

September 17, 2013

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, 2012:

- 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, CPA
Partner

**Independent Accountants' 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 financial schedules as of and for the year ended June 30, 2012, 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 and 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 and 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 and 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 and Inspector of the State of Oklahoma, and are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America. This report is intended solely for the information of the City of Poteau and the State Auditor and Inspector of the State of Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

September 17, 2013

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 and 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 167,189		U20 59,095
e. Airports — Include rentals and gross sales of gas and oil.	A01 216,129	6. Rents — Exclude housing, airport, and all other rental revenue reported from specific municipal services in item 2.	U40 1,800
f. Parking facilities (parking lots, garages, parking meters)	A60 0	7. Royalties — Compensation or portion of proceed from extraction of natural resources such as oil.	U41 0
g. Municipal housing project rentals (gross)	A50 0	8. Fines and forfeitures — (City or town share only)	U30 277,091
h. Ambulance services	A89 0	9. Private donations	U50 1,937,684
i. Miscellaneous commercial activities (cemeteries)	A03 24,301	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.	
j. Other (including miscellaneous fee collections)	A89 0	a. MISC	U99 278,567
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	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 miscellaneous other revenue Sum of items 10a-10c. →	U99 278,567

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		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			
	Personal services (a)	Operations and maintenance (b)	CAPITAL OUTLAY	
			Construction (c)	Purchase of land, equipment, and structures (d)
GOVERNMENTAL ADMINISTRATION	E23	E23	F23	G23
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, information technology).	12,591	0	0	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).	136,916	17,224	0	0
3. Central administration — City council, aldermen or commissioners, mayor, manager, city clerk's office, recorder, planning, zoning, and personnel.	442,074	87,192	0	0
HEALTH AND WELFARE	E79	E79	F79	G79
4. Social services	106,542	59,209	0	0
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 activities 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	E44	E44	F44	G44
9. Highways — Construction and maintenance of municipal streets, sidewalks, bridges. Also includes street lighting, snow removal, and highway engineering, control, and safety. Exclude here and report in item 2 ff, 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.	369,872	485,046	0	106,574
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 67,772	E01 217,092	F01 0	G01 0
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	E62	E62	F62	G62
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 activities; and traffic control and safety activities. Exclude highway engineering and planning (report in item 9).	1,555,307	322,321	0	107,917
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 377,514	E24 101,378	F24 0	G24 7,500

PURPOSE	EXPENDITURES BY PURPOSE AND TYPE			
	Personal services (a)	Operations and maintenance (b)	CAPITAL OUTLAY	
			Construction (c)	Purchase of land, equipment, and structures (d)
PUBLIC SAFETY — Continued	E04	E04	F04	G04
15. Correction institutions — Operation of facilities for confinement, correction and rehabilitation of adults or juveniles.	0	0	0	0
16. Other corrections — Probation and parole activities — But exclude "lock-up" operations (report in item 16).	E05 0	E05 0	F05 0	G05 0
17. Protection inspection and regulation, n.e.c. — Regulation of private enterprise 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 17,147	E66 6,103	F66 0	G66 0
AMBULANCE	E32	E32	F32	G32
18. All expenditures for city operated or subsidized ambulance services	0	0	0	0
CULTURE AND RECREATION	E61	E61	F61	G61
19. Parks, cultural activities, and other recreation — Include playgrounds, golf courses, swimming pools, museums, marinas, community music, drama, celebrations, and zoos.	435,645	638,763	0	2,205,208
20. Libraries — Include payments to nongovernmental libraries as well as libraries operated by the city. <i>Aid to other governmental libraries should be excluded and reported in part III.</i>	E52 13,290	E52 895,357	F52 0	G52 10,000
UTILITIES				
21. Gross expenditure for utility systems operated by your government. <i>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.).</i>	E91 252,623	E91 796,418	F910	G910
a. Water supply system				
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 system	E94 0	E94 0	F94 0	G94 0
e. Sewers and storm sewers — Construction, maintenance and operation of sanitary and storm sewer systems and sewage disposal plants	E80 387,761	E80 254,495	F80 0	G80 0
f. Solid waste and landfill — The collection and disposal of garbage and landfill operations	E81 115,471	E81 454,451	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.	0	191 0	0	0
a. Water supply system				
b. Electric power system	0	192 0	0	0
c. Gas supply system	0	193 0	0	0
d. Transit system	0	194 0	0	0
e. All interest not covered by items 19a through 19d	0	189 119,251	0	0
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; judgments 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) <i>Payments for retirement of debt</i> , (2) <i>payments for purchase of securities</i> , (3) <i>transfer between funds or agencies of your government</i> , or (4) <i>benefits and payments from distinct employee pension funds</i> .				
a. Housing and community development — Gross expenditure for urban renewal, slum clearance, municipal housing projects, and similar activities.	E50 0	E50 0	F50 0	G50 0
b. Economic development	E89 0	E89 139,146	F89 0	G89 0
c. Civil defense	E89 0	E89 0	F89 0	G89 0
d. Cemetery operations and maintenance	E03 107,266	E03 47,400	F03 0	G03 89,928
e. Miscellaneous commercial activities	E03 0	E03 0	F03 0	G03 0
Other — <i>Specify</i>	E89	E89	F89	G89
f. General Gov't	167,843	250,248	0	0
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.			5.		
2.			6.		
3.			7.		
4.			8.		

Part IV SALARIES, WAGES, AND FORCE ACCOUNT	Amount (Omit cents)
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.	200 2,899,823

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 in-substance 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)					
	Outstanding at beginning of fiscal year (a)	DURING FISCAL YEAR		Outstanding total (a) plus (b) minus (c) (d)	DETAIL OF LONG-TERM DEBT OUTSTANDING	
		Issued (b)	Retired (c)		Revenue and nonguaranteed bonds (e)	Guaranteed bonds (f)
a. Sewer debt	19U 1,055,002	29U 0	39U 125,681	49U 929,321	44U 0	41U 0
b. Water supply system debt	19U 0	29U 0	39U 0	49U 0	44U 0	41U 0
c. Electric power system debt	19U 0	29U 0	39U 0	49U 0	44U 0	41U 0
d. Gas supply system debt	19U 0	29U 0	39U 0	49U 0	44U 0	41U 0
e. Transit	19U 0	29U 0	39U 0	49U 0	44U 0	41U 0
f. Industrial revenue and pollution control debt	19T 1,500,000	24T 5,617,550	34T 385,941	44T 6,731,609	44T 0	41U 0
g. All other purposes	19U 0	29U 0	39U 0	49U 0	44U 0	41U 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 11,509,125
4. Retirement systems — Single employer plans only	0

Remarks

Part VII AUDITOR INFORMATION

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

Auditor's firm name BKD CPAs and Advisors					
Address — <i>Number and street</i> 5000 Rogers Avenue, Suite 700			TELEPHONE		
City Fort Smith	State AR	ZIP Code 72903	Area code 479	Number 452-1040	Extension
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 presented 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 appropriate 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 MUNICIPALITIES
2012 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 trusts (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 sales 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
- Water and sewer facilities
- Manpower planning and utilization

Part 1B — 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 at 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 ACCOUNT

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, AND 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

City of Poteau, Oklahoma

Accountants' Reports and Financial Statements

June 30, 2012



City of Poteau, Oklahoma
June 30, 2012

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City of Poteau, Oklahoma
June 30, 2012

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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, 2012, 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2013, 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Supplementary Information 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

August 5, 2013

City of Poteau, Oklahoma

Management's Discussion and Analysis

June 30, 2012

As Management of the City of Poteau, we offer readers this narrative overview and analysis of the financial activities of the City of Poteau for the fiscal year ended June 30, 2012. 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 \$800,000 and the assets of the City continued to exceed its liabilities at June 30, 2012, by \$28 million (net assets). Of this amount, \$5.4 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- At June 30, 2012, the City's governmental funds reported combined ending fund balances of \$9.5 million. Of this amount \$7.4 million is available for spending at the government's discretion (unassigned fund balance).
- At the end of fiscal year 2012, unassigned fund balance for the General Fund was 91% of General Fund total revenues.
- At June 30, 2012, the business-type activities reported combined net assets of \$4.8 million. \$2.2 million of this amount is invested in capital assets, net of related debt. The remaining balance of unrestricted net assets, \$2.6 million, may be used to meet the government'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") and the Poteau Public Works Authority (the "Authority") and the Poteau Industrial Authority (the "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 10 and 11, 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, airport, 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 service 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 funds 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 18-39 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 40-44 of this report.

The City as a Whole

For the year ended June 30, 2012, net assets for the governmental activities and business-type activities increased approximately \$2.4 million. The results indicate the City, as a whole, improved its financial condition from the prior year due mainly to the donation of \$1.9 million for the construction of the Reynolds Center.

The City of Poteau's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 10,093,645	\$ 6,058,281	\$ 2,912,475	\$ 3,216,411	\$ 13,006,120	\$ 9,274,692
Capital assets	19,958,383	18,304,949	3,368,590	3,492,526	23,326,973	21,797,475
Total assets	<u>30,052,028</u>	<u>24,363,230</u>	<u>6,281,065</u>	<u>6,708,937</u>	<u>36,333,093</u>	<u>31,072,167</u>
Long-term liabilities outstanding	7,033,583	1,749,768	1,280,949	1,391,432	8,314,532	3,141,200
Other liabilities	251,125	1,042,699	228,480	184,590	479,605	1,227,289
Total liabilities	<u>7,284,708</u>	<u>2,792,467</u>	<u>1,509,429</u>	<u>1,576,022</u>	<u>8,794,137</u>	<u>4,368,489</u>
Net assets:						
Invested in capital assets, net of related debt	18,304,949	16,804,949	2,178,318	2,445,510	20,483,267	19,250,459
Restricted	1,637,997	2,667,468	-	-	1,637,997	2,667,468
Unrestricted	2,824,374	2,098,346	2,593,318	2,687,405	5,417,692	4,785,751
	<u>\$ 22,767,320</u>	<u>\$ 21,570,763</u>	<u>\$ 4,771,636</u>	<u>\$ 5,132,915</u>	<u>\$ 27,538,956</u>	<u>\$ 26,703,678</u>

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 \$20.5 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, \$1.6 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$5.4 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:

Current and other assets (66% increase) – Increased approximately \$4 million due mainly to Reynolds Center construction costs of \$1.9 million and unspent loan proceeds for the Library construction project.

Long-term liabilities outstanding (214% increase) – Increased approximately \$5.2 million due mainly to a loan secured for the Library construction project.

Other liabilities (76% decrease) – Decreased approximately \$700,000 due mainly to completion of Reynolds Center construction project.

The City of Poteau's Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 1,043,281	\$ 713,229	\$ 2,518,293	\$ 2,475,693	\$ 3,561,574	\$ 3,188,922
Operating grants and contributions	280,596	264,076	-	-	280,596	264,076
Capital grants and contributions	1,815,184	6,036,945	-	-	1,815,184	6,036,945
General revenues:						
Taxes	5,594,560	5,403,004	-	-	5,594,560	5,403,004
Intergovernmental revenue	128,994	129,955	-	-	128,994	129,955
Investment income	46,452	59,373	13,776	23,476	60,228	82,849
Miscellaneous	434,484	218,412	743	2,117	435,227	220,529
Total revenues	9,343,551	12,824,994	2,532,812	2,501,286	11,876,363	15,326,280
Transfers	19,002	(404,234)	(19,002)	404,234	-	-
Total revenues and transfers	9,362,553	12,420,760	2,513,810	2,905,520	11,876,363	15,326,280
Expenses:						
General government	1,212,339	1,269,849	-	-	1,212,339	1,269,849
Public safety	2,577,690	2,628,277	-	-	2,577,690	2,628,277
Public works	1,259,829	1,159,468	-	-	1,259,829	1,159,468
Culture and recreation	2,347,562	719,250	-	-	2,347,562	719,250
Airport	466,903	352,089	-	-	466,903	352,089
Industrial Authority	153,302	112,901	-	-	153,302	112,901
Interest expense on long-term debt	148,371	41,885	-	-	148,371	41,885
Water	-	-	1,365,673	1,310,822	1,365,673	1,310,822
Wastewater	-	-	1,021,510	986,375	1,021,510	986,375
Sanitation	-	-	487,906	476,420	487,906	476,420
Total expenses:	8,165,996	6,283,719	2,875,089	2,773,617	11,041,085	9,057,336
Increase(decrease) in net assets	1,196,557	6,137,041	(361,279)	131,903	835,278	6,268,944
Net assets – beginning of the year	21,570,763	15,433,722	5,132,915	5,001,012	26,703,678	20,434,734
Net assets – end of the year	\$ 22,767,320	\$ 21,570,763	\$ 4,771,636	\$ 5,132,915	\$ 27,538,956	\$ 26,703,678

Governmental Activities

The City's governmental activities' increase in net assets of \$800,000 represents a 3.1% increase in net assets from prior year. Capital grants and contributions decreased approximately \$4.2 million due to a decrease in the donations for the Reynolds Center in the current year. Expenses for the culture and recreation activity increased \$1.6 million due to expenditures for operating the Reynolds Center and noncapital expenditures related to library construction project.

Net Revenue (Expense) of Governmental Activities

	Total Expense of Services		Net Revenue (Expense) of Services	
	2012	2011	2012	2011
General government	\$ 1,212,339	\$ 1,269,849	\$ (1,100,990)	\$ (1,166,089)
Public safety	2,577,690	2,628,277	(1,971,549)	(2,136,172)
Public works	1,259,829	1,159,468	(1,184,358)	(923,974)
Culture and recreation	2,347,562	719,250	(396,928)	5,066,396
Airport	466,903	352,089	(250,774)	45,156
Industrial authority	153,302	112,901	26,035	(112,901)
Interest on long-term debt	148,371	41,885	(148,371)	(41,885)
Total	\$ 8,165,996	\$ 6,283,719	\$ (5,026,935)	\$ 730,531

Business-type Activities

The business-type activities' decrease in net assets of \$361,279 represents an approximate 0.8% decrease in net assets.

Net Revenue (Expense) of Business-type Activities

	Total Expense of Services		Net Revenue (Expense) of Services	
	2012	2011	2012	2011
Water	\$ 1,365,673	\$ 1,310,822	\$ (107,826)	\$ (163,679)
Wastewater	1,021,510	986,375	(202,965)	(118,735)
Sanitation	487,906	476,420	(46,005)	(15,510)
Total	\$ 2,875,089	\$ 2,773,617	\$ (356,796)	\$ (297,924)

A Financial Analysis of the City's Funds

As the City completed its 2012 fiscal year, the governmental funds reported a combined fund balance of \$9.5 million, or a 98 % increase from the prior year. The enterprise funds reported combined net assets of \$4.7 million, or a 0.7 % decrease from the prior year. There was a fund balance reservation of \$1,637,997 in the General Fund for debt service. There were no net asset restrictions for June 30, 2012 in the enterprise fund.

Other Fund Highlights Include:

- For the year ended June 30, 2012, the General Fund's total fund balance increased by \$5.9 million, or 151.3%, while the Poteau Industrial Authority's total fund balance decreased by \$1 million or 118.9%.
- The Poteau Public Works Authority Fund reported a decrease in net assets, after transfers and capital contributions, of \$361,000 for the year.

General Fund Budgetary Highlights

For the year ended June 30, 2012, the General Fund reported actual budgetary basis revenues above final estimates by \$823,019 or a 9.9% positive variance. The variance is due to primarily to increased tax revenues, miscellaneous revenues and donations received in the current fiscal year. General Fund actual expenditures were under final appropriations by \$3,702,906 or a 27.5% positive variance due to budgeted expenditures for the Library construction project not spent in the current fiscal year.

Capital Assets & Debt Administration

Capital Assets

At the end of June 30, 2012, the City had approximately \$23.3 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 \$1.5 million from last year.

Below are details regarding the change in the City's capital assets for the year ended June 30, 2012.

The City of Poteau's Capital Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 4,078,072	\$ 4,078,072	\$ 23,500	\$ 23,500	\$ 4,101,572	\$ 4,101,572
Buildings	9,083,067	539,797	-	-	9,083,067	539,797
Improvements other than buildings	5,013,957	4,929,392	159,703	161,690	5,173,660	5,091,082
Machinery, furniture and equipment	1,476,847	1,673,013	177,067	227,836	1,653,914	1,900,849
Infrastructure	-	-	3,008,320	3,079,500	3,008,320	3,079,500
Construction in progress	306,440	7,084,675	-	-	306,440	7,084,675
Totals	<u>\$ 19,958,383</u>	<u>\$ 18,304,949</u>	<u>\$ 3,368,590</u>	<u>\$ 3,492,526</u>	<u>\$ 23,326,973</u>	<u>\$ 21,797,475</u>

Debt Administration

At year-end, the City had \$6.8 million in long-term debt outstanding, which represents an increase of \$3.6 million from the prior year.

The City of Poteau's Long-term Debt

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Notes payable	\$ 6,731,609	\$ 1,500,000	\$ 929,321	\$ 1,055,002	\$ 7,660,930	\$ 2,555,002
Compensated absences	149,888	149,016	54,419	65,573	204,307	214,589
Other post employment benefits	152,086	100,752	45,928	31,257	198,014	132,009
Customer deposits	-	-	251,281	239,600	251,281	239,600
Totals	<u>\$ 7,033,583</u>	<u>\$ 1,749,768</u>	<u>\$ 1,280,949</u>	<u>\$ 1,391,432</u>	<u>\$ 8,314,532</u>	<u>\$ 3,141,200</u>

Economic Factors and Next Year's Estimates

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

- The FY2013 budget is consistent to prior years.
- Construction of a new public library should begin in FY2013.

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 Street, Poteau, Oklahoma 74953 or phone at (918) 647-4191.

City of Poteau, Oklahoma
Statement of Net Assets
June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,019,299	\$ 785,767	\$ 2,805,066
Investments	6,935,188	1,516,822	8,452,010
Restricted assets-customer deposits	-	252,049	252,049
Deposits in insurance pool	434	-	434
Interest receivable	12,866	3,331	16,197
Due from other governments	705,488	-	705,488
Internal balances	(43,780)	43,780	-
Franchise tax receivable	47,911	-	47,911
Court fines receivable, net	349,262	-	349,262
E911 receivable	12,113	-	12,113
Accounts receivable	-	303,881	303,881
Inventory	54,864	-	54,864
Capital assets, net	19,958,383	3,368,590	23,326,973
Other assets	-	6,845	6,845
Total assets	<u>30,052,028</u>	<u>6,281,065</u>	<u>36,333,093</u>
Liabilities			
Accounts payable and other accrued liabilities	251,125	228,480	479,605
Long-term liabilities			
Due within one year	5,253,199	208,242	5,461,441
Due in more than one year	<u>1,780,384</u>	<u>1,072,707</u>	<u>2,853,091</u>
Total liabilities	<u>7,284,708</u>	<u>1,509,429</u>	<u>8,794,137</u>
Net Assets			
Invested in capital assets, net of related debt	18,304,949	2,178,318	20,483,267
Restricted			
Debt service	1,637,997	-	1,637,997
Unrestricted	<u>2,824,374</u>	<u>2,593,318</u>	<u>5,417,692</u>
Total net assets	<u>\$ 22,767,320</u>	<u>\$ 4,771,636</u>	<u>\$ 27,538,956</u>

City of Poteau, Oklahoma
Statement of Activities
Year Ended June 30, 2012

	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets			
	Expenses	Charges for Services		Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
		Governmental Activities	Business- type Activities					
Government/Programs								
Primary Government								
Governmental activities:								
General government	\$ 1,212,339	\$ 39,193	\$ 72,156	\$ -	\$ (1,100,990)	\$ -	\$ (1,100,990)	
Public safety	2,577,690	472,677	133,464	-	(1,971,549)	-	(1,971,549)	
Public works	1,259,829	495	74,976	-	(1,184,358)	-	(1,184,358)	
Culture and recreation	2,347,562	135,450	-	1,815,184	(396,928)	-	(396,928)	
Airport	466,903	216,129	-	-	(250,774)	-	(250,774)	
Industrial Authority	153,302	179,337	-	-	26,035	-	26,035	
Interest expense on long-term debt	148,371	-	-	-	(148,371)	-	(148,371)	
Total governmental activities	8,165,996	1,043,281	280,596	1,815,184	(5,026,935)	-	(5,026,935)	
Business-type activities:								
Water	1,365,673	1,257,847	-	-	-	(107,826)	(107,826)	
Wastewater	1,021,510	818,545	-	-	-	(202,965)	(202,965)	
Sanitation	487,906	441,901	-	-	-	(46,005)	(46,005)	
Total business-type activities	2,875,089	2,518,293	-	-	-	(356,796)	(356,796)	
Total primary government	\$ 11,041,085	\$ 3,561,574	\$ 280,596	\$ 1,815,184	(5,026,935)	(356,796)	(5,383,731)	
General revenues:								
Sales and use taxes					5,189,284	-	5,189,284	
Franchise fees and public service taxes					405,276	-	405,276	
Intergovernmental revenue not restricted to specific programs					128,994	-	128,994	
Investment income					46,452	13,776	60,228	
Transfers					19,002	(19,002)	-	
Other					434,484	743	435,227	
Total general revenues and transfers					6,223,492	(4,483)	6,219,009	
Change in net assets					1,196,557	(361,279)	835,278	
Net assets - beginning of year					21,570,763	5,132,915	26,703,678	
Net assets - end of year					\$ 22,767,320	\$ 4,771,636	\$ 27,538,956	

City of Poteau, Oklahoma
Balance Sheet – Governmental Funds
June 30, 2012

	General	Poteau Industrial Authority	Airport Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ 1,914,630	\$ -	\$ 100	\$ 104,569	\$ 2,019,299
Investments	6,842,811	-	-	92,377	6,935,188
Deposits in insurance pool	434	-	-	-	434
Interest receivable	12,660	-	-	206	12,866
Due from other governments	700,355	-	-	5,133	705,488
Due from other funds	462,512	-	-	-	462,512
Franchise tax receivable	47,911	-	-	-	47,911
Court fines receivable, net	349,262	-	-	-	349,262
E911 receivable	12,113	-	-	-	12,113
Inventory	-	-	54,864	-	54,864
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 10,342,688</u>	<u>\$ -</u>	<u>\$ 54,964</u>	<u>\$ 202,285</u>	<u>\$ 10,599,937</u>
Liabilities:					
Accounts payable	\$ 172,276	\$ 2,553	\$ 27,022	\$ 2,191	\$ 204,042
Due to other funds	54,099	162,990	235,069	54,134	506,292
Accrued expenditures and other	38,474	-	-	757	39,231
Deferred revenues	323,992	-	-	-	323,992
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>588,841</u>	<u>165,543</u>	<u>262,091</u>	<u>57,082</u>	<u>1,073,557</u>
Fund Balances					
Nonspendable	-	-	54,864	-	54,864
Restricted	1,637,997	-	-	166,990	1,804,987
Assigned	160,796	-	-	28,616	189,412
Unassigned	7,955,054	(165,543)	(261,991)	(50,403)	7,477,117
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>9,753,847</u>	<u>(165,543)</u>	<u>(207,127)</u>	<u>145,203</u>	<u>9,526,380</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 10,342,688</u>	<u>\$ -</u>	<u>\$ 54,964</u>	<u>\$ 202,285</u>	<u>\$ 10,599,937</u>

Total fund balances - governmental funds	\$ 9,526,380
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	19,958,383
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	323,992
Liabilities that are not due and payable in the current period and are not reported in the fund statements:	
Accrued interest payable.	(7,852)
Accrued compensated absences.	(149,888)
Other postemployment benefits liability	(152,086)
Bonds payable, net of deferred issuance cost	<u>(6,731,609)</u>
Total net assets - governmental activities	<u><u>\$ 22,767,320</u></u>

City of Poteau, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds
Year Ended June 30, 2012

	General	Poteau Industrial Authority	Airport Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 5,594,560	\$ -	\$ -	\$ -	\$ 5,594,560
Intergovernmental	346,954	-	-	62,636	409,590
Licenses and permits	13,092	-	-	-	13,092
Charges for services	112,329	-	216,129	-	328,458
Fees and fines	277,091	-	-	11,005	288,096
Investment earnings	45,078	361	-	1,013	46,452
Donations and contributions	1,937,684	-	-	-	1,937,684
Miscellaneous	435,551	6,766	-	-	442,317
Total revenues	<u>8,762,339</u>	<u>7,127</u>	<u>216,129</u>	<u>74,654</u>	<u>9,060,249</u>
Expenditures					
Current:					
Administration	223,021	-	-	-	223,021
City Clerk	1,579	-	-	-	1,579
City Treasurer	12,591	-	-	-	12,591
City Attorney	31,936	-	-	-	31,936
Communication 911	186,137	-	-	-	186,137
Police	1,617,036	-	-	9,566	1,626,602
Fire	478,892	-	-	-	478,892
Refuse	137,776	-	-	-	137,776
Streets	854,918	-	-	-	854,918
Parc	414,031	-	-	-	414,031
Swimming pool	80,142	-	-	-	80,142
Parks and recreation	173,169	-	-	-	173,169
Planning commission	1,203	-	-	-	1,203
General government	395,277	-	-	109,315	504,592
Library	908,647	-	-	-	908,647
Cemetery	154,666	-	-	-	154,666
Code enforcement	3,467	-	-	-	3,467
Emergency management	3,209	-	-	-	3,209
Animal control	65,168	-	-	-	65,168
Municipal Court	122,204	-	-	-	122,204
Civic Center	407,066	-	-	-	407,066
Building inspections	23,250	-	-	-	23,250
General nutrition	58,235	-	-	-	58,235
Nondepartmental	1,082	-	-	-	1,082
Economic development	-	139,146	-	-	139,146
Airport	-	-	284,864	-	284,864
Capital outlay	2,721,260	-	-	-	2,721,260
Debt service:					
Principal	385,731	210	-	-	385,941
Interest and other charges	59,540	85,673	-	-	145,213
Total expenditures	<u>9,521,233</u>	<u>225,029</u>	<u>284,864</u>	<u>118,881</u>	<u>10,150,007</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(758,894)</u>	<u>(217,902)</u>	<u>(68,735)</u>	<u>(44,227)</u>	<u>(1,089,758)</u>

City of Poteau, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds (Continued)
Year Ended June 30, 2012

	General	Poteau Industrial Authority	Airport Fund	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	\$ -	\$ 179,337	\$ -	\$ -	\$ 179,337
Issuance of notes payable	5,617,550	-	-	-	5,617,550
Transfers in	1,439,352	-	-	10,047	1,449,399
Transfers out	(426,045)	(1,004,352)	-	-	(1,430,397)
Total other financing sources (uses)	<u>6,630,857</u>	<u>(825,015)</u>	<u>-</u>	<u>10,047</u>	<u>5,815,889</u>
Net Change in Fund Balances	5,871,963	(1,042,917)	(68,735)	(34,180)	4,726,131
Fund Balances, Beginning of Year	<u>3,881,884</u>	<u>877,374</u>	<u>(138,392)</u>	<u>179,383</u>	<u>4,800,249</u>
Fund Balances, End of Year	<u>\$ 9,753,847</u>	<u>\$ (165,543)</u>	<u>\$ (207,127)</u>	<u>\$ 145,203</u>	<u>\$ 9,526,380</u>

Net change in net assets – total governmental funds \$ 4,726,131

**Amounts reported for governmental activities in the statement of activities
are different because:**

Governmental funds do not report capital contributions and they report capital outlays as expenditures. However, for government-wide statements, the value of contributed capital assets and the cost of purchased assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital additions/outlays exceeded depreciation in the current period. 1,653,434

Reductions in bond principal is reported as expenditures for the fund are not reported as expenses in the statement of activities. 385,941

Revenues that were obtained through issuing debt are reported as revenues for the funds but are not reported as revenue in the statement of activities. (5,617,550)

Expenses for other postemployment benefit liabilities reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund financial statements in the current year. (51,334)

Accrued expenses, such as compensated absences, interest, etc., reported in the statement of activities do not require the use of current financial resources, and, therefore, are not expenditures in the funds. 99,935

Change in net assets of governmental activities \$ 1,196,557

City of Poteau, Oklahoma
Statement of Net Assets –
Proprietary Fund
June 30, 2012

	Business-type Activities - Poteau Public Works Authority
Assets	
Current Assets:	
Cash and cash equivalents	\$ 785,767
Investments	1,516,822
Accounts receivable, net of allowance for uncollectible accounts of \$64,053	303,881
Due from other funds	54,746
Interest receivable	3,331
Restricted cash and cash equivalents	50,256
Total currents assets	2,714,803
Noncurrent Assets:	
Restricted cash and cash equivalents	50,998
Restricted investments	150,795
Capital assets, net of accumulated depreciation of \$15,433,047	3,368,590
Deferred bond issue costs	6,845
Total noncurrent assets	3,577,228
Total assets	6,292,031
Liabilities	
Current Liabilities:	
Accounts payable	207,042
Accrued expenses	21,438
Due to other funds	10,966
Customer deposits	50,256
Compensated absences	28,035
Notes payable - current portion	129,951
Total current liabilities	447,688
Noncurrent Liabilities:	
Customer deposits	201,025
Compensated absences	26,384
Other postemployment benefit liability	45,928
Notes payable	799,370
Total noncurrent liabilities	1,072,707
Total liabilities	1,520,395
Net Assets	
Invested in capital assets, net of related debt	2,178,318
Unrestricted	2,593,318
Total net assets	\$ 4,771,636

City of Poteau, Oklahoma
Statement of Revenues, Expenses and Changes in
Fund Net Assets – Proprietary Fund
Year Ended June 30, 2012

	<u>Business-type Activities - Poteau Public Works Authority</u>
Operating Revenues	
Water	\$ 1,145,019
Wastewater	818,545
Sanitation	441,901
Penalties	93,775
Licenses and permits	1,337
Refunds and reimbursements	17,716
Total operating revenues	<u>2,518,293</u>
Operating Expenses	
Administration	325,195
Water	1,049,041
Wastewater	642,256
Sanitation	432,146
Depreciation	391,732
Total operating expenses	<u>2,840,370</u>
Operating Loss	<u>(322,077)</u>
Nonoperating Revenues (Expenses)	
Interest income	13,776
Miscellaneous income	743
Interest expense	(33,578)
Amortization expense	(1,141)
Net nonoperating expenses	<u>(20,200)</u>
Loss Before Transfers	(342,277)
Transfers In	415,998
Transfers Out	<u>(435,000)</u>
Change in Net Assets	(361,279)
Net Assets, Beginning of Year	<u>5,132,915</u>
Net Assets, End of Year	<u>\$ 4,771,636</u>

City of Poteau, Oklahoma
Statement of Cash Flows – Proprietary Fund
Year Ended June 30, 2012

	<u>Business-type Activities - Poteau Public Works Authority</u>
Operating Activities	
Receipts from customers	\$ 2,503,036
Payments to suppliers	(1,505,145)
Payments to employees for salaries and benefits	(882,181)
Receipts of customer deposits	72,580
Returns of customer deposits	(60,899)
Interfund receipts/payments	<u>1,718</u>
Net cash provided by operating activities	<u>129,109</u>
Noncapital Financing Activities	
Transfer to other funds	(435,000)
Other	<u>743</u>
Net cash used in noncapital financing activities	<u>(434,257)</u>
Capital and Related Financing Activities	
Purchase and construction of capital assets	(267,796)
Principal paid on revenue bonds	(125,681)
Interest and agent fees paid on revenue bonds	(34,751)
Transfers of sales tax for capital related debt service	<u>415,998</u>
Net cash used in capital and related financing activities	<u>(12,230)</u>
Investing Activities	
Purchases of certificates of deposit	(493,312)
Interest income	<u>16,967</u>
Net cash used in investing activities	<u>(476,345)</u>
Decrease in Cash and Cash Equivalents	(793,723)
Cash and Cash Equivalents, Beginning of Year	<u>1,680,744</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 887,021</u></u>

See Notes to Financial Statements

**Business-type
Activities -
Poteau Public
Works Authority**

**Cash and Cash Equivalents of Proprietary Funds, as presented, on the
"Statement of Net Assets - Proprietary Funds" is as follows:**

Cash and cash equivalents	\$	785,767
Restricted cash and cash equivalents - current		50,256
Restricted cash and cash equivalents - noncurrent		50,998
		50,998
	\$	887,021

**Reconciliation of Operating Income to
to Net Cash Provided By Operating Activities**

Operating income	\$	(322,077)
Adjustment to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization expense		391,732
Changes in assets and liabilities		
Receivables, net		(15,257)
Due to/due from other funds, net		1,718
Prepaid expenses and other assets		12,403
Accounts payable and accrued liabilities		48,909
Deposits held for others		11,681
		11,681
Net cash provided by operating activities	\$	129,109

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

The City of Poteau, Oklahoma (the “City”), is a municipal corporation operating under the authority of Oklahoma state statute. The City operates under an aldermanic form of government that provides for three branches of government. The Legislative branch is comprised of an eight member governing body elected by the citizens at large. The Executive branch is comprised of the Mayor who is elected by the citizens. The Judicial branch is comprised of the Municipal Judge, who is a practicing attorney appointed by the City Council. The accounting and reporting policies of the City conform to accounting principles generally accepted in the United States of America for state and local governments as defined by the Governmental Accounting Standards Board (GASB). Enterprise funds also apply Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements. The following is a summary of the significant accounting and reporting policies of the City:

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the City of Poteau, Oklahoma. The component units are legally separate entities for which the City is considered to be financially accountable. Accountability is defined as the City’s substantive appointment of the majority of the component unit’s governing board. Furthermore, to be financially accountable, the City must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to or impose specific financial burdens on the City.

The City’s primary government consists of those funds or organizations that make up the legal entity for which it is financially responsible. Under this criteria, the following is included in the primary government reporting entity:

Blended Component Units Reported with Primary Government

The Poteau Public Works Authority (PPWA) operates the water, wastewater, and sanitation services of the City. The PPWA is reported as an enterprise fund.

The Poteau Industrial Authority (PIA) promotes industrial and economic development and expansion and secures industrial development within the City. The PIA is reported as a special revenue fund.

Poteau Library Building Project, Inc. (the Project) was established to develop and construct a new public library facility for the City. The Project is reported as part of the general fund.

City of Poteau, Oklahoma

Notes to Financial Statements

June 30, 2012

PPWA and PIA have the City Commissioners as their governing body (trustees) and the city is able to impose its will on both component units through required approval of all debt obligations issued by these entities. The Project's Board of Directors includes the Mayor and the President and Vice President of the City Council. The Project provides services entirely or almost entirely for the City. Separate financial statements are not issued for these component units.

Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements as follows:

Government-wide Financial Statements

The government-wide financial statements report information on all of the activities of the City and its component units. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly associated with a specific function or identifiable activity. Expenses that cannot be specifically identified to a particular function are charged to funds based on time spent for that function and are included in the functional categories. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or identifiable activity and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or identifiable activity.

Fund Financial Statements

The fund financial statements provide information about the City's funds, including its blended component units. Separate statements for each fund category – governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and major enterprise funds, each displayed in a separate column. All other governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are derived primarily from state distributions, licenses, permits, charges for services and interest income.

The Poteau Industrial Authority, a blended component unit of the City, promotes and secures industrial and economic development and expansion within the City.

The airport fund accounts for transfers, revenues and expenditures for airport operations.

City of Poteau, Oklahoma

Notes to Financial Statements

June 30, 2012

The City reports the following major enterprise fund:

The Poteau Public Works Authority, a blended component unit of the City, accounts for the City's combined electric, water, sewer and sanitation system, whose operations are financed primarily through user charges.

Additionally, the government reports the following fund types:

Special Revenue Funds – The special revenue funds, which include federal grants, are used to account for the proceeds of specific revenue sources, other than major capital projects, which are legally restricted to expenditures for specified purposes. The City's nonmajor special revenue funds are Nutrition Fund, Law Enforcement Block Grant Fund, Juvenile Court Fund, Airport Fund, Police Drug Fund, and Police Court Fund.

Capital Projects Fund – The Cemetery Care Fund is used to account for 25 percent of cemetery revenues (12.5 percent required per State statute) restricted and assigned for cemetery capital improvements.

Measurement Focus and Basis of Accounting

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

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

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

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

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2012

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The statement of revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The City considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, grant revenues, local funds and investment earnings. Other revenues are considered to be measurable and available only when cash is received by the City. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences and other post-employment benefits which are recognized as expenditures when payment is due. Pension expenditures are recognized when amounts are contributed to a plan or when expected to be liquidated with expendable available financial resources.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, cash on hand, certificates of deposit and short-term instruments with original maturities at purchase of 90 days or less. In order to facilitate cash management, the operating cash of certain funds is pooled into common bank accounts.

Investments and Investment Income

City investments consist entirely of nonnegotiable certificates of deposit which are carried at amortized cost. Investment income is assigned to funds with which the related investment asset is associated.

Inventory and Prepaid Items

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

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

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2012

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the government-wide financial statements and the fund financial statements for proprietary funds. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Capital assets are defined as assets with an initial value or cost greater than or equal to \$2,500 and an estimated useful life of greater than one year.

Capital assets are depreciated using the straight-line method over their estimated useful lives as follows:

	<u>Years</u>
Building and improvements	40
Improvements other than buildings	15-40
Machinery, furniture and equipment	3-15
Utility property, improvement and infrastructure	30-40

Depreciation expense is charged directly to the department/function based on the department that utilizes the related asset.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the columns for governmental activities and business-type activities. These amounts are also reported as liabilities in the fund financial statements for proprietary funds. Debt issuance costs are deferred and amortized over the life of the related debt using the straight-line method.

Compensated Absences

The City grants vacation to all full-time employees based on continuous service. The cost of vacation (and sick pay for certain employee classifications) is accrued when earned in the government-wide and proprietary fund financial statements and reported as accrued expenses. In governmental funds, amounts accrued are expected to be liquidated with available financial resources and are reported as an expenditure and are included in accrued liabilities in the financial statements and reported as accrued expenditures. For governmental activities, compensated absences are generally liquidated by the general fund.

Unbilled Revenue

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

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2012

Fund Balance - Governmental Funds

The fund balances for the City's governmental funds are displayed in five components:

Nonspendable - Nonspendable fund balances are not in a spendable form or are required to be maintained intact.

Restricted - Restricted fund balances may be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed - Committed fund balances may be used only for the specific purposes determined by resolution of the City Council. Commitments may be changed or lifted only by issuance of a resolution by the City Council. The City's highest level of decision-making is made by ordinance while the PIA's highest level of decision-making is made by resolution

Assigned - Assigned fund balances are intended to be used by the City for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications.

The City considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The City applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net Assets

Net assets of the City are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors, contributors or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted.

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

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2012

Budgetary Information

Annual budgets are adopted on a non-GAAP budgetary basis that reports revenues and expenditures on a cash basis for the General Fund, the Poteau Industrial Authority and the Airport Fund. All annual appropriations lapse at year end.

New Governmental Accounting Standards Board (GASB) Pronouncements

The GASB has issued the following statements which the City has not yet adopted and which require adoption subsequent to June 30, 2012:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010 for periods beginning after December 15, 2011. The Statement addresses accounting and financial reporting issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—An Amendment of GASB Statements No. 14 and No. 34*, issued November 2010 for periods beginning after June 15, 2012. The Statement modifies certain requirements for inclusion of component units in the financial reporting entity, amends criteria for reporting component units as if they were part of the primary government (i.e. blending) in certain circumstances and clarifies the reporting of equity interests in legally separate organizations.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued December 2010 for periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, is effective for periods beginning after December 15, 2011. It provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). This Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. GASB 63 also amends certain provisions of GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2012

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of GASB 65 are effective for periods beginning after December 15, 2012, and would be applied on a prospective basis.

GASB Statement No. 66, *Technical Corrections - 2012*, enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. GASB 66 amends both GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of GASB 66 are effective for periods beginning after December 15, 2012, and would be applied on a prospective basis.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB 50, as they relate to governments that provide pension through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. GASB 68 also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions in GASB 68 are effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

Note 2: Deposits

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires that deposits in financial institutions be collateralized with federal depository insurance and other acceptable collateral in specific amounts. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

At June 30, 2012, the City had bank balances of \$11,759,090 and \$1,607,643 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized.

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2012

Summary of Carrying Values

The carrying values of deposits shown above are included in the financial statements as follows:

Carrying value	
Deposits	\$ 11,506,931
Cash on hand	<u>2,194</u>
	<u>\$ 11,509,125</u>
Included in the following statement of net assets captions	
Cash and cash equivalents	\$ 2,805,066
Investments	8,452,010
Restricted assets-customer deposits	<u>252,049</u>
	<u>\$ 11,509,125</u>

Note 3: 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 and court fines receivable.

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%, per annum and quarterly payments of accrued interest at \$6,000. 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 2010 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 Truck Manufacturing, LLC totaled \$1,287,207. However, the City will continue to pursue collection of the outstanding balance from the guarantor.

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2012

Note 4: Capital Assets

A summary of changes in capital assets for the year ended June 30, 2012, is presented below:

Governmental Activities	Balance, June 30, 2011	Additions and Transfers, Net	Retirements and Transfers, Net	Balance, June 30, 2012
Capital assets, non-depreciable				
Land	\$ 4,078,072	\$ -	\$ -	\$ 4,078,072
Construction in progress	7,084,675	-	6,778,235	306,440
Total capital assets, non-depreciable	<u>11,162,747</u>	<u>-</u>	<u>6,778,235</u>	<u>4,384,512</u>
Capital assets, depreciable				
Buildings	3,950,828	8,813,325	-	12,764,153
Improvements	12,804,131	440,688	-	13,244,819
Machinery, furniture and equipment	5,212,064	155,927	168,183	5,199,808
Infrastructure	5,729,500	-	-	5,729,500
Total capital assets, depreciable	<u>27,696,523</u>	<u>9,409,940</u>	<u>168,183</u>	<u>36,938,280</u>
Less accumulated depreciation				
Buildings	3,411,031	270,055	-	3,681,086
Improvements	7,874,739	356,123	-	8,230,862
Machinery, furniture and equipment	3,539,051	352,093	168,183	3,722,961
Infrastructure	5,729,500	-	-	5,729,500
Total accumulated depreciation	<u>20,554,321</u>	<u>978,271</u>	<u>168,183</u>	<u>21,364,409</u>
Total governmental activities, net	<u>\$ 18,304,949</u>	<u>\$ 8,431,669</u>	<u>\$ 6,778,235</u>	<u>\$ 19,958,383</u>

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2012

Business-type Activities	Balance, June 30, 2011	Additions and Transfers, Net	Retirements and Transfers, Net	Balance, June 30, 2012
Capital assets, non-depreciable				
Land	\$ 23,500	\$ -	\$ -	\$ 23,500
Total capital assets, non-depreciable	<u>23,500</u>	<u>-</u>	<u>-</u>	<u>23,500</u>
Capital assets, depreciable				
Buildings	45,750	-	-	45,750
Improvements	2,579,348	-	-	2,579,348
Machinery, furniture and equipment	1,110,207	13,799	14,095	1,109,911
Infrastructure	14,789,131	253,997	-	15,043,128
Total capital assets, depreciable	<u>18,524,436</u>	<u>267,796</u>	<u>14,095</u>	<u>18,778,137</u>
Less accumulated depreciation				
Buildings	45,750	-	-	45,750
Improvements	2,417,658	1,987	-	2,419,645
Machinery, furniture and equipment	882,371	64,568	14,095	932,844
Infrastructure	11,709,631	325,177	-	12,034,808
Total accumulated depreciation	<u>15,055,410</u>	<u>391,732</u>	<u>14,095</u>	<u>15,433,047</u>
Total business-type activities, net	<u>\$ 3,492,526</u>	<u>\$ (123,936)</u>	<u>\$ -</u>	<u>\$ 3,368,590</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 49,851
Public safety	209,123
Public works	246,841
Culture and recreation	276,261
Industrial authority	14,156
Airport	182,039
Total depreciation expense	<u>978,271</u>
Business-type	
Water	160,556
Waste water	201,353
Administration	3,384
Sewer plant	26,439
Total depreciation expense	<u>391,732</u>
Total depreciation expense, primary government	<u>\$ 1,370,003</u>

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2012

Note 5: Short-term Debt

The schedule below details the changes in short-term borrowings during the year ended June 30, 2012.

Governmental Activities	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Notes payable	\$ -	\$ 2,525,000	\$ 2,525,000	\$ -

The purpose of all short-time borrowings was to provide resources for a land purchase. The amounts issued for governmental activities are accounted for in the Poteau Industrial Authority fund.

Note 6: Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2012, were as follows:

Governmental Activities	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Amounts Due in One Year
Notes payable	\$ 1,500,000	\$ 5,617,550	\$ 385,941	\$ 6,731,609	\$ 5,195,934
Compensated absences	149,016	872	-	149,888	57,265
Other postemployment benefits	100,752	51,334	-	152,086	-
Total governmental activities long-term liabilities	<u>\$ 1,749,768</u>	<u>\$ 5,669,756</u>	<u>\$ 385,941</u>	<u>\$ 7,033,583</u>	<u>\$ 5,253,199</u>
Business-type Activities	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Amounts Due in One Year
Notes payable	\$ 1,055,002	\$ -	\$ 125,681	\$ 929,321	\$ 129,951
Compensated absences	65,573	-	11,154	54,419	28,035
Other postemployment benefits	31,257	14,671	-	45,928	-
Customer deposits	239,600	11,681	-	251,281	50,256
Total business-type activities long-term liabilities	<u>\$ 1,391,432</u>	<u>\$ 26,352</u>	<u>\$ 136,835</u>	<u>\$ 1,280,949</u>	<u>\$ 208,242</u>

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2012

Bonds outstanding at June 30, 2012, were as follows:

	Interest Rates	Final Maturity Date	Original Issue	Principal at June 30, 2012
Governmental Activities				
Note payable to Central National Bank	2.50%	2013	\$ 1,500,000	\$ 1,499,790
Note payable to Central National Bank	2.25%	2013	4,081,875	<u>3,696,144</u>
				<u>\$ 5,195,934</u>
Business-type Activities				
Note payable to Oklahoma Water Resources Board	3.35%	2018	\$ 2,335,000	<u>\$ 929,321</u>
				<u>\$ 929,321</u>

Governmental Activities

Notes Payable

Note payable to Central National Bank, original issue amount of \$1,500,000 dated July 19, 2007, renewed October 5, 2012, issued by the Poteau Industrial Authority, secured by a certificate of deposit, payable in one installment, variable interest rate 2% above the Central National Bank certificate of deposit rate, with a final maturity of April 2013.

Note payable to Central National Bank, original issue amount of \$4,081,875 dated July 14, 2011, renewed July 6, 2012, issued by the City of Poteau, payable in one installment with interest of 2.25% due monthly, with a final maturity of January 2013.

Business-type Activities

Note Payable

Note payable to the 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 of 2.85% and an administrative fee of .5%, with a final maturity of September 2018.

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2012

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements to pay principal and interest on revenue bonds and notes payable outstanding at June 30, 2012.

Fiscal Year	Governmental Principal	Activities Interest	Business-Type Principal	Activities Interest
2013	\$ 5,195,934	\$ 182,085	\$ 129,951	\$ 25,479
2014	-	30,714	134,337	21,749
2015	-	30,714	138,871	17,892
2016	-	30,714	143,558	13,905
2017	-	30,714	148,403	9,784
2018-2022	152,243	145,250	234,201	6,643
2023-2027	212,497	128,072	-	-
2028-2032	234,826	105,743	-	-
2033-2037	259,501	81,068	-	-
2038-2042	286,769	53,800	-	-
2043-2047	316,902	23,667	-	-
2048-2049	72,937	850	-	-
	<u>\$ 6,731,609</u>	<u>\$ 843,391</u>	<u>\$ 929,321</u>	<u>\$ 95,452</u>

Pledge of Future Revenues

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 through 2018. The total principal and interest payable for the remainder of the life of this note is \$1,024,773. Pledged sales taxes received in the current year were \$414,062 and net utility revenues were \$40,847. Debt service payments of \$160,432 for the current fiscal year were 35.4 percent of pledged sales taxes and net utility revenues.

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2012

Note 7: Interfund Receivables and Payables

Interfund receivables and payables as of June 30, 2012, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Funds		
General fund	\$ 462,512	\$ 54,099
Poteau Industrial Authority	-	162,990
Airport fund	-	235,069
Nonmajor governmental funds	-	54,134
Total governmental funds	<u>462,512</u>	<u>506,292</u>
Poteau Public Works Authority	<u>54,746</u>	<u>10,966</u>
	<u>\$ 517,258</u>	<u>\$ 517,258</u>

Interfund balances, specifically the due to and due from other funds, are short-term loans to cover temporary deficits in various funds. This occasionally occurs prior to grant reimbursements.

Note 8: Interfund Transfers

Amount of interfund transfers between funds are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 1,439,352	\$ 426,045
Poteau Industrial Authority	-	1,004,352
Non-major governmental funds	10,047	-
Poteau Public Works Authority	<u>415,998</u>	<u>435,000</u>
Total	<u>\$ 1,865,397</u>	<u>\$ 1,865,397</u>

Transfers are used to move revenues from the fund where collected to the appropriate fund for expenditure.

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2012

Note 9: Pension Plans

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

Firefighter's Plan

Pursuant to the requirement 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 2012, the City's annual required contribution was \$22,201 for the OFPRS plan as was equal to the City's actual contribution. The state made on-behalf payments of \$45,426 (or 26.6% 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. 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 and required supplementary information, which can be obtained from the Oklahoma Police Pension and Retirement System, 1001 N.W. 63rd Street, Oklahoma City, OK, 73116-7335.

For 2012, the City's annual required contribution was \$104,999. 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 \$121,153 for the OPPRS plan. The state made on-behalf payments of \$88,038 (or 10.9% of covered payroll) for the fiscal year.

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2012

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	9.48% 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.

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2012

Actuarial Assumptions

For Plan Year Beginning July 1, 2012 (Date of Last Actuarial Valuation: January 1, 2012)

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, 2012, the funded status of the OMRF agent multiple employer defined benefit plan is as follows:

Actuarial accrued liability (AAL)	\$ 5,473,773
Actuarial value of plan assets	<u>4,496,058</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 977,715</u></u>
Funded ratio (actuarial value of plan assets/AAL)	82.1%
Annual covered payroll (active plan members)	\$ 1,606,348
UAAL as a percentage of covered payroll	60.9%

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.

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2012

Summary of Contributions:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Oklahoma Municipal Retirement Fund			
June 30, 2010	\$ 166,573	100%	\$ -
June 30, 2011	\$ 160,500	100%	\$ -
June 30, 2012	\$ 162,859	100%	\$ -
Oklahoma Police Pension and Retirement System			
June 30, 2010	\$ 141,302	100%	\$ -
June 30, 2011	\$ 128,935	100%	\$ -
June 30, 2012	\$ 121,153	100%	\$ -
Oklahoma Firefighter's Pension and Retirement System			
June 30, 2010	\$ 23,860	100%	\$ -
June 30, 2011	\$ 23,297	100%	\$ -
June 30, 2012	\$ 22,201	100%	\$ -

Note 10: Other Postemployment Benefits (OPEB)

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. 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 City's employees may become eligible for those post-retirement benefits if they reach normal retirement age while working for the City. As of June 30, 2012, approximately 5 retired employees and their spouses were receiving benefits under this plan.

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2012

Funding Policy: The contribution requirement of the City is an implicit subsidy. The implicit subsidy is not a direct payment from the employer on behalf of the member but rather stems from retiree contribution levels that are less than the claims cost at retiree ages. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members may pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retiree. The amount required to fund the implicit rate is based on projected pay-as-you-go financing requirements. For fiscal year 2012, Plan members receiving benefits contributed \$15,646, 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 post-employment benefit (OPEB) 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 for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution	\$ 80,111	
Interest on net OPEB Obligation	5,940	
Adjustment to annual required contribution	(4,400)	
Annual OPEB cost	81,651	
Total annual employer contribution (pay-as-you-go)	(15,646)	
Increase in net OPEB obligation	66,005	
Net OPEB Obligation - beginning of year	132,009	
Net OPEB Obligation - end of year	\$ 198,014	

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2012

The City's annual OPEB cost, the percentage of annual OPEB cost contribution to the plan, and the net OPEB obligation for 2012 is as follows:

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

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

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

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

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

City of Poteau, Oklahoma
Notes to Financial Statements
June 30, 2012

Note 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.

Note 12: Contingencies

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.

The City of Poteau participates in various federal or state grant/loan programs from year to year. In 2012, 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.

Required Supplementary Information

City of Poteau, Oklahoma
Budgetary Comparison Schedule – (Budgetary Basis)
General Fund
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 5,477,692	\$ 5,477,692	\$ 5,562,417	\$ 84,725
Intergovernmental	2,200,052	2,200,052	2,383,862	183,810
Licenses and permits	18,903	18,903	13,092	(5,811)
Charges for services	108,317	108,317	112,085	3,768
Fees and fines	157,178	157,178	306,529	149,351
Investment earnings	30,184	30,184	30,214	30
Donations and contributions	5,000	5,000	122,500	117,500
Miscellaneous	266,977	266,977	556,623	289,646
Total revenues	8,264,303	8,264,303	9,087,322	823,019
Expenditures				
Current				
Administration	211,655	211,655	203,480	8,175
City Clerk	25,560	25,560	1,579	23,981
City Treasurer	14,540	14,540	12,774	1,766
City Attorney	33,692	33,692	31,853	1,839
Communication 911	185,870	185,870	186,561	(691)
Police	1,550,682	1,550,682	1,528,832	21,850
Fire	449,228	449,228	433,152	16,076
Refuse	112,910	112,910	135,915	(23,005)
Streets	1,029,105	1,029,105	851,065	178,040
Parc	370,370	370,370	411,794	(41,424)
Swimming pool	71,875	71,875	79,593	(7,718)
Parks and recreation	134,752	134,752	173,536	(38,784)
Planning commission	2,500	2,500	1,203	1,297
General government	433,493	433,493	390,218	43,275
Library	41,252	41,252	39,556	1,696
Cemetery	95,827	95,827	154,376	(58,549)
Code enforcement	7,700	7,700	18,467	(10,767)
Emergency management	1,500	1,500	3,209	(1,709)
Animal control	73,000	73,000	64,843	8,157
Municipal Court	121,782	121,782	121,473	309
Civic Center	244,763	244,763	409,418	(164,655)
Building inspections	17,027	17,027	23,238	(6,211)
General nutrition	50,460	50,460	58,235	(7,775)
Nondepartmental	21,100	21,100	1,082	20,018
Capital outlay	8,165,410	8,165,410	4,427,695	3,737,715
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	13,466,053	13,466,053	9,763,147	3,702,906
Excess (Deficiency) of Revenues Over Expenditures	(5,201,750)	(5,201,750)	(675,825)	4,525,925
Other Financing Sources (Uses)				
Issuance of notes payable	4,700,000	4,700,000	5,617,550	917,550
Transfers in	1,161,274	1,161,274	1,439,352	278,078
Transfers out	(659,524)	(659,524)	(426,045)	233,479
Total other financing sources (uses)	5,201,750	5,201,750	6,630,857	1,429,107
Net Change in Fund Balances	-	-	5,955,032	5,955,032
Fund Balances, Beginning of Year	3,881,884	3,881,884	3,881,884	-
Fund Balances, End of Year	\$ 3,881,884	\$ 3,881,884	\$ 9,836,916	\$ 5,955,032

City of Poteau, Oklahoma
Budgetary Comparison Schedule – (Budgetary Basis)
Poteau Industrial Authority
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Investment earnings	\$ 3,177	\$ 3,177	\$ 361	\$ (2,816)
Miscellaneous	721,595	721,595	6,766	(714,829)
Total revenues	<u>724,772</u>	<u>724,772</u>	<u>7,127</u>	<u>(717,645)</u>
Expenditures				
Current:				
Economic development	72,800	72,800	139,146	(66,346)
Capital outlay	1,083,723	1,083,723	-	1,083,723
Debt service:				
Principal	-	-	210	(210)
Interest and other charges	57,726	57,726	85,673	(27,947)
Total expenditures	<u>1,214,249</u>	<u>1,214,249</u>	<u>225,029</u>	<u>989,220</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(489,477)</u>	<u>(489,477)</u>	<u>(217,902)</u>	<u>271,575</u>
Other Financing Sources				
Proceeds from sale of capital assets	-	-	179,337	179,337
Transfers out	-	-	(1,004,352)	(1,004,352)
Total other financing sources	<u>-</u>	<u>-</u>	<u>(825,015)</u>	<u>(825,015)</u>
Net Change in Fund Balances	(489,477)	(489,477)	(1,042,917)	(553,440)
Fund Balances, Beginning of Year	<u>877,374</u>	<u>877,374</u>	<u>877,374</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 387,897</u>	<u>\$ 387,897</u>	<u>\$ (165,543)</u>	<u>\$ (553,440)</u>

City of Poteau, Oklahoma
Budgetary Comparison Schedule – (Budgetary Basis)
Airport Fund
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Charges for services	\$ 158,282	\$ 158,282	\$ 216,129	\$ 57,847
Investment earnings	41	41	-	(41)
Total revenues	<u>158,323</u>	<u>158,323</u>	<u>216,129</u>	<u>57,806</u>
Expenditures				
Current:				
Airport	260,838	260,838	276,993	(16,155)
Capital outlay	42,654	42,654	6,380	36,274
Total expenditures	<u>303,492</u>	<u>303,492</u>	<u>283,373</u>	<u>20,119</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(145,169)</u>	<u>(145,169)</u>	<u>(67,244)</u>	<u>77,925</u>
Other Financing Sources				
Transfers in	145,169	145,169	-	(145,169)
Total other financing sources	<u>145,169</u>	<u>145,169</u>	<u>-</u>	<u>(145,169)</u>
Net Change in Fund Balances	-	-	(67,244)	(67,244)
Fund Balances, Beginning of Year	<u>(138,392)</u>	<u>(138,392)</u>	<u>(138,392)</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ (138,392)</u>	<u>\$ (138,392)</u>	<u>\$ (205,636)</u>	<u>\$ (67,244)</u>

City of Poteau, Oklahoma
Schedule of Funding Progress
For the Year Ended June 30, 2012

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)
Oklahoma Municipal Retirement Fund - Defined Benefit Pension Plan	1/1/2010	\$ 3,998,213	\$ 4,909,824
	1/1/2011	4,284,816	5,275,793
	1/1/2012	4,496,058	5,473,773
Other Postemployment Benefit Plan	01/01/09	-	574,080

Unfunded (Excess) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Excess as a Percentage of Covered Payroll ((a-b)/c)
\$ 911,611	81.4%	\$ 1,603,135	56.9%
990,977	81.2%	1,604,465	61.8%
977,715	82.1%	1,606,348	60.9%
574,080	0%	2,092,464	27%

City of Poteau, Oklahoma
Notes to Required Supplementary Information
June 30, 2012

Budgets and Budgetary Accounting

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

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

General Fund	
Total budgetary revenues and transfers	\$ 16,144,224
Less budgetary expenses and transfers	<u>(10,189,192)</u>
Net Change in Budgetary Fund Balance	5,955,032
Net revenue accruals	(324,983)
Net expenditure accruals	<u>241,914</u>
Change in Fund Balance	<u><u>\$ 5,871,963</u></u>
Airport Fund	
Total budgetary revenues and transfers	\$ 216,129
Less budgetary expenses and transfers	<u>(283,373)</u>
Net Change in Budgetary Fund Balance	(67,244)
Net expenditure accruals	<u>(1,491)</u>
Change in Fund Balance	<u><u>\$ (68,735)</u></u>

Supplementary Information

City of Poteau, Oklahoma
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

	Special Revenue Funds				
	Nutrition Fund	Law Enforcement Grant Fund	Juvenile Court Fund	Police Drug Fund	Police Court Fund
Assets:					
Cash and cash equivalents	\$ -	\$ 6,270	\$ 43,444	\$ 53,309	\$ 1,546
Investments	-	-	-	65,374	-
Interest receivable	-	-	-	175	-
Due from other governments	5,133	-	-	-	-
Total assets	\$ 5,133	\$ 6,270	\$ 43,444	\$ 118,858	\$ 1,546
Liabilities:					
Accounts payable	\$ 2,145	\$ -	\$ -	\$ -	\$ 46
Due to other funds	52,634	-	-	-	1,500
Accrued expenditures and other	757	-	-	-	-
Total liabilities	55,536	-	-	-	1,546
Fund Balances (Deficits)					
Restricted	-	6,254	43,209	117,527	-
Assigned	-	16	235	1,331	-
Unassigned	(50,403)	-	-	-	-
Total fund balances (deficits)	(50,403)	6,270	43,444	118,858	-
Total liabilities and fund balances	\$ 5,133	\$ 6,270	\$ 43,444	\$ 118,858	\$ 1,546

<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Cemetery Care Fund</u>	
\$ -	\$ 104,569
27,003	92,377
31	206
-	5,133
<u>27,034</u>	<u>202,285</u>
<u>\$ 27,034</u>	<u>\$ 202,285</u>
-	2,191
-	54,134
-	757
<u>-</u>	<u>57,082</u>
-	166,990
27,034	28,616
-	(50,403)
<u>27,034</u>	<u>145,203</u>
<u>\$ 27,034</u>	<u>\$ 202,285</u>

City of Poteau, Oklahoma
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2012

	Special Revenue Funds				
	Nutrition Fund	Law Enforcement Grant Fund	Juvenile Court Fund	Police Drug Fund	Police Court Fund
Revenues					
Intergovernmental	\$ 62,636	\$ -	\$ -	\$ -	\$ -
Fees and fines	-	-	11,005	-	-
Investment earnings	-	6	91	773	-
Total revenues	<u>62,636</u>	<u>6</u>	<u>11,096</u>	<u>773</u>	<u>-</u>
Expenditures					
Current:					
Police	-	-	9,566	-	-
General government	109,315	-	-	-	-
Total expenditures	<u>109,315</u>	<u>-</u>	<u>9,566</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(46,679)</u>	<u>6</u>	<u>1,530</u>	<u>773</u>	<u>-</u>
Other Financing Sources					
Transfers in	3,972	-	-	-	-
Total other financing sources	<u>3,972</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(42,707)	6	1,530	773	-
Fund Balances, Beginning of Year	<u>(7,696)</u>	<u>6,264</u>	<u>41,914</u>	<u>118,085</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ (50,403)</u>	<u>\$ 6,270</u>	<u>\$ 43,444</u>	<u>\$ 118,858</u>	<u>\$ -</u>

<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Cemetery Care Fund</u>	
\$ -	\$ 62,636
-	11,005
<u>143</u>	<u>1,013</u>
<u>143</u>	<u>74,654</u>
-	9,566
-	<u>109,315</u>
-	<u>118,881</u>
<u>143</u>	<u>(44,227)</u>
<u>6,075</u>	<u>10,047</u>
<u>6,075</u>	<u>10,047</u>
6,218	(34,180)
<u>20,816</u>	<u>179,383</u>
<u>\$ 27,034</u>	<u>\$ 145,203</u>

City of Poteau, Oklahoma
Combining Statement of Net Assets
Poteau Public Works Authority
June 30, 2012

	Business-type Activities			
	PPWA Operating	PPWA Reserve	Meter Deposit Fund	
Assets				
Current Assets:				
Cash and cash equivalents	\$ 785,767	\$ -	\$ -	\$ 785,767
Investments	1,083,668	433,154	-	1,516,822
Accounts receivable, net of allowance for uncollectible accounts of \$64,053	303,881	-	-	303,881
Due from other funds	54,746	-	-	54,746
Interest receivable	3,104	227	-	3,331
Restricted cash and cash equivalents	-	-	50,256	50,256
Total currents assets	<u>2,231,166</u>	<u>433,381</u>	<u>50,256</u>	<u>2,714,803</u>
Noncurrent Assets:				
Restricted cash and cash equivalents	-	-	50,998	50,998
Restricted investments	-	-	150,795	150,795
Capital assets, net of accumulated depreciation of \$15,433,046	3,368,590	-	-	3,368,590
Deferred bond issue costs	6,845	-	-	6,845
Total noncurrent assets	<u>3,375,435</u>	<u>-</u>	<u>201,793</u>	<u>3,577,228</u>
Total assets	<u>5,606,601</u>	<u>433,381</u>	<u>252,049</u>	<u>6,292,031</u>
Liabilities				
Current Liabilities:				
Accounts payable	207,042	-	-	207,042
Accrued expenses	21,438	-	-	21,438
Due to other funds	10,198	-	768	10,966
Customer deposits	-	-	50,256	50,256
Compensated absences	28,035	-	-	28,035
Notes payable - current portion	129,951	-	-	129,951
Total current liabilities	<u>396,664</u>	<u>-</u>	<u>51,024</u>	<u>447,688</u>
Noncurrent Liabilities:				
Customer deposits	-	-	201,025	201,025
Compensated absences	26,384	-	-	26,384
Other post employment benefit liability	45,928	-	-	45,928
Notes payable	799,370	-	-	799,370
Total noncurrent liabilities	<u>871,682</u>	<u>-</u>	<u>201,025</u>	<u>1,072,707</u>
Total liabilities	<u>1,268,346</u>	<u>-</u>	<u>252,049</u>	<u>1,520,395</u>
Net Assets				
Invested in capital assets, net of related debt	2,178,318	-	-	2,178,318
Unrestricted	2,159,937	433,381	-	2,593,318
Total net assets	<u>\$ 4,338,255</u>	<u>\$ 433,381</u>	<u>\$ -</u>	<u>\$ 4,771,636</u>

City of Poteau, Oklahoma
Combining Statement of Revenues, Expenses, and
Changes in Net Assets
Poteau Public Works Authority
Year Ended June 30, 2012

	Business-type Activities			Total PPWA
	Operating	Reserve	Meter Deposit Fund	
Operating Revenues				
Water	\$ 1,145,019	\$ -	\$ -	\$ 1,145,019
Wastewater	818,545	-	-	818,545
Sanitation	441,901	-	-	441,901
Penalties	93,775	-	-	93,775
Licenses and permits	1,337	-	-	1,337
Refunds and reimbursements	17,716	-	-	17,716
Total operating revenues	<u>2,518,293</u>	<u>-</u>	<u>-</u>	<u>2,518,293</u>
Operating Expenses				
Administration	325,195	-	-	325,195
Water	1,049,041	-	-	1,049,041
Wastewater	642,256	-	-	642,256
Sanitation	432,146	-	-	432,146
Depreciation	391,732	-	-	391,732
Total operating expenses	<u>2,840,370</u>	<u>-</u>	<u>-</u>	<u>2,840,370</u>
Operating Loss	<u>(322,077)</u>	<u>-</u>	<u>-</u>	<u>(322,077)</u>
Nonoperating Income (Expenses)				
Interest income	11,013	2,763	-	13,776
Miscellaneous income	743	-	-	743
Interest expense	(33,578)	-	-	(33,578)
Amortization expense	(1,141)	-	-	(1,141)
Net nonoperating revenues (expenses)	<u>(22,963)</u>	<u>2,763</u>	<u>-</u>	<u>(20,200)</u>
Income (Loss) Before Transfers	(345,040)	2,763	-	(342,277)
Transfers In	415,998	-	-	415,998
Transfers Out	<u>(435,000)</u>	<u>-</u>	<u>-</u>	<u>(435,000)</u>
Change in Net Assets	(364,042)	2,763	-	(361,279)
Net Assets, Beginning of Year	<u>4,702,297</u>	<u>430,618</u>	<u>-</u>	<u>5,132,915</u>
Net Assets, End of Year	<u>\$ 4,338,255</u>	<u>\$ 433,381</u>	<u>\$ -</u>	<u>\$ 4,771,636</u>

City of Poteau, Oklahoma
Combining Statement of Cash Flows
Poteau Public Works Authority
Year Ended June 30, 2012

	Business-type Activities			Total PPWA
	Operating	Reserve	Meter Deposit Fund	
Operating Activities				
Receipts from customers	\$ 2,503,036	\$ -	\$ -	\$ 2,503,036
Payments to suppliers	(1,505,145)	-	-	(1,505,145)
Payments to employees for salaries and benefits	(882,181)	-	-	(882,181)
Receipts of customer deposits	-	-	72,580	72,580
Returns of customer deposits	-	-	(60,899)	(60,899)
Interfund receipts/payments	1,678	-	40	1,718
Net cash provided by operating activities	<u>117,388</u>	<u>-</u>	<u>11,721</u>	<u>129,109</u>
Noncapital Financing Activities				
Transfer to other funds	(435,000)	-	-	(435,000)
Other	743	-	-	743
Net cash used in noncapital financing activities	<u>(434,257)</u>	<u>-</u>	<u>-</u>	<u>(434,257)</u>
Capital and Related Financing Activities				
Purchase and construction of capital assets	(267,796)	-	-	(267,796)
Principal paid on revenue bonds	(125,681)	-	-	(125,681)
Interest and agent fees paid on revenue bonds	(34,751)	-	-	(34,751)
Transfers of sales tax for capital related debt service	415,998	-	-	415,998
Net cash used in capital and related financing activities	<u>(12,230)</u>	<u>-</u>	<u>-</u>	<u>(12,230)</u>
Investing Activities				
Purchases of certificates of deposit	(489,528)	(3,784)	-	(493,312)
Interest income	13,183	3,784	-	16,967
Net cash used in investing activities	<u>(476,345)</u>	<u>-</u>	<u>-</u>	<u>(476,345)</u>
Decrease in Cash and Cash Equivalents	<u>(805,444)</u>	<u>-</u>	<u>11,721</u>	<u>(793,723)</u>
Cash and Cash Equivalents, Beginning of Year	<u>1,591,211</u>	<u>-</u>	<u>89,533</u>	<u>1,680,744</u>
Cash and Cash Equivalents, End of Year	<u>\$ 785,767</u>	<u>\$ -</u>	<u>\$ 101,254</u>	<u>\$ 887,021</u>

	Business-type Activities			Total PPWA
	Operating	Reserve	Meter Deposit Fund	
Cash and Cash Equivalents of Proprietary Funds, as presented, on the				
"Statement of Net Assets - Proprietary Funds" is as follows:				
Cash and cash equivalents	\$ 785,767	\$ -	\$ -	\$ 785,767
Restricted cash and cash equivalents - current	-	-	50,256	50,256
Restricted cash and cash equivalents - noncurrent	-	-	50,998	50,998
	<u>\$ 785,767</u>	<u>\$ -</u>	<u>\$ 101,254</u>	<u>\$ 887,021</u>
 Reconciliation of Operating Income to				
to Net Cash Provided By Operating Activities				
Operating income	\$ (322,077)	\$ -	\$ -	\$ (322,077)
Adjustment to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization expense	391,732	-	-	391,732
Changes in assets and liabilities				
Receivables, net	(15,257)	-	-	(15,257)
Due to/due from other funds, net	1,678	-	40	1,718
Prepaid expenses and other assets	12,403	-	-	12,403
Accounts payable and accrued liabilities	48,909	-	-	48,909
Deposits held for others	-	-	11,681	11,681
	<u>\$ 117,388</u>	<u>\$ -</u>	<u>\$ 11,721</u>	<u>\$ 129,109</u>

City of Poteau, Oklahoma
Schedule of Expenditures of Federal
Year Ended June 30, 2012

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Amount Expended
Federal Awards			
Special Programs for the Aging Title III, Part C Nutrition Services	U.S. Department of Health and Human Services Kiamichi Economic Development District of Oklahoma	93.045	\$ 62,636
Edward Byrne Memorial Justice Assistance Grant Program	U.S. Department of Justice/State of Oklahoma	16.738	<u>9,520</u>
Total Federal Awards Expended			<u><u>\$ 72,156</u></u>

Notes to Schedule

1. The Schedule of Expenditures of Federal 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.

City of Poteau, Oklahoma
Schedule of Debt Service Coverage
Year Ended June 30, 2012

	<u>OWRB Note Payable</u>
Gross revenue available for debt service:	
Operating revenues (water and sewer)	\$ 2,057,339
Transfer in - sales tax	<u>415,998</u>
Total gross revenues available	2,473,337
Operating expenses	<u>2,016,492</u>
Net revenues available for debt service	<u><u>\$ 456,845</u></u>
Debt Service Requirement	
Maximum annual debt service - OWRB Note Payable	<u>\$ 158,934</u>
Total Debt Service Requirement	<u><u>\$ 158,934</u></u>
Coverage	2.87
Coverage Requirement	1.25

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, 2012, which collectively comprise its basic financial statements and have issued our report thereon dated August 5, 2013. 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 of the City 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 was not designed to 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 2012-01, 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 Organization'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 is described in the accompanying schedule of findings and responses as item 2012-02.

We noted certain matters that we reported to the City's management in a separate letter dated August 5, 2013.

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

August 5, 2013

City of Poteau, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2012

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2012-01	<p>Criteria or Specific Requirement Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition Incompatible duties exist within several departments.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

City of Poteau, Oklahoma
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2012

Reference Number	Finding
2012-01	<p>Views of responsible officials and planned corrective action</p> <p>In November 2011, an additional staff member was hired to assume the responsibility to both issue and enter purchase orders in the computer system.</p> <p>Department heads will approve invoices for payment.</p> <p>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.</p> <p>Mayor will control stamp containing his signature and that of the City Treasurer.</p> <p>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.</p>

City of Poteau, Oklahoma
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2012

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding
2012-02	<p>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.</p> <p>Condition The City has certain funds on deposit with local financial institutions that were not adequately insured or collateralized at June 30, 2012. City deposits of approximately \$1,606,000 and Poteau Public Works Authority deposits of approximately \$1,700 were uninsured or uncollateralized.</p> <p>Context The City did not have procedures in place to properly monitor the bank balances in relation to the required collateral.</p> <p>Effect In the event of a failure of the financial institution, the City could lose those funds uninsured or uncollateralized.</p> <p>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.</p> <p>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.</p>

City of Poteau, Oklahoma
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2012

Reference Number	Finding
2012-02	<p>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, 2012.</p>