash equivalents	$ 27,443	$ 8,126	$ 35,569
Investments	4,124,785	118,782	4,243,567
Deposits in insurance pool	1,517	-	1,517
Interest receivable	11,014	382	11,396
Receivable from other governments	678,142	-	678,142
Due from other funds	8,044	-	8,044
Franchise tax receivable	47,344	-	47,344
Court fines receivable, net	274,735	-	274,735
E911 receivable	11,869	-	11,869
Accounts receivable	26,043	-	26,043
Other receivables	488,959	-	488,959
Prepaids	61,059	-	61,059
Total assets	$ 5,760,954	$ 127,290	$ 5,888,244
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 673,073	$ 1,744	$ 674,817
Due to other funds	818,705	-	818,705
Retainage payable	292,811	-	292,811
Deferred revenue	220,027	-	220,027
Total liabilities	2,004,616	1,744	2,006,360
Fund balances:			
Nonspendable	61,059	-	61,059
Restricted	1,624,936	-	1,624,936
Assigned	1,190,432	125,546	1,315,978
Unassigned	879,911	-	879,911
Total fund balances	3,756,338	125,546	3,881,884
Total liabilities and fund balances	$ 5,760,954	$ 127,290	$ 5,888,244

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance – General Fund Accounts – Year Ended June 30, 2011

	General Fund	Insurance Fund	Total
REVENUES			
Taxes	$ 5,403,004	$ -	$ 5,403,004
Intergovernmental	495,781	-	495,781
Licenses and permits	18,958	-	18,958
Charges for services	115,521	-	115,521
Fees and fines	170,327	-	170,327
Investment earnings	54,277	1,294	55,571
Donations and contributions	5,643,385	-	5,643,385
Miscellaneous	362,412	161	362,573
Total revenues	12,263,665	1,455	12,265,120
EXPENDITURES			
Current:			
Administration	188,123	25,338	213,461
City clerk	25,861	-	25,861
City treasurer	12,404	-	12,404
City attorney	31,126	-	31,126
Communication 911	193,694	-	193,694
Police	1,634,941	-	1,634,941
Fire	488,707	-	488,707
Refuse	112,918	-	112,918
Streets	806,958	-	806,958
Parc	372,028	-	372,028
Swimming pool	59,817	-	59,817
Parks and recreation	130,032	-	130,032
Planning commission	122	-	122
General government	431,692	-	431,692
Library	33,404	-	33,404
Cemetary	168,906	-	168,906
Code enforcement	17,069	-	17,069
Emergency management	1,421	-	1,421
Animal control	95,420	-	95,420
Municipal court	118,826	-	118,826
Civic center	65,234	-	65,234
Building inspections	33,658	-	33,658
General nutrition	53,145	-	53,145
Nondepartmental	2,074	-	2,074
Capital outlay	7,449,266	-	7,449,266
Total expenditures	12,526,846	25,338	12,552,184
Excess (deficiency) of revenues over expenditures	(263,181)	(23,883)	(287,064)
OTHER FINANCING SOURCES (USES)			
Transfers in	170,000	-	170,000
Transfers out	(445,851)	-	(445,851)
Total other financing sources and (uses)	(275,851)	-	(275,851)
Net change in fund balances	(539,032)	(23,883)	(562,915)
Fund balances - beginning	4,295,370	149,429	4,444,799
Fund balances - ending	$ 3,756,338	$ 125,546	$ 3,881,884

Combining Schedule of Net Assets – PPWA Enterprise Fund Accounts - June 30, 2011

	PPWA			
	PPWA Reserve Fund	PPWA Operating	Meter Deposit Fund	Total
ASSETS				
Current assets:				
Cash and cash equivalents	$ -	$ 1,591,211	$ -	$ 1,591,211
Investments	429,370	594,140	-	1,023,510
Restricted:				
Cash and cash equivalents	-	-	47,920	47,920
Accrued interest	1,248	5,274	-	6,522
Due from other funds	-	52,851	-	52,851
Accounts receivable, net	-	288,953	-	288,953
Prepaid expenses	-	12,403	-	12,403
Total current assets	430,618	2,544,832	47,920	3,023,370
Non-current assets:				
Restricted:				
Cash and cash equivalents	-	-	41,613	41,613
Investments	-	-	150,795	150,795
Capital Assets:				
Land and construction in progress	-	23,500	-	23,500
Other capital assets,net of accumulated depreciation	-	3,469,026	-	3,469,026
Unamortized note issue costs	-	7,986	-	7,986
Total non-current assets	-	3,500,512	192,408	3,692,920
Total assets	430,618	6,045,344	240,328	6,716,290
LIABILITIES				
Current Liabilities:				
Accounts payable	-	160,789	(82)	160,707
Salaries payable	-	13,736	-	13,736
Accrued interest payable	-	10,147	-	10,147
Due to other funds	-	6,543	810	7,353
Deposits subject to refund	-	-	47,920	47,920
Compensated absences	-	42,900	-	42,900
Notes payable	-	125,682	-	125,682
Total current liabilities	-	359,797	48,648	408,445
Non-current liabilities:				
Deposits subject to refund	-	-	191,680	191,680
Other postemployment benefit obigation	-	31,257	-	31,257
Compensated absences	-	22,673	-	22,673
Notes payable	-	929,320	-	929,320
Total non-current liabilities	-	983,250	191,680	1,174,930
Total liabilities	-	1,343,047	240,328	1,583,375
NET ASSETS				
Invested in capital assets, net of related debt	-	2,445,510	-	2,445,510
Unrestricted	430,618	2,256,787	-	2,687,405
Total net assets	$ 430,618	$ 4,702,297	$ -	$ 5,132,915

Combining Schedule of Revenues, Expenses, and Changes in Net Assets – PPWA Enterprise Fund Accounts – Year Ended June 30, 2011

	PPWA			
	PPWA Reserve Fund	PPWA Operating	Meter Deposit Fund	Total
REVENUES				
Charges for services:				
Water	$ -	$ 1,095,585	$ -	$ 1,095,585
Wastewater	-	828,608	-	828,608
Sanitation	-	440,176	-	440,176
Penalties	-	99,389	-	99,389
Licenses and permits	-	2,564	-	2,564
Refunds and reimbursments	-	9,421	-	9,421
Total operating revenues	-	2,475,743	-	2,475,743
OPERATING EXPENSES				
Administration	-	306,112	-	306,112
Water	-	997,693	-	997,693
Wastewater	-	628,879	-	628,879
Sanitation	-	413,710	-	413,710
Depreciation	-	394,345	-	394,345
Total Operating Expenses	-	2,740,739	-	2,740,739
Operating income (loss)	-	(264,996)	-	(264,996)
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenue	5,007	18,469	-	23,476
Miscellaneous revenue	-	2,067	-	2,067
Amortization expense	-	(1,141)	-	(1,141)
Interest expense	-	(31,737)	-	(31,737)
Total non-operating revenue (expenses)	5,007	(12,342)	-	(7,335)
Income (loss) before transfers	5,007	(277,338)	-	(272,331)
Transfers in	-	404,234	-	404,234
Change in net assets	5,007	126,896	-	131,903
Total net assets - beginning	425,611	4,575,401	-	5,001,012
Total net assets - ending	$ 430,618	$ 4,702,297	$ -	$ 5,132,915

Schedule of Expenditures of Federal and State Awards – Year Ended June 30, 2011

Federal/State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Grant Number	Program or Award Amount	Award Expenditures
FEDERAL AWARDS:				
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:				
Passed through Kiamichi Economic Development District of Oklahoma:				
Special Programs for the Aging Title III, Part C Nutrition Services	93.045	KANP	$ 61,178	$ 61,178
Total Department of Health and Human Services Administration on Aging			61,178	61,178
FEDERAL AVIATION ADMINISTRATION:				
Airport Improvement Program	20.106	ASW090468	317,244	211,621
Total Department of Transportation Federal Aviation Administration			317,244	211,621
TOTAL FEDERAL AWARDS			$ 378,422	$ 272,799
STATE AWARDS:				
Oklahoma Department of Transportation:				
Industrial Park Roads	N/A	SAP-104D(168)	162,928	162,928
TOTAL STATE AWARDS			$ 162,928	$ 162,928

Footnotes to Schedule of Expenditures of Federal and State Awards:

1. The Schedule of Expenditures of Federal and State Awards is prepared on an accrual basis of accounting. The expenditures are recorded when the liability is incurred regardless of when the award proceeds are received.

Schedule of Debt Service Coverage

	OWRB NOTE PAYABLE
Gross Revenue Available for Debt Service:	
Operating revenues (water and sewer)	$2,023,582
Transfer in - sales tax	404,234
Total Gross Revenues Available	2,427,816
Operating expenses	1,932,684
Net Revenues Available for Debt Service	$495,132
Debt Service Requirements:	
Maximum annual debt service - OWRB Note Payable	$158,934
Total Debt Service Requirements	$158,934
Coverage	3.12
Coverage Requirement	1.25

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Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Honorable Mayor and Members of the City Council
City of Poteau, Oklahoma
Poteau, Oklahoma

We have audited 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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 28, 2012, which contained an explanatory paragraph regarding a change in accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 City's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a certain deficiency in internal control over financial reporting described in the accompanying schedule of findings and responses as item 2011-01 that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2011-02.

We also noted certain additional matters that we reported to the City's management in a separate letter dated June 28, 2012.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the governing body, management and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

June 28, 2012

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2011-01	Criteria or Specific Requirement Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition Incompatible duties exist within several departments. Context Cash Disbursement Transaction Cycle - The Finance Director has the ability to issue a purchase order, make a computer entry to generate a purchase document, approve invoices for payment, make a computer entry to generate a payment, change computer entries for accounts payable, change computer master files affecting accounts payable vendors, make a journal entry to adjust expense general ledger accounts, adjust the cash general ledger account, adjust the general ledger accounts payable account. The Finance Director also has the responsibility to reconcile bank balances and accounts payable to the general ledger. Checks in the cash disbursement cycle are signed by the City Clerk, who also applies the stamp containing the City Treasurer's signature. Effect Potential misstatements in the financial statements or misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner. Cause Duties in the cash disbursements/accounts payable cycle are not adequately segregated and/or monitoring or other compensating controls are insufficient due to the limited staff size. Recommendation Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.

Reference Number	Finding
	Views of responsible officials and planned corrective action In November 2011, an additional staff member was hired to assume the responsibility to both issue and enter purchase orders in the computer system. Department heads will approve invoices for payment. Finance Director no longer has the capability of issuing purchase orders. Also, the Finance Director will not have check signing privileges on any accounts. The City Treasurer will be required to sign off on bank reconciliations completed by Finance Director. Mayor will control stamp containing his signature and that of the City Treasurer. Mayor will consider adding additional staff to distribute City Clerk and Finance Director's current responsibilities to establish more effective internal control over financial reporting.

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2011-02	Criteria or Specific Requirement Oklahoma statutes require all deposits of a municipality to be properly insured and/or collateralized at all times to ensure that no public funds are lost in the event of a failure of the financial institutions. Condition The City has certain funds on deposit with local financial institutions that were not adequately insured or collateralized at June 30, 2011. City deposits of approximately $42,000 were uninsured or uncollateralized. Context The City did not have procedures in place to properly monitor the bank balances in relation to the required collateral. Effect In the event of a failure of the financial institution, the City could lose those funds uninsured or uncollateralized. Cause The City did not implement policies and procedures to properly monitor the deposit and investment balances at each bank in relation to the amounts pledged by the banks to ensure that all uninsured public funds are adequately collateralized at all times. Recommendation Management should establish procedures to properly monitor the deposit and investment balances at each bank in relation to the amounts pledged by the banks to ensure that all public funds are adequately collateralized at all times. Additional pledges should be obtained from the banks which were under-collateralized. Additionally, some funds could be moved to other banks to take advantage of additional Federal Depository Insurance. Banks may now obtain a letter of credit from another bank as collateral for the City deposits in lieu of pledging securities. Investments can also be made through local brokerage firms in federally-insured certificates of deposit or U.S. Treasury securities.

Reference Number	Finding
	Views of responsible officials and planned corrective action Management will implement policies to monitor deposit and investment balances at each bank in relation to the amounts pledged by the banks to ensure all public funds are collateralized at all times. Management will consider moving funds to additional banks and local brokerage firms. Additional pledges will be obtained from banks which were under collateralized at June 30, 2011.