THE CITY OF MCALESTER, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

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

CITY OF MCALESTER, OKLAHOMA

LIST OF PRINCIPAL OFFICIALS

JUNE 30, 2011

City Council

Kevin Priddle, Mayor
Weldon Smith, Member Ward 1
Steve Harrison, Member Ward 2
John Browne, Vice-Mayor Ward 3
Robert Karr, Member Ward 4
Buddy Garvin, Member Ward 5
Sam Mason, Member Ward 6

Administration

Peter J. Stasiak	City Manager
Cora Middleton	City Clerk
Gayla Duke	Chief Financial Officer

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COLE+REED P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Honorable Mayor and City Council
The City of McAlester, Oklahoma
McAlester, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of McAlester, Oklahoma (the "City") as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the McAlester Regional Health Center Authority (the "Authority"), which represents 99.9% of the total assets, net assets and revenues, respectively, of the aggregate discretely presented component units. Those financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Authority, is based solely on the report of the other auditors.

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 based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of McAlester, Oklahoma, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As reflected in the balance sheet of the governmental funds and in the notes to the financial statements, the City has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011.

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In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of McAlester, Oklahoma's financial statements as a whole. The other supplementary information as shown in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information as listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Cole & Reed P.C.

Oklahoma City, Oklahoma
March 1, 2012

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

FINANCIAL HIGHLIGHTS

- The City's overall financial position improved during the year ended June 30, 2011. Total net assets increased by $1,910,226 and the City's total government-wide assets continued to exceed its total liabilities at June 30, 2011, by $19,629,586 which represents its total government-wide net assets.

- The City's governmental activities experienced an increase in net assets of $495,791, while business-type activities experienced a current year increase in net assets of $1,414,435. However, while overall financial condition did improve from the prior year, there are still several areas of concern and conditions that are worth noting in terms of the City's financial position. These concerns or conditions include the following:

  - While the City has total government-wide net assets amounting to $19,629,586, there is a total of $55,379,100 invested in capital assets, net of related debt and $16,252,462 of net assets restricted for various purposes, thus leaving the City with a negative $52,001,976 of unrestricted net assets, with $52,715,442 of negative unrestricted net assets located in the City's business-type activities and a positive $713,466 of net assets in the City's governmental activities. The majority of this negative balance is the result of the McAlester Public Works Authority (MPWA) issuing revenue bonded indebtedness related to activities and capital improvements on behalf of the City's governmental activities including street and drainage improvements. A smaller portion is the result of the MPWA issuing revenue bonded indebtedness for the benefit of entities not included within the City's primary government, primarily school system improvements and economic development activities. The net result of these debt issues by the MPWA for capital items on behalf of others causes the debt to be shown by the MPWA in the business-type activity column. Capital assets for the City that were purchased by these debt issues are found in the governmental activities column, and in the case of the school system improvements and economic development, they are not shown at all in these financial statements, but rather in each of those entities separate financial statements. Most of this debt is expected to be retired from future dedicated sales tax collections. The result of reporting the long-term debt without corresponding capital assets is to report a large negative amount of unrestricted net assets.

- At June 30, 2011, the City's governmental funds reported combined ending fund balances of $17,269,572. That net amount is the result of $15,583,329 in restricted fund balance, $532,450 of assigned fund balance, and $1,153,793 in unrestricted fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the financial reporting entity of the City of McAlester (the "City"). The financial reporting entity consists of the following separate legal entities:

- The Primary Government
  - City of McAlester
  - McAlester Public Works Authority
  - McAlester Airport Authority
  - McAlester Municipal Improvement Authority (currently inactive)
- Discretely Presented Component Units
  - McAlester Regional Health Center
  - McAlester Parking Authority

The entities included as part of the primary government are included in this report within the governmental-wide statements in either of two categories of activities – governmental and business-type. The discretely presented component units are combined and reported in a single column labeled Component Units. This management discussion and analysis focuses on the primary government as defined above.

The governmental-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. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. 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

The Statement of Net Assets and Statement of Activities

This discussion and analysis is intended to serve as an introduction to the City of McAlester's basic financial statements. The Statement of Net Assets and the Statement of Activities (on pages 17 & 18, respectively) report information about the City as a whole and about its activities in a way that helps answer questions. 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 other infrastructure, 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 three types of activities:

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

- Business-type activities -- The City's activities that charge a fee to customers to help cover all or most of the cost of certain services it provides. The City's water, sewer, and solid waste collections utilities, along with its airport activities, are reported here.

- Discretely-presented component units -- These account for activities of the City's reporting entity that do not meet the criteria for blending, and include the Regional Health Center Authority and the Parking Authority.

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 of McAlester, 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 McAlester 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 modified accrual 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 solid waste collection, disposal services, and airport services. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary funds - When the City is responsible for assets that – because of a trust arrangement or other fiduciary requirement – can be used only for trust beneficiaries or other parties, such as the City's single employer Defined Benefit Retirement Plan and Trust Fund. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance operations.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

For the year ended June 30, 2011, net assets for the governmental activities and business-type activities increased $1,910,226. The results indicate the City, as a whole, improved its financial condition from the prior year.

The City of McAlester's Change in Net Assets

	Governmental Activities	Business-type Activities	Total
Beginning net assets	$ 49,025,080	$ (31,305,720)	$ 17,719,360
Increase in net assets	495,791	1,414,435	1,910,226
Ending net assets	$ 49,520,871	$ (29,891,285)	$ 19,629,586

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

The City of McAlester's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current and other assets	$ 19,899,374	$ 18,240,722	$ 11,586,587	$ 11,801,158	$ 31,485,961	$ 30,041,880
Capital assets	33,615,497	35,171,305	23,408,132	24,022,673	57,023,629	59,193,978
Total assets	53,514,871	53,412,027	34,994,719	35,823,831	88,509,590	89,235,858
Liabilities:						
Long-term liabilities	2,905,022	3,274,175	62,488,799	64,195,742	65,393,821	67,469,917
Other liabilities	1,088,978	1,112,772	2,397,205	2,933,809	3,486,183	4,046,581
Total liabilities	3,994,000	4,386,947	64,886,004	67,129,551	68,880,004	71,516,498
Net assets:						
Invested in capital assets	33,224,076	34,617,252	22,155,024	22,543,574	55,379,100	57,160,826
Restricted	15,583,329	14,520,241	669,133	809,940	16,252,462	15,330,181
Unrestricted	713,466	(112,413)	(52,715,442)	(54,659,234)	(52,001,976)	(54,771,647)
Total net assets	$ 49,520,871	$ 49,025,080	$ (29,891,285)	$ (31,305,720)	$ 19,629,586	$ 17,719,360

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 $55 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, $16.3 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is generally considered to be used to meet the government's ongoing obligations to citizens and creditors. However, for the current year, these unrestricted net assets amounted to a negative $52 million. The majority of this negative balance is the result of the McAlester Public Works Authority (MPWA) issuing revenue bonded indebtedness related to activities and capital improvements on behalf of the City's governmental activities including street and drainage improvements. A smaller portion is the result of the MPWA issuing revenue bonded indebtedness for the benefit of entities not included within the City's primary government, primarily school system improvements and economic development activities. Most of this debt is expected to be retired from future dedicated sales tax collections. However, the result of reporting the long-term debt without corresponding capital assets is to report a large negative amount of unrestricted net assets.

The City of McAlester's Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for Services	$ 2,696,929	$ 2,507,335	$ 9,692,631	$ 8,700,436	$ 12,389,560	$ 11,207,771
Grants & Contributions	1,029,048	999,621	5,624	22,493	1,034,672	1,022,114
Capital Grants & Contributions	429,725	136,262	22,231	-	451,956	136,262
General Revenues:						
Sales & Use Tax	14,342,476	13,701,860	-	-	14,342,476	13,701,860
Other Taxes	1,873,286	1,648,355	-	-	1,873,286	1,648,355
Other General Revenues	672,268	747,014	37,615	37,591	709,883	784,605
Total Revenues	**21,043,732**	**19,740,447**	**9,758,101**	**8,760,520**	**30,801,833**	**28,500,967**
Program Expenses:						
Legislature	97,162	126,666	-	-	97,162	126,666
Administration	2,652,254	2,523,930	-	-	2,652,254	2,523,930
Public safety	8,001,693	7,375,334	-	-	8,001,693	7,375,334
Community services	2,190,693	2,018,764	-	-	2,190,693	2,018,764
Administration services	1,073,608	881,082	-	-	1,073,608	881,082
Health and welfare	285,502	229,776	-	-	285,502	229,776
Public works	2,616,066	3,160,982	-	-	2,616,066	3,160,982
Economic development	250,974	287,955	-	-	250,974	287,955
Interest on long-term debt	23,099	25,826	-	-	23,099	25,826
Water	-	-	2,586,210	2,693,090	2,586,210	2,693,090
Sewer	-	-	1,501,178	1,478,020	1,501,178	1,478,020
Sanitation	-	-	3,727,028	2,525,570	3,727,028	2,525,570
Airport	-	-	335,902	353,265	335,902	353,265
Governmental interest & amortization expense	-	-	3,550,238	3,642,316	3,550,238	3,642,316
Total Expenses	**17,191,051**	**16,630,315**	**11,700,556**	**10,692,261**	**28,891,607**	**27,322,576**
Excess/(Deficiency)	3,852,681	3,110,132	(1,942,455)	(1,931,741)	1,910,226	1,178,391
Net Transfers	(3,356,890)	(748,161)	3,356,890	748,161	-	-
Increase/(Decrease) Net Assets	**$ 495,791**	**$ 2,361,971**	**$ 1,414,435**	**$ (1,183,580)**	**$ 1,910,226**	**$ 1,178,391**

For the year ended June 30, 2011, on a government-wide basis, the City experienced an improvement in its financial condition resulting in an increase in total net assets of $1,910,226. The increase in net assets can be attributable to an increase in sales tax and utility revenues in the current year.

The City's governmental activities increase in net assets of $495,791 in 2011 represents a significant change from the increase in net assets experienced in the prior year. This year's decrease in the change in net assets from the prior year change can be attributable to a decrease in operating transfers from the MPWA to the General Fund in the current year of approximately $2.3 million.

The business-type activities current year increase in net assets of $1,414,435 is also due to a decrease in operating transfers from the MPWA to the General Fund in the current year of approximately $2.3 million.

In reviewing the activity net (expense)/revenue, all business-type functions, with the exception of sanitation and airport, (water, sewer) charges for services more than covered all related expenses. Sanitation services were outsourced in the current year accounting for one of the exceptions noted above. Governmental interest and amortization expense on business-type reported debt of $3.6 million is funded through dedicated sales tax transferred to the MPWA by the General Fund and other Dedicated Sales Tax funds.

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2011 fiscal year, the governmental funds reported a combined fund balance of $17,269,572. However, that net amount is the result of $15,583,329 in restricted fund balance, $532,450 of assigned fund balance, and $1,153,793 in unrestricted fund balance.

For the reasons discussed previously in regards to business-type activities, the enterprise funds reported combined net assets of a negative $29.9 million.

Proprietary fund net asset restrictions are listed below:

Enterprise Funds:	
Restricted For Economic Development	$ 669,133
Total Enterprise Fund Restrictions	$ 669,133

The General Fund's total fund balance increased by $222,034, or 22.4% in large part due to an increase in current year sales tax, offset by a decrease in transfers from the MPWA.

The McAlester Public Works Authority enterprise fund reported an increase in net assets, after transfers and capital contributions of $1,496,543 for the year. This change is due mainly to a decrease in transfers to the General Fund.

General Fund Budgetary Highlights

For the year ended June 30, 2011, the General Fund reported actual budgetary basis revenues above final estimates by $715,380 or a 4.9% positive variance. General Fund actual expenditures were under final appropriations by $594,118 or a 4.4% positive variance.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the City had approximately $57.0 million invested in capital assets including land, buildings, machinery and equipment, park facilities, water, sewer and stormwater systems, roads and bridges. This represents a net decrease of $2,170,349 from last year.

Below are details regarding the City's capital assets for the years ended June 30, 2011 and 2010.[1]

The City of McAlester's Capital Assets

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land	$ 675,209	$ 675,209	$ 212,571	$ 212,571	$ 887,780	$ 887,780
Buildings and Improvements	7,133,654	6,995,177	5,888,361	5,807,296	13,022,015	12,802,473
Machinery and Equipment	9,290,915	8,861,080	2,913,532	2,699,767	12,204,447	11,560,847
Infrastructure	62,070,765	62,000,263	-	-	62,070,765	62,000,263
Utility Property	-	-	39,758,148	39,505,096	39,758,148	39,505,096
Water rights contracts	-	-	719,075	719,075	719,075	719,075
Construction-in-progress	735,669	756,348	78,497	44,316	814,166	800,664
Totals	79,906,212	79,288,077	49,570,184	48,988,121	129,476,396	128,276,198
Less Depreciation	(46,290,715)	(44,116,772)	(26,162,052)	(24,965,448)	(72,452,767)	(69,082,220)
Totals, Net	***$ 33,615,497***	***$ 35,171,305***	***$ 23,408,132***	***$ 24,022,673***	***$ 57,023,629***	***$ 59,193,978***

This year's more significant capital asset additions include $161,063 for 14th Street & Village Blvd utility extensions, $180,987 for a 2010 Freightliner w/durapatcher for street department, $103,140 for a skate park project, and $308,376 for 10 police cars.

[1] For more detailed information on capital asset activity please refer to page 47-48, Note 5. Capital Assets and Depreciation
[2] For more detailed information on long-term debt activity please refer to page 49-56, Note 7. Long-Term Debt and Debt Service Requirements

Debt Administration

At year-end, the City had $66.1 million in long-term debt outstanding, which represents a $2,130,396 decrease from the prior year.[2]

The City of McAlester's Long-term Debt

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Capital leases payable	$ 391,421	$ 554,053	$ -	$ -	$ 391,421	$ 554,053
Claims liability	319,759	77,832	-	226,281	319,759	304,113
Accrued compensation	1,837,385	2,280,882	292,099	306,240	2,129,484	2,587,122
Notes Payable	-	-	1,000,251	1,201,574	1,000,251	1,201,574
Revenue Bonds Payable	-	-	58,586,519	60,037,888	58,586,519	60,037,888
Landfill Closure and Post-Closure	-	-	2,550,000	2,289,171	2,550,000	2,289,171
Net pension benefit obligation	356,457	361,408	106,844	109,346	463,301	470,754
Settlement obligation	-	-	-	125,001	-	125,001
Water contract obligations	-	-	252,857	277,525	252,857	277,525
Deposits subject to refund	-	-	408,647	385,434	408,647	385,434
Totals	$ 2,905,022	$ 3,274,175	$ 63,197,217	$ 64,958,460	$ 66,102,239	$ 68,232,635

The 1999A Revenue Bonds contain $5,928,932 (par value) of capital appreciation bonds. The accreted value of these bonds on the maturity date of February 1, 2030 will be $25,623,620. No payments are required t be made on these bonds until maturity.

The 2002 Revenue Bonds contain $746,818, $704,610, $664,799, and $920,949 (par value) of capital appreciation bonds. The accreted value of the first three bonds is $3,930,000 each, and will require three separate $3,930,000 payments maturing February 1, 2031, February 1, 2032 and February 1, 2033. The fourth bond will mature on February 1, 2034 and require a payment of $5,770,000. No payments are required to be made on these bonds until maturity.

ECONOMIC OUTLOOK

Although the National economy continues to impact the City's growth, the solid institutional base of the Ammunition Plant and the Penal Institutions continues to lessen the impact locally. The stabilization in the oil and gas industry continues to show indications of improved growth. The City's approach on the diversification of our economy incorporated the development of a new business park and continues to make improvements at the industrial park.

The City's fiscal approach to dealing with the local economy has three major factors. First, save interest expense by refinancing existing bonds. This was accomplished by working with Dunn & Bradstreet to raise the City's credit rating in order to receive a better interest rate on the refinancing. Second, the City reduced daily expenses in order to prioritize needed capital equipment. Replacing worn out equipment and vehicles will save the City the expense of constant repairs. Third, the City continues to monitor all revenues and expenses with a guarded approach.

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 1st and Washington, McAlester, Oklahoma or phone at (918) 423-9300.

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

Government-Wide Statement of Net Assets– June 30, 2011

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS:				
Cash and cash equivalents	$13,706,594	$6,913,573	$20,620,167	$8,947,671
Investments	1,709,675	-	1,709,675	2,997,200
Interest receivable	-	25	25	-
Accounts receivable, net of allowance	-	1,380,338	1,380,338	9,794,392
Franchise tax receivable	77,255	-	77,255	-
Ambulance receivable, net of allowance	81,904	-	81,904	-
Court fines receivable, net of allowance	1,118,368	-	1,118,368	-
Due from other governments	1,974,319	10,345	1,984,664	-
Prepaid expenses	-	-	-	1,189,955
Other receivables	78,416	-	78,416	1,000,000
Internal balances	169,455	(169,455)	-	-
Inventory	-	-	-	2,246,245
Investment in joint venture	-	1,645,935	1,645,935	3,588,906
Restitution receivable:				
Due within one year	6,617	-	6,617	-
Due in more than one year	90,271	-	90,271	-
Notes receivable:				
Due within one year	174,000	-	174,000	25,926
Due in more than one year	712,500	-	712,500	268,282
Capital assets:				
Land and other non-depreciable assets	1,410,878	1,010,143	2,421,021	1,388,673
Other capital assets, net of depreciation	32,204,619	22,397,989	54,602,608	25,093,452
Intangible asset, net of amortization	-	-	-	-
Unamortized bond issuance costs	-	1,805,826	1,805,826	-
Total assets	53,514,871	34,994,719	88,509,590	56,540,702
LIABILITIES:				
Accounts payable	403,523	357,249	760,772	1,337,553
Accrued payroll liabilities	592,157	127,037	719,194	4,989,067
Accrued interest payable	351	1,304,336	1,304,687	-
Due to other governments	11,166	-	11,166	-
Escrow deposit liabilities	65,385	509,914	575,299	-
Deferred revenue	16,396	98,669	115,065	-
Long-term liabilities:				
Due within one year	293,040	3,532,330	3,825,370	2,053,057
Due in more than one year	2,611,982	58,956,469	61,568,451	2,574,874
Total liabilities	3,994,000	64,886,004	68,880,004	10,954,551
NET ASSETS:				
Invested in capital assets, net of related debt	33,224,076	22,155,024	55,379,100	22,995,526
Restricted for:				
State statutes and debt indentures	3,779,215	669,133	4,448,348	-
Enabling legislation	11,708,954	-	11,708,954	-
External parties	95,160	-	95,160	649,849
Unrestricted	713,466	(52,715,442)	(52,001,976)	21,940,776
Total net assets	$49,520,871	($29,891,285)	$19,629,586	$45,586,151

See accompanying notes to the basic financial statements.

Government-Wide Statement of Activities –Year Ended June 30, 2011

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
Primary Government:								
Governmental activities								
Legislature	$97,162	-	-	-	($97,162)	-	($97,162)	-
Administration	2,652,254	$650,556	$26,478	-	(1,975,220)	-	(1,975,220)	-
Public safety	8,001,693	1,578,883	768,548	$381,158	(5,273,104)	-	(5,273,104)	-
Community services	2,190,693	127,156	10,000	48,567	(2,004,970)	-	(2,004,970)	-
Administration services	1,073,608	336,545	-	-	(737,063)	-	(737,063)	-
Health and welfare	285,502	-	62,418	-	(223,084)	-	(223,084)	-
Public works	2,616,066	3,789	161,604	-	(2,450,673)	-	(2,450,673)	-
Economic development	250,974	-	-	-	(250,974)	-	(250,974)	-
Interest on long-term debt	23,099	-	-	-	(23,099)	-	(23,099)	-
Total governmental activities	17,191,051	2,696,929	1,029,048	429,725	(13,035,349)	-	(13,035,349)	-
Business-type activities.								
Water	2,586,210	4,497,227	5,624	-	-	$1,916,641	1,916,641	-
Sewer	1,501,178	1,740,561	-	-	-	239,383	239,383	-
Sanitation	3,727,028	3,330,969	-	-	-	(396,059)	(396,059)	-
Airport	335,902	123,874	-	22,231	-	(189,797)	(189,797)	-
Governmental interest & amort expense	3,550,238	-	-	-	-	(3,550,238)	(3,550,238)	-
Total business-type activities	11,700,556	9,692,631	5,624	22,231	-	(1,980,070)	(1,980,070)	-
Total primary government	$28,891,607	$12,389,560	$1,034,672	$451,956	(13,035,349)	(1,980,070)	(15,015,419)	-
Component Units:								
Parking	$1,481	$9,000	-	-				$7,519
Health and welfare	80,595,158	77,869,823	-	$13,653				(2,711,682)
Total Component Units	$80,596,639	$77,878,823	-	$13,653				(2,704,163)
	General revenues							
	Taxes							
	Sales and use taxes				14,342,476	-	14,342,476	-
	Franchise and public service taxes				687,905	-	687,905	-
	Hotel motel taxes				507,415	-	507,415	-
	E-911 taxes				677,966	-	677,966	-
	Intergovernmental revenue not restricted to specific programs				317,934	-	317,934	-
	Investment income				178,656	17,248	195,904	246,481
	Miscellaneous				175,678	20,367	196,045	-
	Transfers - Internal activity				(3,356,890)	3,356,890	-	-
	Total general revenues and transfers				13,531,140	3,394,505	16,925,645	246,481
	Change in net assets				495,791	1,414,435	1,910,226	(2,457,682)
	Net assets - beginning				49,025,080	(31,305,720)	17,719,360	48,043,833
	Net assets - ending				$49,520,871	($29,891,285)	$19,629,586	$45,586,151

See accompanying notes to the basic financial statements.

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

Governmental Funds Balance Sheet - June 30, 2011

	General Fund	Special Revenue Reserve Fund	Capital Project Capital Improvement Plan Fund	Debt Service Dedicated Sales Tax - MPWA	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	$1,687,812	$2,721,042	$2,228,985	$2,944,559	$4,113,928	$13,696,326
Investments	-	856,419	317,994	-	535,262	1,709,675
Receivables:						
Due from other funds	-	-	800,000	-	25,000	825,000
Due from other governments	1,155,183	-	-	511,770	307,366	1,974,319
Franchise tax receivable	77,255	-	-	-	-	77,255
Court fines receivable, net of allowance	1,118,368	-	-	-	-	1,118,368
Ambulance receivable, net of allowance	81,904	-	-	-	-	81,904
Notes receivable	-	-	-	-	886,500	886,500
Other receivables	1,946	-	-	-	76,470	78,416
Total assets	$4,122,468	$3,577,461	$3,346,979	$3,456,329	$5,944,526	$20,447,763
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable	$185,202	-	$2,300	-	$205,753	$393,255
Accrued payroll liabilities	543,669	-	-	-	35,726	579,395
Due to other funds	989,315	-	-	-	25,000	1,014,315
Due to other governments	11,166	-	-	-	-	11,166
Amounts held in escrow	65,385	-	-	-	-	65,385
Deferred revenue	1,114,675	-	-	-	-	1,114,675
Total liabilities	2,909,412	-	2,300	-	266,479	3,178,191
Fund Balances:						
Restricted	-	$3,303,603	3,344,679	$3,456,190	5,478,857	15,583,329
Assigned	59,263	273,858	-	139	199,190	532,450
Unassigned	1,153,793	-	-	-	-	1,153,793
Total fund balances	1,213,056	3,577,461	3,344,679	3,456,329	5,678,047	17,269,572
Total liabilities and fund balances	$4,122,468	$3,577,461	$3,346,979	$3,456,329	$5,944,526	$20,447,763

See accompanying notes to the basic financial statements.

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances – Year Ended June 30, 2010

	General Fund	Special Revenue Reserve Fund	Capital Project Capital Improvement Plan Fund	Debt Service Dedicated Sales Tax - MPWA	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	$9,117,666	-	-	$3,941,811	$3,156,285	$16,215,762
Intergovernmental	1,326,222	-	-	-	381,158	1,707,380
Charges for services	1,592,858	-	-	-	191,977	1,784,835
Fines and forfeitures	757,186	-	-	-	-	757,186
Licenses and permits	159,227	-	-	-	-	159,227
Investment income	54,212	$42,985	$3,734	35,210	42,515	178,656
Miscellaneous	135,651	-	52,666	-	72,248	260,565
Total Revenues	13,143,022	42,985	56,400	3,977,021	3,844,183	21,063,611
Expenditures:						
Current:						
Legislature	95,728	-	-	-	-	95,728
Administration	2,376,889	-	-	1,500	24,648	2,403,037
Public safety	7,526,527	-	-	-	467,480	7,994,007
Community services	1,882,561	-	-	-	49,418	1,931,979
Administration services	580,634	-	-	-	512,208	1,092,842
Health and welfare	288,913	-	-	-	-	288,913
Public works	1,234,246	-	-	-	-	1,234,246
Economic development	-	-	-	-	250,974	250,974
Capital outlay	119,486	-	539,234	-	642,664	1,301,384
Debt service:						
Principal retirement	92,934	-	74,239	-	176,446	343,619
Interest and fiscal charges	12,835	-	10,110	-	6,253	29,198
Total Expenditures	14,210,753	-	623,583	1,500	2,130,091	16,965,927
Excess (deficiency) of revenues over expenditures	(1,067,731)	42,985	(567,183)	3,975,521	1,714,092	4,097,684
Other Financing Sources (Uses):						
Transfers in	1,824,282	-	240,950	139	42,452	2,107,823
Transfers out	(534,517)	-	-	(3,341,375)	(1,169,327)	(5,045,219)
Capital lease proceeds	-	-	180,987	-	-	180,987
Total Other Financing Sources (Uses)	1,289,765	-	421,937	(3,341,236)	(1,126,875)	(2,756,409)
Net change in fund balances	222,034	42,985	(145,246)	634,285	587,217	1,341,275
Fund balances - beginning	991,022	3,534,476	3,489,925	2,822,044	5,090,830	15,928,297
Fund balances - ending	$1,213,056	$3,577,461	$3,344,679	$3,456,329	$5,678,047	$17,269,572

See accompanying notes to the basic financial statements.

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets:

Total fund balances - governmental funds	$17,269,572
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, therefore, are not reported in the funds, net of accumulated depreciation of $46,290,715	33,615,497
Certain long-term assets are not available to pay for current fund liabilities and, therefore, are deferred in the funds:	
Court fines receivable, net of allowance for doubtful accounts of $1,366,895	1,067,317
Ambulance receivable, net of allowance for doubtful accounts of $264,356	30,962
	1,098,279
Certain long-term assets are not available to pay for current fund liabilites and, therefore, are not reported in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets:	
Restitution receivable	96,888
Certain long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:	
Accrued interest payable	(351)
Capital lease obligations payable	(391,421)
Accrued compensated absences	(1,811,389)
Net pension benefit obligation	(356,204)
	(2,559,365)
Net assets of governmental activities	$49,520,871

See accompanying notes to the basic financial statements.

Reconciliation of the Statement of Changes in Fund Balances of Governmental Funds to the Statement of Activities:

Net change in fund balances - total governmental funds	$1,341,275
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays and issue costs as expenditures while governmental activities report depreciation and amortization expense to allocate those expenditures over the life of the assets:	
Capital asset purchases capitalized	799,023
Loss on disposal of capital assets	(1,229)
Depreciation expense	(2,353,602)
	(1,555,808)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Restitution revenue	(6,617)
Deferred revenue	(4,319)
	(10,936)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	
Capital lease proceeds	(180,987)
Capital lease obligation principal payments	343,619
	162,632
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Accrued interest expense	6,099
Accrued compensated absences expenses	469,493
Accrued claims liability	77,832
Accrued net pension benefit obligation	5,204
	558,628
Change in net assets of governmental activities	$495,791

See accompanying notes to the basic financial statements.

BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

Proprietary Funds Statement of Net Assets - June 30, 2011

	Enterprise Funds			
	McAlester Public Works Authority	McAlester Airport Authority	Total	Internal Service Funds
ASSETS:				
Current Assets:				
Cash and cash equivalents	$1,197,572	$102,327	$1,299,899	$10,268
Restricted cash and cash equivalents	4,053,939	-	4,053,939	-
Restricted interest receivable	25	-	25	-
Due from other funds	-	-	-	358,770
Accounts receivable, net of allowance	1,365,987	14,351	1,380,338	-
Due from other governments	10,345	-	10,345	-
Total current assets	6,627,868	116,678	6,744,546	369,038
Noncurrent Assets:				
Restricted Assets:				
Cash and cash equivalents	1,559,735	-	1,559,735	-
Investment in joint venture	1,645,935	-	1,645,935	-
Capital assets:				
Land and other non-depreciable assets	967,779	42,364	1,010,143	-
Other capital assets, net of depreciation	19,374,419	3,023,570	22,397,989	-
Unamortized bond issuance costs	1,805,826	-	1,805,826	-
Total noncurrent assets	25,353,694	3,065,934	28,419,628	-
Total Assets	31,981,562	3,182,612	35,164,174	369,038
LIABILITIES:				
Current Liabilities:				
Accounts payable	355,475	1,774	357,249	10,268
Accrued payroll liabilities	120,726	6,311	127,037	12,762
Due to other funds	169,455	-	169,455	-
Escrow deposit liability	509,914	-	509,914	-
Interest payable	1,303,742	594	1,304,336	-
Deferred revenue	98,669	-	98,669	-
Landfill closure and postclosure liability	260,829	-	260,829	-
Due to depositors	81,729	-	81,729	-
Notes payable	174,950	335,326	510,276	-
Water rights contract obligation	25,286	-	25,286	-
Revenue bonds payable	2,625,000	-	2,625,000	-
Accrued compensated absences	26,688	2,522	29,210	2,600
Total current liabilities	5,752,463	346,527	6,098,990	25,630
Noncurrent Liabilities:				
Claims liability	-	-	-	319,759
Landfill closure and post-closure liability	2,289,171	-	2,289,171	-
Due to depositors	326,918	-	326,918	-
Net pension benefit obligation	103,286	3,558	106,844	253
Notes payable	489,975	-	489,975	-
Water rights contract obligation	227,571	-	227,571	-
Revenue bonds payable, net	55,253,101	-	55,253,101	-
Accrued compensated absences	240,193	22,696	262,889	23,396
Total noncurrent liabilities	58,930,215	26,254	58,956,469	343,408
Total liabilities	64,682,678	372,781	65,055,459	369,038
NET ASSETS:				
Invested in capital assets, net of related debt	19,424,416	2,730,608	22,155,024	-
Restricted for economic development	669,133	-	669,133	-
Unrestricted (deficit)	(52,794,665)	79,223	(52,715,442)	-
Total net assets (deficit)	($32,701,116)	$2,809,831	($29,891,285)	-

See accompanying notes to the basic financial statements.

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

	Enterprise Funds			
	McAlester Public Works Authority	McAlester Airport Authority	Total	Internal Service Funds
Operating Revenues:				
Charges for services:				
Water	$3,524,139	-	$3,524,139	-
Sewer	1,659,078	-	1,659,078	-
Sanitation	2,625,989	-	2,625,989	-
Water taps	25,735	-	25,735	-
Sewer taps	18,100	-	18,100	-
Water districts	812,741	-	812,741	-
Service charges	92,300	-	92,300	-
Landfill	81,564	-	81,564	-
Roll-off garbage	169,659	-	169,659	-
Penalties	173,403	-	173,403	-
Use fee	1,777	-	1,777	-
Recycle fees	30,795	-	30,795	-
Subtitle "D" fees	353,477	-	353,477	-
Airport rents and fees	-	$123,874	123,874	-
Self insurance charges	-	-	-	$1,131,659
Miscellaneous	-	-	-	1,218
Total operating revenues	9,568,757	123,874	9,692,631	1,132,877
Operating Expenses:				
Utility office	458,326	-	458,326	-
Interdepartmental	656,339	-	656,339	-
Sanitation	1,790,575	-	1,790,575	-
Engineering	356,634	-	356,634	-
Sewer	759,416	-	759,416	-
Water	1,013,947	-	1,013,947	-
Utility maintenance	732,806	-	732,806	-
Landfill	833,597	-	833,597	-
Utilities Administration	152,050	-	152,050	-
Airport	-	177,441	177,441	-
Fleet maintenance	-	-	-	734,939
Claims expense	-	-	-	397,938
Depreciation expense	1,052,869	143,735	1,196,604	-
Amortization expense	128,380	-	128,380	-
Total operating expenses	7,934,939	321,176	8,256,115	1,132,877
Operating income (loss)	1,633,818	(197,302)	1,436,516	-
Non-Operating Revenues (Expenses):				
Investment income	17,248	-	17,248	-
Interest expense and fiscal charges	(3,454,184)	(14,726)	(3,468,910)	-
Grant revenue - operating	5,624	-	5,624	-
Miscellaneous revenue	19,167	1,200	20,367	-
Gain on joint venture	27,771	-	27,771	-
Total non-operating revenues (expenses)	(3,384,374)	(13,526)	(3,397,900)	-
Net income (loss) before contributions and transfers	(1,750,556)	(210,828)	(1,961,384)	-
Capital contributions	416,192	22,231	438,423	-
Transfers in	4,552,046	106,489	4,658,535	-
Transfer out	(1,721,139)	-	(1,721,139)	-
Change in net assets	1,496,543	(82,108)	1,414,435	-
Total net assets (deficit) - beginning	(34,197,659)	2,891,939	(31,305,720)	-
Total net assets (deficit) - ending	($32,701,116)	$2,809,831	($29,891,285)	-

See accompanying notes to the basic financial statements.

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

	Enterprise Funds			
	McAlester Public Works Authority	McAlester Airport Authority	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$9,188,531	$117,931	$9,306,462	-
Payments to suppliers	(4,414,853)	(39,225)	(4,454,078)	($369,666)
Payments to employees	(2,468,389)	(135,087)	(2,603,476)	(394,173)
Receipts of customer meter deposits	111,823	-	111,823	-
Refund of customer meter deposits	(88,610)	-	(88,610)	-
Other receipts (payments)	216,394	1,200	217,594	774,107
Net Cash Provided by (Used in) Operating Activities	2,544,896	(55,181)	2,489,715	10,268
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds	4,552,046	106,489	4,658,535	-
Transfers to other funds	(1,721,139)	-	(1,721,139)	-
Net Cash Provided by Noncapital Financing Activities	2,830,907	106,489	2,937,396	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(154,160)	(29,961)	(184,121)	-
Proceeds from capital grant	-	22,231	22,231	-
Proceeds from sale of capital assets	18,250	-	18,250	-
Principal payment of capital debt	(2,730,678)	(15,314)	(2,745,992)	-
Interest and fiscal charges paid on capital debt	(2,486,152)	(14,806)	(2,500,958)	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	(5,352,740)	(37,850)	(5,390,590)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	17,262	-	17,262	-
Net Cash Provided by Investing Activities	17,262	-	17,262	-
Net Increase (Decrease) in Cash and Cash Equivalents	40,325	13,458	53,783	10,268
Balances - beginning of the year	6,770,921	88,869	6,859,790	-
Balances - end of the year	$6,811,246	$102,327	$6,913,573	$10,268

See accompanying notes to the basic financial statements.

Proprietary Funds Statement of Cash Flows - Year Ended June 30, 2011, (Continued)

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$1,633,818	($197,302)	$1,436,516	-
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	1,052,869	143,735	1,196,604	-
Amortization expense	128,380	-	128,380	-
Operating grant	5,624	-	5,624	-
Other non-operating revenues (expenses)	46,938	1,200	48,138	-
Change in assets and liabilities:				
Receivables, net	24,207	(5,943)	18,264	-
Due from other funds	-	-	-	($358,770)
Due from other governments	(5,623)	-	(5,623)	-
Investment in joint venture	(42,137)	-	(42,137)	-
Accounts payable	(107,993)	546	(107,447)	10,268
Accrued payroll liabilities	3,830	1,426	5,256	12,762
Due to other funds	169,455	-	169,455	-
Escrow deposit liability	(398,559)	-	(398,559)	-
Claims liability	(226,281)	-	(226,281)	319,759
Deferred revenue	(5,874)	-	(5,874)	-
Due to depositors	23,213	-	23,213	-
Landfill closure liability	260,829	-	260,829	-
Pension benefit obligation	(2,377)	(125)	(2,502)	253
Accrued compensated absences	(15,423)	1,282	(14,141)	25,996
Net Cash Provided by (Used in) Operating Activities	$2,544,896	($55,181)	$2,489,715	$10,268
Noncash capital and related financing activities:				
Capital assets contributed from governmental funds	$416,192	-	$416,192	-
Accretion of capital appreciation bonds	($943,632)	-	($943,632)	-

See accompanying notes to the basic financial statements.

FIDUCIARY FUND

Statement of Fiduciary Net Assets – Pension Trust Fund - June 30, 2011

	Defined Benefit Retirement Plan and Trust Fund
ASSETS:	
Cash and cash equivalents	$750,743
Investments:	
International bonds	151,695
Corporate bonds	992,570
Mortgage and asset backed securities	290,001
Government bonds	1,046,581
Morgan Stanley callable notes	99,035
Mutual funds	405,849
Preferred stocks	113,450
Common stocks	6,553,260
Interest receivable	22,005
Total assets	10,425,189
LIABILITIES:	
Accounts payable	8,836
NET ASSETS:	
Held in trust for employee pension benefits	$10,416,353

Statement of Changes in Fiduciary Net Assets – Pension Trust Fund - Year Ended June 30, 2011

	Defined Benefit Retirement Plan and Trust Fund
ADDITIONS:	
Contribution from employer	$821,436
Investment income	29
Reimbursement from pension trust	656,775
Realized and unrealized gain on investments	1,277,013
Total additions	2,755,253
DEDUCTIONS:	
Benefits paid to participants or beneficiaries	637,002
Administrative expenses	39,275
Total deductions	676,277
Change in net assets held in trust for employees' pension benefits	2,078,976
Net assets - beginning	8,337,377
Net assets - ending	$10,416,353

See accompanying notes to the basic financial statements.

DISCRETELY PRESENTED COMPONENT UNITS

Discretely Presented Component Units Combining Statement of Net Assets - June 30, 2011

	Component Units		
	Public Trusts		
	McAlester Regional Health Center Authority	McAlester Parking Authority	Total Component Units
ASSETS:			
Cash and cash equivalents	$8,913,711	$33,960	$8,947,671
Investments	2,997,200	-	2,997,200
Accounts receivable, net	9,794,172	220	9,794,392
Other receivables	1,000,000	-	1,000,000
Inventory	2,246,245	-	2,246,245
Investment in joint venture	3,588,906	-	3,588,906
Prepaid expenses	1,189,955	-	1,189,955
Notes receivable:			
Due within one year	25,926	-	25,926
Due in more than one year	268,282	-	268,282
Capital assets:			
Land and construction in progress	1,388,673	-	1,388,673
Other capital assets, net of depreciation	25,093,452	-	25,093,452
Total assets	56,506,522	34,180	56,540,702
LIABILITIES:			
Current Liabilities:			
Accounts payable	1,337,427	126	1,337,553
Accrued payroll payable	4,989,067	-	4,989,067
Long-term liabilities:			
Due within one year	2,053,057	-	2,053,057
Due in more than one year	2,574,874	-	2,574,874
Total liabilities	10,954,425	126	10,954,551
NET ASSETS:			
Invested in capital assets, net of related debt	22,995,526	-	22,995,526
Restricted for capital acquisitions and debt service	129,849	-	129,849
Restricted for workers' compensation claims	495,000	-	495,000
Restricted for specific operating activities	25,000	-	25,000
Unrestricted	21,906,722	34,054	21,940,776
Total net assets	$45,552,097	$34,054	$45,586,151

See accompanying notes to the basic financial statements.

Discretely Presented Component Units Combining Statement of Revenues, Expenses, and Changes in Net Assets - Year Ended June 30, 2011

	Component Units		
	Public Trusts		
	McAlester Regional Health Center Authority	McAlester Parking Authority	Total Component Units
Operating Revenues:			
Charges for services	-	$9,000	$9,000
Net patient service revenue	$73,389,139	-	73,389,139
Miscellaneous	3,521,378	-	3,521,378
Total Operating Revenues	76,910,517	9,000	76,919,517
Operating Expenses:			
Parking	-	1,481	1,481
Health and welfare	80,260,594	-	80,260,594
Total Operating Expenses	80,260,594	1,481	80,262,075
Net Operating Income (Loss)	(3,350,077)	7,519	(3,342,558)
Non-Operating Revenues (Expenses):			
Investment income	246,481	-	246,481
Income from joint ventures	959,306	-	959,306
Interest expense and fiscal agent fees	(334,564)	-	(334,564)
Net Non-Operating Revenues (Expenses)	871,223	-	871,223
Net Income (Loss) Before Transfers, Contributions and Extraordinary Items	(2,478,854)	7,519	(2,471,335)
Gifts to Purchase Capital Assets and Other Capital Gifts	13,653	-	13,653
Changes in net assets	(2,465,201)	7,519	(2,457,682)
Total net assets - beginning	48,017,298	26,535	48,043,833
Total net assets - ending	$45,552,097	$34,054	$45,586,151

See accompanying notes to the basic financial statements.

FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Basic Financial Statements:

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City's financial reporting entity includes the primary government (City of McAlester), three blended component units, and two discretely presented component units as noted below.

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" and includes all component units for which the City is financially accountable.

The City of McAlester – that operates the public safety, health and welfare, streets and highways, parks and recreation, and administrative activities.

The City of McAlester is an incorporated municipality with a population of approximately 18,383 located in southeast Oklahoma. The City operates under the Council-Manager form of government and operates under a charter that provides for three branches of government:

- Legislative – the City Council is a seven-member governing body. Mayor is elected by the citizens at large and other six members are elected by ward.
- Executive – the City Manager is the Chief Executive Officer and is appointed by the City Council
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Manager, confirmed by the City Council.

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

Component Units:

Because the City is financially accountable and the City's governing body serves as the trustees for these public trusts, the following component units are blended into the City's primary government presentation as funds of the primary government for reporting purposes:

The McAlester Public Works Authority – that operates the water, wastewater, and sanitation/landfill activities of the City, with the McAlester City Council serving as trustees of the Authority.

The McAlester Airport Authority – that develops and operates the airport with the McAlester City Council serving as trustees of the Authority.

The McAlester Municipal Improvement Authority – an inactive trust that promotes the development of industry and culture and industrial, manufacturing, cultural and education activities. There is no activity reported in the City's basic financial statements since the trust is inactive.

Component units that are discretely presented in the City's report in a separate column are presented below:

The McAlester Regional Health Center Authority – that operates to finance and develop the health center facilities of the City. Separate audited component unit financial statements are issued by the Regional Health Center Authority and may be obtained at their administrative offices.

The McAlester Parking Authority (MPA) – that operates to furnish and supply public off-street parking services and facilities. The MPA does not issue separate audited component unit financial statements.

The McAlester Regional Health Center Authority and the McAlester Parking Authority are Public Trusts established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance City services through issuance of revenue bonds or other non-general obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Authority. In accordance with state law, all debt obligations incurred by public trusts require 2/3 approval by the City Council. In addition, the City has leased certain existing assets at the creation of the Authorities to the Trustees on a long-term basis. The City, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

Joint Venture:

Association for Landfill Financial Assurance (ALFA) – A non-profit Oklahoma corporation organized for the exclusive benefit of cities, towns, counties, solid waste districts and public trusts within the State of Oklahoma that own and/or operate municipal solid waste landfills within the jurisdiction of the State of Oklahoma, including the making and management of investments on behalf of such public entities in order to provide the financial assurances as required by Subtitle D of the Resource Conservation and Recovery Act of 1976.

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statements of net assets and activities are reported on the accrual basis of accounting and economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized when earned and expenses (including depreciation and amortization) are recorded when the liability is incurred or economic asset used. In accordance with the economic resources measurement focus, all assets and liabilities, both current and noncurrent are reported.

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

- Administration – oil and gas leases, rent, and hotel/motel charges for services
- Public safety – Fire and Police – fines and forfeitures, fire run charges, ambulance revenue, and capital and operating grants
- Community services – cemetery openings and closings, swimming pool revenues, complex concessions and rentals

- Administration services – abatements and licenses and permits
- Health and welfare – nutrition operating grant
- Airport – rental fees and fuel sales
- Public works – gas excise and vehicle tax shared by the State and street cuts
- Economic development – operating contribution

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

Governmental Funds:

The City's governmental funds are comprised of the following:

Major Funds:

- General Fund – accounts for general operations of the City including: public safety, parks, public facilities, and street maintenance.

- Reserve Fund – special revenue fund that accounts for excess revenues mainly from oil and gas royalties restricted by City Charter for emergencies.

- Capital Improvement Plan Fund – capital project fund that accounts for monies set aside by City Council for repayment of unsupported bond activity.

- Dedicated Sales Tax MPWA – debt service fund that accounts for revenue received from sales tax (one-cent) approved by the voters to be used for financing debt related to capital improvements.

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

Special Revenue Funds:

- Juvenile Fine Fund – accounts for revenues from fines restricted by state for juvenile programs.
- Tourism / SE Expo Fund – accounts for revenues of a hotel/motel tax levy and rentals/concessions to be expended for promotion of tourism.
- E-911 Fund – accounts for E-911 revenues legally restricted for E-911 services.
- Economic Development Fund – special revenue fund that accounts for revenue received from sales tax (1/4 of one-cent) approved by the voters to be used for financing debt related to economic development and for future economic development projects.
- Gifts & Contributions Fund – accounts for revenues and expenditures of donor restricted monies.

Capital Project Funds:

- Police Equipment Fund – accounts for revenues and expenditures related to Local Law Enforcement Block Grants.
- State Forfeiture Fund – accounts for revenues received from state drug forfeitures restricted for equipment purchases.

- Cemetery Perpetual Care – accounts for 12.5% of all cemetery revenues which are legally restricted for cemetery use.
- CDBG Grants Fund – accounts for revenues and expenditures related to CDBG grants.
- Federal Forfeiture Fund – Accounts for revenues received from federal drug forfeitures restricted for equipment purchases.

Debt Service Fund:

- Sales Tax Schools Fund – accounts for revenue received from sales tax (1/4 of one-cent) approved by the voters to be used for acquisition and financing of educational facilities and equipment.

The governmental funds are reported on the modified accrual basis of accounting and current financial resources measurement focus. On the modified accrual basis of accounting revenues are recorded when earned and measurable and available to pay current financial obligations, while expenditures are recorded when incurred and normally payable from current financial resources. The City defines revenue availability as collected within 60 days of period end.

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

Proprietary Funds:

When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds include enterprise funds and internal service funds. Enterprise funds are used to account for business-like activities provided to the general public. Internal service funds are used to account for business-type activities provided within the government. Proprietary funds are reported on the accrual basis of accounting and economic resources measurement focus. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability.

The City's enterprise funds include the following major funds:

- McAlester Public Works Authority Fund - that accounts for the activities of the McAlester Public Works Authority public trust in providing water, sewer, and sanitation services to the public.

- McAlester Airport Authority Fund - that currently accounts for airport fees and grants used in providing airport services.

The City's internal service funds include the following:

- Worker's Compensation Fund – that accounts for the activities of providing worker's compensation to the employees of the City.
- FLEET Maintenance Fund – that accounts for the activities of providing FLEET maintenance to the City.

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

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

Fiduciary Fund:

The City has one fiduciary fund - the City of McAlester Defined Benefit Retirement Plan and Trust Fund. The pension trust fund accounts for retirement contributions and investment income for the direct benefit of employees other than those employees covered by the statewide fire and police cost-sharing pension plans. The pension trust fund is reported on the accrual basis of accounting and economic resources measurement focus.

C. Cash, Cash Equivalents, and Investments

For the purposes of the statements of net assets, balance sheets, and statement of cash flows, cash and cash equivalents includes all demand and savings accounts, certificates of deposit, and short-term investments with an original maturity of three-months or less, and money market investments. Investments consist of long-term time deposits, and U.S. agency bonds and notes. Certificates of deposit are reported at cost while investments in the U.S. agency bonds and notes and other marketable investments are reported at fair value.

D. Inventories

Inventories of goods and supplies on hand at year end are not material for the primary government. Therefore purchases of inventory type items are recorded as expenditures or expenses at the time purchased, and no balances for such inventories on hand are reported.

For the Regional Health Center Authority component unit reported inventories are reported on the lower of cost (first-in, first-out) or market.

E. Capital Assets and Depreciation

The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund type or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. In the government-wide and proprietary fund financial statements, property, plant and equipment are accounted for as capital assets, net of accumulated depreciation where applicable. In the governmental fund financial statements, capital assets acquired are accounted for as capital outlay expenditures and not reported as capital assets.

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of $2,500 is used for additions, other than land, to report capital assets. Capital assets are reported at actual or estimated historical cost. Prior to July 1, 2001, governmental activities' infrastructure assets were not capitalized. These assets have been valued at estimated historical cost. Donated assets are recorded at their fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2005.

Depreciable capital assets are depreciated on a straight-line basis over useful lives. The range of estimated useful lives by type of asset is as follows:

• Buildings	20 – 100 years
• Improvements other than buildings	20 - 100 years
• Equipment and vehicles	3 - 25 years
• Infrastructure	15 - 50 years

F. Long-Term Debt

Accounting treatment of long-term debt varies depending upon the source of repayment and the measurement focus applied and whether the debt is reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental activities, business-type activities, proprietary fund and component unit resources are reported as liabilities as incurred. The long-term debt consists primarily of accrued compensated absences, capital leases payable, and revenue bonds payable. This long-term debt is reported net of unamortized premiums, discounts, and amounts deferred from refundings.

Long-term debt of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures.

G. Compensated Absences

Under terms of union contracts and City personnel policies, City employees are granted comp time, vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation and comp time. The estimated liabilities for vested benefits also include salary-related payments such as employment taxes. Compensated absences are reported as accrued in the government-wide, proprietary, fiduciary and component unit financial statements. Governmental funds report only the matured compensated absences payable to currently terminating employees.

H. Fund Balances and Net Assets

Net Assets:

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

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

b. *Restricted net assets* - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.

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

In the current year presentation, certain revenue bonds of the business-type activities were used to fund governmental capital assets (streets). The "invested in capital assets, net of related debt" for business-type activities therefore does not include the amounts related to these debt issues. The capital assets are reported in the governmental activities and are also reported in "invested in capital assets, net of related debt". This explains the large negative balance of unrestricted net assets in the business-type activities.

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

Fund Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

a. Nonspendable – includes amounts that cannot be spend because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

b. Restricted – consists of fund balance with constraints place on the use of resources either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.

c. Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city's highest level of decision-making authority. The City's highest level of decision-making authority is made by ordinance. The City currently reports no committed fund balance.

d. Assigned – includes amounts that are constrained by the city's intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through the budgetary process.

e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the City's policy to first use restricted fund balance prior to the use of unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The City's policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. The only exception to this policy is for assigned interest income in governmental funds other than the General Fund. In those funds, interest income is used first before other revenues.

Proprietary fund equity is classified the same as in the government-wide statements.

I. Interfund Activities and Balances

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

J. Use of Estimates

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

2. Deposits and Investments

Primary Government Deposits and Investments:

At June 30, 2011, the primary government held the following deposits and investments:

Type of Deposits and Investments - Primary Government	Credit Rating	Carrying Value	Maturities in Years: On Demand	Less Than One	1 - 5	6 - 10	More Than 10
Deposits:							
Petty Cash		$ 4,610	$ 4,610	$ -	$ -	$ -	$ -
Demand deposits		15,899,704	15,899,704	-	-	-	-
Demand deposits - pension trust funds		555	555	-	-	-	-
Time deposits		1,709,675	-	1,709,675	-	-	-
		17,614,544	15,904,869	1,709,675	-	-	-
Investments:							
Bond Trustee Accounts:							
Federated Treasury Obligations Fund IS #68	Aaa	$ 2,733,079	$ 2,733,079	$ -	$ -	$ -	$ -
Nestle Commercial Paper	A-1+	1,393,000	1,393,000	-	-	-	-
Morgan Stanley Cap Serv Inc - D.S. Fund Agree	AAA	1	1	-	-	-	-
Goldman Fst Treasury Obligations Instl #468	Aaa	569,034	569,034	-	-	-	-
Pension Trust Funds:							
Western Asset Institutional MM Fund Class A	AAAm	108,474	108,474	-	-	-	-
Dreyfus Liquid Assets Inc Class 2	Aaa	457,232	457,232	-	-	-	-
Citibank NA South Dakota Bank Deposit Program	A+	205,221	205,221	-	-	-	-
Fixed Income Shares FD Series C	A-1	202,839	202,839	-	-	-	-
Fixed Income Shares FD Series M	A-1	203,010	203,010	-	-	-	-
International Bonds	A-	31,283	-	15,385	-	15,898	-
International Bonds	BBB+	14,526	-	-	-	14,526	-
International Bonds	BBB	105,886	-	-	105,886	-	-
Corporate Bonds	AA-	29,168	-	-		29,168	
Corporate Bonds	A+	31,805	-	-	-	15,780	16,025
Corporate Bonds	AA	61,746	-	-	15,233	-	46,513
Corporate Bonds	AA+	29,470	-	-	29,470	-	-
Corporate Bonds	A	64,643	-	-	32,248	32,395	-
Corporate Bonds	A-	50,122	-	-	16,883	33,239	-
Corporate Bonds	BBB+	48,129	-	-	15,368	-	32,761
Corporate Bonds	BBB	46,412	-	-	32,880	13,532	-
Corporate Bonds	BBB-	140,111	-	102,371	5,228	16,037	16,475
Corporate Bonds	BB	62,550	-	-	62,550	-	-
Corporate Bonds	BB+	105,000	-	-	105,000		-
Corporate Bonds	BB-	178,789	-	-	178,789	-	-
Corporate Bonds	B-	102,875	-	-	102,875	-	-
Corporate Bonds	CCC+	41,750	-	-	-	-	41,750
Governmental Bonds	N/A	1,046,581	-	274,048	421,786	212,763	137,984
Mortgage and asset backed securities	N/A	290,001	-	-	-	-	290,001
Morgan Stanley Callable Notes	N/A	99,035	99,035	-	-	-	-
Preferred Stocks	BBB-	88,030	88,030	-	-	-	-
Preferred Stocks	BBB+	25,420	25,420	-	-	-	-
Common Stocks	N/A	6,553,260	6,553,260	-	-	-	-
		15,118,482	12,637,635	391,804	1,124,196	383,338	581,509
Total Deposits and Investments		$ 32,733,026	$ 28,542,504	$ 2,101,479	$ 1,124,196	$ 383,338	$ 581,509

Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	$ 20,620,167
Investments	1,709,675
Add: Fiduciary Fund cash and cash equivalents	750,743
Add: Fiduciary Fund investments	9,652,441
	$ 32,733,026

Deposit and Investment Risks

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

The City does not have a formal investment policy as it relates to custodial credit risk. Acceptable collateral is limited to U.S. Treasury securities and direct debt obligations of municipalities, counties, and school districts in the State of Oklahoma. As required by Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee.

At June 30, 2011, the City was not exposed to custodial credit risk as defined above.

Investment Credit Risk – State law limits the investments available to the City and is described below.

a. Direct obligations of the U. S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State of Oklahoma is pledged.

b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.

c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.

d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.

e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.

f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs a., b., c. and d.

Investment credit risk is the risk that an issuer or other counterpart to an investment will not fulfill its obligations. The City has no formal policy limiting investments based on credit rating, but discloses any such credit risk associated with their investments by reporting the credit quality ratings of investments in debt securities as determined by nationally recognized statistical rating organizations—rating agencies—as of the year end in the schedule above. Unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Retirement Plan Investments:

The Plan's investment policies provides for investment in a diversified portfolio, consisting primarily of common stocks, mutual funds, bonds, cash equivalents, and other investments. Asset allocation guidelines for the Plan are as follows:

Class	Maximum Percent	Minimum Percent	Target Percent
Large Cap Equities	30.00	10.00	20.00
Small Cap Equities	25.00	5.00	15.00
International Equities	25.00	5.00	15.00
Real Estate	20.00	5.00	10.00
Fixed Income	50.00	30.00	40.00

Large and small cap equities should be allocated between growth and value styles. Investment grade fixed income should be allocated between investment grade bonds, inflation-indexed bonds ("TIPS"), high yield bonds and international bonds.

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City does not have a formal investment policy to manage exposure to fair value losses arising from increasing interest rates. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments in the schedule above.

Concentration of Investment Credit Risk - Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City's investment policy requires diversification of investments and indicates that, with the exception of U.S. Treasury securities and authorized pools, there was no single issuer investment with more than 5% of total investments.

Restricted Cash and Investments – The amounts reported as restricted assets on the statement of net assets are comprised of the following:

	Current Cash and cash Equivalents	Non-current Cash and cash Equivalents	Current Interest Receivable
Utility Deposits	$ 408,647	-	-
Lowe's Escrow Account	509,914	-	-
Trustee Accounts (MPWA):			
1999A Sinking Fund	938,419	-	-
2002 Sinking Fund	461,276	-	-
2003A Bond Fund	468,708	-	-
2003A Bond Reserve Fund	-	$ 649,097	-
2003B Bond Fund	410,276	-	-
2003B Bond Reserve Fund	-	640,638	-
2003B Project Fund	557,666	-	-
2004 Sinking Fund	187,566	-	-
2004 Reserve Fund	-	270,000	-
2004 Construction Fund	111,467	-	-
Interest Receivable	-	-	$ 25
Total Restricted Assets	$ 4,053,939	$ 1,559,735	$ 25

Component Units Deposits and Investments:

McAlester Regional Health Center Authority

Deposits
At June 30, 2011, approximately $7,152,000 of the Authority's bank balances were uninsured with collateral held by the pledging financial institution and $615,000 of the Authority's bank balances were uninsured and uncollateralized.

3. Investment in Joint Venture

As discussed in Note 1A, the City participates (with equity interest) in the Association for Landfill Financial Assurance (ALFA). ALFA has been approved by the ODEQ as an allowable financial assurance mechanism under existing federal and state laws and regulations. As a member of ALFA, the City is required to deposit certain amounts on an annual basis into an escrow fund to be pooled with other ALFA members. The annual amount due from each member is based on the members' total estimated current cost of closure and post-closure care of the landfill, including adjustments due to inflation or resulting from any changes in the closure or the required 30 year post-closure care plan, plus any additional amount for contingencies as determined by ALFA. For the year ended June 30, 2011, the "Investment in joint venture" balance changed as follows:

Beginning Investment in Joint Venture	$ 1,603,798
Current Year Contributions	14,366
Gain from Joint Venture	27,771
Ending Investment in Joint Venture	$ 1,645,935

Separate annual financial statements are issued by ALFA and may be obtained from their administrative offices at 3414 East 85th Place, Tulsa, Oklahoma, 74137.

4. Receivables

Primary Government Accounts Receivables:

Accounts receivable of the business-type activities consists of customers utilities, airport rental accounts receivable, and airport grant receivable. Accounts receivable of the governmental activities consists of franchise tax, police fines and ambulance receivables. Receivables detail at June 30, 2011, is as follows:

	General Fund				
	Ambulance	Court	MPWA	Airport	Total
Accounts receivable	$346,260	$2,485,263	$3,030,791	$20,406	$5,882,720
Allowance for doubtful accounts	(264,356)	(1,366,895)	(1,664,804)	(6,055)	($3,302,110)
Accounts receivable, net	$81,904	$1,118,368	$1,365,987	$14,351	$2,580,610

Component Units:

McAlester Regional Health Center Authority

Patient receivable balances at June 30, 2011 were as follows:

	MRHCA
Medicare	$3,916,612
Medicaid	1,317,944
Other third-party payers	7,148,702
Patients	7,538,914
Allowance for doubtful accounts	(10,128,000)
Accounts receivable, net	$9,794,172

Outstanding Notes Receivable – Economic Development

The City of McAlester entered into a loan agreement dated April 28, 2005, with the McAlester Foundation for the development of an industrial tract to be used by Pliant Corporation. The original loan amount totaled $1,800,000. Monthly lease payments made by Pliant to the McAlester Foundation in the amount of $14,500 shall be paid over to the City of McAlester by the Foundation and deposited in the Economic Development Fund. The following schedule shows the current year activity related to this note receivable:

	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
Note Receivable				
McAlester Foundation	$1,060,500	$ -	$174,000	$886,500

5. Capital Assets and Depreciation

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

	Balance at June 30, 2010	Additions	Disposals	Balance at June 30, 2011
Governmental activities:				
Non-depreciable:				
Land	$ 675,209	$ -	$ -	$ 675,209
Construction-in-progress	756,348	143,620	(164,299)	735,669
Total non-depreciable assets at historical cost	1,431,557	143,620	(164,299)	1,410,878
Depreciable:				
Buildings	5,350,398	-	-	5,350,398
Other improvements	1,644,779	138,477	-	1,783,256
Machinery and equipment	8,861,080	610,723	(180,888)	9,290,915
Infrastructure	62,000,263	70,502	-	62,070,765
Total depreciable assets at historical cost	77,856,520	819,702	(180,888)	78,495,334
Less accumulated depreciation				
Buildings	(2,645,073)	(153,026)	-	(2,798,099)
Other improvements	(913,170)	(55,184)	-	(968,354)
Machinery and equipment	(6,600,129)	(630,309)	179,659	(7,050,779)
Infrastructure	(33,958,400)	(1,515,083)	-	(35,473,483)
Total accumulated depreciation	(44,116,772)	(2,353,602)	179,659	(46,290,715)
Net depreciable assets	33,739,748	(1,533,900)	(1,229)	32,204,619
Governmental activies capital assets, net	$ 35,171,305	$ (1,390,280)	$ (165,528)	$ 33,615,497
Business-type activities				
Non-depreciable:				
Land	$ 212,571	$ -	$ -	$ 212,571
Water rights contracts	719,075	-	-	719,075
Construction-in-progress	44,316	208,536	(174,355)	78,497
Total non-depreciable assets at historical cost	975,962	208,536	(174,355)	1,010,143
Depreciable:				
Buildings	2,756,061	17,000	-	2,773,061
Other improvements	3,051,235	64,065	-	3,115,300
Machinery and equipment	2,699,767	232,015	(18,250)	2,913,532
Utility property	39,505,096	253,052	-	39,758,148
Total depreciable assets at historical cost	48,012,159	566,132	(18,250)	48,560,041
Less accumulated depreciation				
Buildings	(1,243,297)	(67,743)	-	(1,311,040)
Other improvements	(1,380,049)	(113,254)	-	(1,493,303)
Machinery and equipment	(1,418,646)	(244,158)	-	(1,662,804)
Utility property	(20,923,456)	(771,449)	-	(21,694,905)
Total accumulated depreciation	(24,965,448)	(1,196,604)	-	(26,162,052)
Net depreciable assets	23,046,711	(630,472)	(18,250)	22,397,989
Business-type capital assets, net	$ 24,022,673	$ (421,936)	$ (192,605)	$ 23,408,132

	Balance at June 30, 2010	Additions	Transfers	Disposals	Balance at June 30, 2011
Component Units:					
Non-depreciable:					
Land	$ 1,035,307	$ -	$ -	$ (125,859)	$ 909,448
Construction-in-progress	1,934,627	723,878	(633,917)	(1,545,363)	479,225
Total non-depreciable assets at historical cost	2,969,934	723,878	(633,917)	(1,671,222)	1,388,673
Depreciable:					
Land improvements	564,750	317,832	485,189	(31,030)	1,336,741
Buildings and improvements	33,836,040	337,930	1,224,602	-	35,398,572
Machinery and equipment	33,901,148	1,666,023	(38,569)	(2,565,479)	32,963,123
Total depreciable assets at historical cost	68,301,938	2,321,785	1,671,222	(2,596,509)	69,698,436
Less accumulated depreciation					
Land improvements	(564,750)	(29,403)	(337,509)	-	(931,662)
Buildings and improvements	(19,508,843)	(1,116,110)	295,972	-	(20,328,981)
Machinery and equipment	(21,660,807)	(3,223,870)	41,537	1,498,799	(23,344,341)
Total accumulated depreciation	(41,734,400)	(4,369,383)	-	1,498,799	(44,604,984)
Net depreciable assets	26,567,538	(2,047,598)	1,671,222	(1,097,710)	25,093,452
Component Unit capital assets, net	$ 29,537,472	$ (1,323,720)	$ 1,037,305	$ (2,768,932)	$ 26,482,125

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

Depreciation expense charged to governmental activities:	
Legislature	$ 1,244
Administration	193,511
Public safety	413,381
Community services	268,839
Public works	1,476,627
Total governmental activities depreciation expense	$ 2,353,602
Depreciation expense charged to business-type activities:	
Water	$ 501,065
Sewer	237,292
Sanitation	314,512
Airport	143,735
Total business-type activities depreciation expense	$ 1,196,604

6. Economic Development Liabilities

Economic Development Agreement – Lowe's

On October 12, 2004, the City entered into an economic development agreement with Lowe's Home Centers, Inc. to provide economic development incentives to insure the construction of a Lowe's Home Improvement Warehouse in the City. The agreement requires the City to deliver incentives in the amount of $2,000,000 to Lowe's Home Centers, Inc. with $1,000,000 to be deposited into an escrow account and approximately $1,000,000 to be paid to Lowe's Home Centers, Inc. on opening day for reimbursement of infrastructure expenses of up to $800,000 and $200,000 for the initial annual economic incentive payment. The City will then pay Lowe's Home Centers, Inc. $200,000 each year on the anniversary of the opening date from the escrow account until all economic development incentives paid to Lowe's Home Centers, Inc. equals $2,000,000. The annual economic incentive payment will be subject to a minimum gross sales increase of $1,000,000 each year and the maintenance of at least 100 employees for the agreement term of 10 years.

The agreement states that the City will reimburse Lowe's Home Centers, Inc. for the public infrastructure improvements (estimated at an amount up to $800,000) and the initial economic development incentive payment of $200,000 on the opening date. The City made a payment to Lowe's Home Centers, Inc. during fiscal year 07-08, related to the opening day agreement, in the amount of $597,651 (due to Lowe's not meeting certain requirements for the full estimate).

No payments were made to Lowe's out of the escrow account during fiscal year 08-09. $200,000 was paid to Lowe's in March 2010. In addition, $400,000 was paid to Lowe's in FY 10-11. The City has recorded on the financial statements of McAlester Public Works Authority an escrow deposit liability in the amount of $509,914, which includes interest earned on the deposit. This amount is considered a current liability of the MPWA.

7. Long-Term Debt and Debt Service Requirements

For the year ended June 30, 2010, the reporting entity's long-term debt changed as follows:

	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011	Amounts Due Within One Year
Governmental Activities:					
Capital Lease Obligations	$ 554,053	$ 180,987	$ 343,619	$ 391,421	$ 109,301
Accrued Compensated Absences	2,280,882	439,244	882,741	1,837,385	183,739
Claims Liability	77,832	397,938	156,011	319,759	-
Net Pension Benefit Obligation	361,408	-	4,951	356,457	-
Total Governmental Long-Term Debt	$ 3,274,175	$ 1,018,169	$ 1,387,322	$ 2,905,022	$ 293,040
Business-type Activities:					
Claims Liability	$ 226,281	$ -	$ 226,281	$ -	$ -
Landfill Closure and Post-closure Liability	2,289,171	260,829	-	2,550,000	260,829
Due to Depositors	385,434	111,823	88,610	408,647	81,729
Net Pension Benefit Obligation	109,346	-	2,502	106,844	-
Settlement Obligation	125,001	-	125,001	-	-
Notes Payable	1,201,574	-	201,323	1,000,251	510,276
Water Contract Obligations	277,525	-	24,668	252,857	25,286
Revenue Bonds Payable	60,037,888	943,631	2,395,000	58,586,519	2,625,000
Accrued Compensated Absences	306,240	54,683	68,824	292,099	29,210
Total Business-type Long-Term Debt	$ 64,958,460	$ 1,370,966	$ 3,132,209	$ 63,197,217	$ 3,532,330
			Less: Unamortized Loss on Refunding	(1,113,478)	
			Less: Unamortized Discount	(234,972)	
			Add: Unamortized Premium	640,032	
				$ 62,488,799	

Governmental activities long-term debt:

Unless otherwise indicated, the governmental activities long-term debt obligations are generally paid from the General Fund.

Capital Lease Obligations:

$98,796 capital lease with First National Bank for an ambulance, payable in annual installments of $22,664, final payment due June 5, 2014, with interest at 4.75%, paid from the General Fund	$62,001
$277,913 capital lease with First National Bank for 10 police vehicles, payable in monthly installments of $5,185, final payment due July 25, 2014, with interest at 4.55%, paid from the General Fund	178,608
$180,987 capital lease with First National Bank for street dept freightliner, payable in monthly installments of $3,379, final payment due July 28, 2015, with interest at 4.55%, paid from the Capital Improvement Plan Fund	150,812
Total Capital Lease Obligation	$391,421

Capital Lease Obligations:	
Current portion	$ 109,301
Noncurrent portion	282,120
Total Capital Lease Obligations	$391,421
Accrued Compensated Absences:	
Current portion	$ 183,739
Noncurrent portion	1,653,646
Total Accrued Compensated Absences	$1,837,385
Claims Liability:	
Current portion	$ -
Non-current portion	319,759
Total Claims Liability	$ 319,759
Net Pension Obligation:	
Current portion	$ -
Non-current portion	356,457
Total Pension Obligation	$ 356,457

Business-type activities long-term debt:

Notes Payable:

1999 CDBG-EDIF Promissory Note with McAlester Economic Development Service dated September 19, 2000, original amount of $275,000 with an annual interest rate of 0.00%, due in monthly installments of $1,146, final installment November 1, 2021.	$143,229
2006 CDBG-ED Promissory Note with City of McAlester dated October 1, 2006, original amount of $125,000, reduced to $67,800, with an annual interest rate of 0.00%, due in monthly installments of $282.50, final installment October 1, 2026.	53,110

PWA Note Payable for 2 trash trucks with First National Bank dated March 2, 2009, original amount of $257,565 with an annual interest rate of 4.3%, due in annual installments of $56,139, final installment April 1, 2013.	86,994
MAA Note Payable with First National Bank, renewed on July 11, 2006, original line of credit amount of $405,325, with an annual interest rate of 4.25%, due in monthly installments of $2,510, final installment July 15, 2011.	335,326
PWA Note Payable for a backhoe with Welch State Bank dated April 15, 2009, original amount of $84,100 with an annual interest rate of 3.949%, due in annual installments of $18,865, final installment March 31, 2014.	52,105
PWA Note Payable for caterpillar & trash compactor with First National Bank dated December 14, 2009, original amount of $455,000 with an annual interest rate of 4.7%, due in monthly installments of $8,524, final installment December 14, 2014.	329,487
Total Notes Payable	$1,000,251
Current portion	$510,276
Non-current portion	489,975
Total Notes Payable	$1,000,251

Water Rights Contract:

1987 contract with U.S. Army Corps of Engineers dated December 11, 1987, original amount of $719,075 with an annual interest rate of 2.59% due in annual installments of $31,859, final installment December 12, 2019.	$252,857
Current portion	$ 25,286
Non-current portion	227,571
Total Water Rights Contract	$252,857

Revenue Bonds Payable:

1999A Series Utility System Revenue Bonds:

Serial bonds in the amount of $3,990,000, after defeasance, originally dated May 1, 1999, issued by McAlester Public Works Authority, secured by utility revenue and pledged sales tax, principal maturing annually ranging from $305,000 to $805,000, interest rates from 4.25% to 4.75%, final maturity February 1, 2010.	
Term bonds in the amount of $16,825,000, after defeasance, originally dated May 1, 1999, issued by McAlester Public Works Authority, secured by utility revenue and pledged sales tax, principal maturing annually ranging from $840,000 to $2,295,000, interest rate at 5.75%, final maturity February 1, 2020.	$15,985,000
Capital appreciation bonds in the face amount of $5,928,832, after defeasance, originally dated May 1, 1999, issued by McAlester Public Works Authority, secured by utility revenue and pledged sales tax, principal maturing at the accreted value of $25,623,620, interest rate at 5.70%, final maturity February 1, 2030. Interest is accreted (or added to the principal balance) until maturity, at which time, the entire principal balance of $25,623,620 will be due and payable.	25,623,620
Less: Unaccreted portion	(13,522,527)
Principal outstanding at year end	12,101,093

2002 Series Utility System Revenue Bonds:

Term bonds in the amount of $15,365,000 dated July 1, 2002, issued by McAlester Public Works Authority, secured by utility revenue and pledged sales tax, total principal due at maturity, interest Rate at 4.30%, final maturity February 1, 2034.	14,095,000
Capital appreciation bonds in the face amount of $3,037,176 dated July 1, 2003, issued by McAlester Public Works Authority, secured by utility revenue and pledged sales tax, principal maturing at the accreted value of $17,560,000, interest rate at 4.30%, final maturity February 1, 2034. Interest is accreted (or added to the principal balance) until maturity, at which time, the entire principal balance of $17,560,000 will be due and payable.	17,560,000
Less: Unaccreted portion	(12,564,574)
Principal outstanding at year end	4,995,426

2003A Series Sales Tax Revenue Bonds:

Term Bonds in the amount of $7,000,000 dated July 1, 2003, issued by McAlester Public Works Authority, secured by pledged sales tax, total principal due at maturity, initial interest rate at 2.10% increasing to 5.50%, final maturity September 1, 2018.	4,560,000

2003B Series Sales Tax Revenue Bonds:

Term Bonds in the amount of $6,220,000 dated July 1, 2003, issued by McAlester Public Works Authority, secured by pledged sales tax, total principal due at maturity, initial interest rate of 4.00% increasing to 7.10%, final maturity September 1, 2018.	4,200,000

2004 Series Sales Tax Revenue Bonds:

Term Bonds in the amount of $2,700,000 dated October 1, 2004, issued by McAlester Public Works Authority, secured by pledged sales tax, total principal due at maturity, interest rate at 7.25%, final maturity September 1, 2014	2,650,000
Total Revenue Bonds Payable	$58,586,519
Current portion	$ 2,625,000
Noncurrent portion	55,961,519
Total Revenue Bonds Payable	$58,586,519
Unamortized loss on refunding	(1,113,478)
Unamortized bond premium/discount	405,060
Total Revenue Bonds Payable, **net**	$57,878,101

Landfill Closure and Post-Closure Liability:

A $2,550,000 accrued liability has been recognized in the McAlester Public Works Authority to represent the total estimated amount owed by the Authority for closure and postclosure requirements dictated by the U.S. Environmental Protection Agency and the Oklahoma Department of Environmental Quality regulations and represented the cumulative amount of such costs reported to date based on the use of approximately 74.77% of the estimated capacity of the landfill. It is estimated that an additional $860,640 will be recognized as closure and postclosure expense between the current balance sheet date and the date the landfill is expected to be filled to capacity. However, the actual cost of closure and postclosure may be higher due to inflation, changes in technology, or changes in landfill laws and regulation. The City expects to close the landfill in the year 2015. The estimated remaining landfill life is 56 months.

Current portion	$ 260,829
Noncurrent portion	2,289,171
Total Landfill Closure and Postclosure Liability	$2,550,000

Accrued Compensated Absences:	
Current portion	$ 29,210
Noncurrent portion	262,889
Total Accrued Compensated Absences	$ 292,099

Deposits Subject to Refund:	
Current portion	$ 81,729
Noncurrent portion	326,918
Total Deposits Subject to Refund	$ 408,647

Net Pension Obligation:	
Current portion	$ -
Non-current portion	106,844
Total Net Pension Obligation	$ 106,844

Debt Service Requirements to Maturity

Long-term debt service requirements to maturity of the primary government are as follows:

	Governmental Activity Debt	
	Capital Lease Obligations Payable	
Year Ended June 30,	Principal	Interest
2012	$109,301	$16,128
2013	114,442	10,988
2014	119,782	5,649
2015	44,530	1,200
2016	3,366	13
Total	$391,421	$33,978

Year Ended June 30,	Business-Type Activity Debt Notes Payable Principal	Interest
2012	$510,276	$20,674
2013	162,135	12,256
2014	132,471	5,606
2015	67,590	696
2016	17,140	-
2017-2021	85,700	-
2022-2026	22,679	-
2027-2029	2,260	-
Total	$1,000,251	$39,232

Year Ended June 30,	Water Rights Contract Obligation Principal	Interest	Revenue Bonds Payable Principal	Interest
2012	$25,286	$6,633	$2,625,000	$2,298,981
2013	25,949	5,970	2,895,000	2,156,444
2014	26,629	5,289	3,090,000	1,993,766
2015	27,328	4,591	5,075,000	1,818,051
2016	28,044	3,874	3,230,000	1,499,096
2017-2021	119,621	8,054	16,679,180	6,139,597
2022-2026	-	-	7,387,709	11,253,284
2027-2031	-	-	7,183,761	12,259,511
2032-2034	-	-	2,290,358	11,339,642
Total	$252,857	$34,411	$50,456,008	$50,758,372
Accreted Portion of Debt			8,130,511	(8,130,511)
			$58,586,519	$42,627,861

Component Units have the following long-term debt at June 30, 2011:

	Balance June 30, 2010	Additions	Deductions	Transfers	Balance June 30, 2011	Amounts Due Within One Year
Component Unit Activities:						
Capital Lease Obligations	$ 4,037,881	$ 892,202	$ 1,805,654	$ (976,294)	$ 2,148,135	$ 1,014,313
Notes Payable to Vendors	-	-	-	976,294	976,294	653,236
Notes Payable to Banks	2,443,073	-	939,571	-	1,503,502	385,508
Total Component Unit Debt	$ 6,480,954	$ 892,202	$ 2,745,225	$ -	$ 4,627,931	$ 2,053,057

McAlester Regional Health Center Authority Component Unit

Notes Payable to Banks:

The notes payable to banks are due between August 2011 and December 2022, payable monthly, including interest at rates of 3.25% to 5.50%. The notes are secured by real estate and certain capital assets. The debt service requirements as of June 30, 2011, are as follows:

	Discretely Presented Component Unit Debt	
	Notes Payable to Banks	
Year Ended June 30,	Principal	Interest
2012	$385,508	$61,184
2013	236,495	49,119
2014	182,994	38,876
2015	472,966	21,837
2016	33,155	11,237
2017-2021	152,897	33,708
2022-2023	39,487	1,910
Total	$1,503,502	$217,871

Notes Payable to Vendor:

Agreements previously recorded in obligations under capital lease were transferred to notes payable to vendor. The notes payable to vendor are due between August 2012 and November 2013, payable monthly, including interest at rates of 8.18% to 9.45%. The debt service requirements as of June 30, 2011, are as follows:

	Discretely Presented Component Unit Debt	
	Notes Payable to Vendor	
Year Ended June 30,	Principal	Interest
2012	$653,236	$60,440
2013	251,766	14,259
2014	71,292	1,480
Total	$976,294	$76,179

Capital Lease Obligations:

The Authority is obligated under leases for equipment that are accounted for as capital leases. The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates of 3.77% to 7.005% together with the present value of the future minimum lease payments as of June 30, 2011:

Year Ended June 30,	Capital Lease Obligations Payable
2012	$1,094,269
2013	670,314
2014	341,962
2015	160,713
2016	19,806
Total minimum lease payments	2,287,064
Less amount representing interest	138,929
Present value of future minimum lease payments	$2,148,135

8. Net Assets and Fund Balances

The following tables show the fund balance classifications as shown on the Governmental Funds Balance Sheet in accordance with GASB Statement 54 and Proprietary Fund Statement of Net Assets:

	General Fund	Reserve Fund	Capital Improvement Plan Fund	Dedicated Sales Tax - MPWA	Other Governmental Funds	Total
Fund Balance:						
Restricted For:						
Grant purposes	-	-	-	-	84,416	84,416
Capital improvements-bond repayment	-	-	3,344,679	-	-	3,344,679
Juvenile programs	-	-	-	-	17,251	17,251
Tourism	-	-	-	-	298,002	298,002
E911	-	-	-	-	914,395	914,395
Economic development	-	-	-	-	2,421,904	2,421,904
Other	-	-	-	-	4,884	4,884
Police capital outlay	-	-	-	-	64,994	64,994
Cemetery	-	-	-	-	358,151	358,151
Emergencies	-	3,303,603	-	-	-	3,303,603
Debt Service	-	-	-	3,456,190	1,314,860	4,771,050
Sub-total Restricted	-	3,303,603	3,344,679	3,456,190	5,478,857	15,583,329
Assigned to:						
Tourism	-	-	-	-	165,558	165,558
E911	-	-	-	-	1,132	1,132
Other	-	-	-	-	32,500	32,500
Debt service	-	-	-	139	-	139
Emergencies	-	273,858	-	-	-	273,858
Nutrition services	14,263	-	-	-	-	14,263
Budget balancing purposes	45,000	-	-	-	-	45,000
Sub-total Assigned	59,263	273,858	-	139	199,190	532,450
Unassigned	1,153,793	-	-	-	-	1,153,793
Total Fund Balance	$ 1,213,056	$ 3,577,461	$ 3,344,679	$ 3,456,329	$ 5,678,047	$ 17,269,572

Enterprise Funds:		
Restricted For Economic Development	$	669,133
Total Enterprise Fund Restrictions	$	669,133

Restricted Net Assets – Governmental Activities

The following table shows the net assets restricted for other purposes as shown on the Statement of Net Assets:

Fund	Restricted By		Amount
E911 Fund	Enabling legislation	$	914,395
Reserve Fund	Enabling legislation		3,303,603
Dedicated Sales Tax - MPWA	Enabling legislation		3,456,190
Tourism / SE Expo Fund	Enabling legislation		298,002
Economic Development Fund	Enabling legislation		2,421,904
Sales Tax - Schools Fund	Enabling legislation		1,314,860
			11,708,954
Capital Improvement Plan Fund	State statutes and/or debt indentures	$	3,344,679
Juvenile Fine Fund	State statutes and/or debt indentures		17,251
State Forfeiture Fund	State statutes and/or debt indentures		17,808
Cemetery Perpetual Care Fund	State statutes and/or debt indentures		358,151
Federal Forfeiture Fund	State statutes and/or debt indentures		41,326
			3,779,215
Gifts and Contributions Fund	External parties	$	4,884
Police Equipment Fund	External parties		5,860
CDBG Grants Fund	External parties		84,416
			95,160

9. Dedicated Tax Revenues and Pledges of Future Revenues

Sales and Use Tax

Sales and use tax revenue represents a 3.50 cents tax on each dollar of taxable sales which is recorded as revenue within the respective funds. Upon receipt, the sales tax is recorded as follows:

- 2 cents is recorded in the General Fund.
- 1 cent recorded in the Dedicated Sales Tax Fund MPWA and then transferred to the McAlester Public Works Authority Fund for the payment of debt service restricted by voter approval.
- ¼ cent recorded in the Sales Tax Schools Fund for the acquisition, construction, equipment and financing of education facilities and the payment of debt service for such purpose restricted by voter approval (effective April 1, 2003).
- ¼ cent recorded in the Economic Development Fund for economic development and the payment of debt service for such purpose restricted by voter approval (effective April 1, 2003).

Pledge of Future Revenues

Sales Tax and Utility Net Revenues Pledge - The City has pledged one and one-half cents (or 42.86%) of future sales tax revenues to repay $58,586,519 of Series 1999, 2002, 2003, and 2004 Sales Tax and Utility System Bonds. Proceeds from the bonds provided financing for capital assets, economic development, and school related capital contributions. The 2003A, 2003B and 2004 bonds are payable solely from pledged sales tax revenues. The 1999 and 2002 bonds and the 1999 loan are payable from pledged sales tax revenues and further secured by net water, wastewater, and sanitation revenues. The bonds are payable anywhere from 2011 through 2034. The total principal and interest payable for the remainder of the life of these bonds is $101,214,380, which includes $43,183,620 of accreted bonds. Pledged sales taxes transferred in the current year were $4,507,312 and the net utility revenues were $2,815,067. Debt service payments of $4,847,284, excluding accreted interest, for the current fiscal year were 107.5% of the pledged and transferred sales taxes and 66.2% of both pledged and transferred sales taxes and utility revenues.

10. Internal and Interfund Balances and Transfers

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

Transfer From	Transfer To	Amount	Nature of Transfer
General Fund	Police Equipment Fund	$6,750	Matching grant monies
General Fund	Nutrition Fund	244,232	Operating transfer
General Fund	Tourism/SE Expo Fund	3,202	Operating transfer
General Fund	McAlester Airport Authority	106,489	Operating transfer
General Fund	Gifts & Contributions Fund	32,500	City share of ADA project
General Fund	Capital Improvement Plan Fund	100,000	Transfer for capital improvements
General Fund	MPWA	41,344	Transfer for one-time pay (reimbursement)
Dedicated Sales Tax Fund	MPWA - Bond Trustee Acct	3,341,375	Debt payments to trustee bank
Sales Tax - Schools Fund	MPWA - Bond Trustee Acct	430,715	Debt payments to trustee bank
Economic Development Fund	MPWA - Bond Trustee Acct	735,222	Debt payments to trustee bank
Economic Development Fund	MPWA	3,390	Trustee bank fiscal agent fees
MPWA	General Fund	1,580,050	Operating transfer
MPWA	Dedicated Sales Tax Fund	139	Trustee payments - Reimbursement
MPWA	Capital Improvement Plan Fund	140,950	Transfer for capital improvements
		$6,766,358	

	Transfers In	Transfers Out	Net Transfers/ Internal Activity
Reconciliation to Fund Financial Statements:			
Governmental Funds	$2,107,823	($5,045,219)	($2,937,396)
Enterprise Funds	4,658,535	(1,721,139)	2,937,396
Total Transfers	$6,766,358	($6,766,358)	-

Reconciliation to statement of activities:	Governmental	Business-Type
Net transfers	($2,937,396)	$2,937,396
Reclassification of expenses between activities	($3,302)	$3,302
Reclassification of capital asset purchases between activities	($416,192)	$416,192
Total Transfers - Internal Activity	($3,356,890)	$3,356,890

Balances:

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

Due From	Due To	Amount	Nature of Interfund Balance
General Fund	Capital Improvement Plan Fund	$800,000	Bond related issues
General Fund	Fleet Maintenance Fund	28,478	GF share of payroll liability
General Fund	Workers Compensation Fund	160,837	GF share of claims liability
Juvenile Fine Fund	Gifts & Contributions Fund	25,000	Park donation
MPWA	Fleet Maintenance Fund	10,533	GF share of payroll liability
MPWA	Workers Compensation Fund	158,922	GF share of claims liability
		$1,183,770	

	Due From Other Fund	Due To Other Funds	Internal Service Funds Reconciliation	Net Activity/ Internal Balances
Reconciliation to Fund Financial Statements:				
Governmental Funds	$825,000	($1,014,315)	$358,770	$169,455
Enterprise Funds	-	(169,455)	-	(169,455)
Total Interfund Balances	$825,000	($1,183,770)	$358,770	-

The City continues to report an interfund receivable/payable in the original amount of $3,291,826 between the General Fund and the Capital Improvement Plan Fund (MPWA). This interfund receivable/payable is the result of questions raised in a forensic audit dealing with questioned transfers made in prior years from the MPWA to the General Fund. At the current time, the City has developed a schedule of annual reimbursements to be made by the General Fund to the Capital Improvement Plan Fund(MPWA) until the interfund payable is deemed to be satisfied. The current balance of this interfund receivable/payable is $800,000.

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 – Purchased commercial insurance with no risk of loss retained.
- Workers' Compensation – Self insured up to $250,000 per occurrence. Additional coverage is maintained with a reinsurance policy up to a $5,000,000 limit. The reinsurance policy also covers aggregate losses exceeding $800,000 with a limit of $1,000,000 during the two year policy period.
- Dental Insurance – Self insured.
- Employee's Group Medical – Covered through purchased commercial insurance with no risk of loss retained.

Management believes the insurance coverage listed above is sufficient to preclude any significant uninsured losses to the City. There were no significant changes in coverage in the current year and settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

Claims Liability Analysis

The claims liabilities related to the above noted risks of loss that are retained are determined in accordance with the requirements of Statement of Financial Accounting Standard No. 5, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. For workers' compensation, changes in the claims liability for the City from July 1, 2008 to June 30, 2011 are as follows:

	Total Claims Liability
Claims liability, July 1, 2008	$255,568
Claims incurred	$717,382
Claims paid	(635,915)
Claims liability, July 1, 2009	337,035
Claims incurred	$371,749
Claims paid	(404,671)
Claims liability, June 30, 2010	304,113
Claims incurred	$397,938
Claims paid	(382,292)
Claims liability, June 30, 2011	$319,759

12. Contingencies

Litigation:

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

Federal and State Award Programs:

The City of McAlester participates in various federal or state grant/loan programs from year to year. In 2011, the City's involvement in federal and state award programs was not significant. 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.

Sales Tax Related Issues (One-cent dedicated sales tax):

In July 2007, the City began segregating excess sales taxes earned related to a one-cent dedicated sales tax into a separate special revenue fund, with the intent to use these either for debt service or for capital improvements. A special election was held on August 11, 2009. As a result, the citizenry decided that the excess sales tax was restricted for debt service only. Segregation of these excess monies into a separate fund continue and are restricted solely for debt service.

DEQ Consent Order:

The City of McAlester is currently under three Consent Orders from the Oklahoma Department of Environmental Quality related to the water treatment plant; Case 02-101A, Case No. 07-233, and Case 09-241. Case 02-101A relates to turbidity. The schedule for completion is in the process of being modified by the Oklahoma Department of Environmental Quality since there were delays on proceeding with the construction due to the E.P.A. process. The construction to upgrade the water plant filters and associated work for this Consent Order should be completed in 2011-2012. Case 07-233 relates to disinfection by-products (dbp's). This work has been completed and the plant is approaching compliance. Case 09-241 relates to the discharge from the plant's backwash lagoons. As approved by DEQ, the Lagoon Improvements schedule sets the Engineering and Design to be in FY 2011-2012, construction is scheduled to begin October 2012, and completion of construction to be by January 2014.

13. Pension Plan Participation

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

1. Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
2. Oklahoma Police Pension and Retirement System (OPPRS) – a statewide cost-sharing plan
3. City of McAlester Employee's Retirement System – a single-employer defined benefit plan

City of McAlester Employee's Retirement System Defined Benefit Plan:

The City contributes to the City of McAlester Employees' Retirement System (the "System"), which is a single employer defined benefit pension plan administered by the City of McAlester City Council. All non-union full-time City employees participate in the System. The City's retirement ordinance requires that actuarial valuations be performed annually to determine if the City's fixed contribution rate is adequate to fund the actuarially determined contribution requirement. The System does not issue separate annual financial statements.

The following is a summary of funding policies, contribution methods, and benefit provisions:

Year established and governing authority	1995 by City Council Ordinance
Determination of Contribution requirements	Actuarially determined
Employer	19.2% of Payroll ($821,436 annual required contribution)
Plan members	None required
Funding of administrative costs	Investment earnings
Period required to vest	10 years
Eligibility for distribution	Age 65, or age 60 with ten years credited service. Annual rate of retirement starts at 5% at age 60.
Provisions for:	
Disability benefits	Yes
Death benefits	Yes

Annual Required Contributions

Actuarial assumptions:

Valuation date	July 1, 2011
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level Dollar
Amortization period	30 years remaining
Actuarial asset valuation method	5-year weighted average market value, recognizing gains and losses at the rate of 20% per year.
Investment rate of return	7.2%
Projected salary increases	Varies from 3.10% to 10.30%

B. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting - Disclosures of the System's financial condition are prepared using the accrual basis of accounting. Employer contributions are recognized as System revenues in the period in which employee services are performed.

Method Used to Value Investments - Values of System assets are reported at fair value which approximates market. As of June 30, 2011, the System held no related party investments or individual investments (other than U.S. government and U.S. government guaranteed securities) whose market value exceeds five percent or more of the net assets available for benefits.

C. Annual Pension Cost and Net Pension Obligation

The annual pension cost and net pension obligation to the Plan for the fiscal year ended June 30, 2011 was as follows:

	2011
Annual pension cost	$806,226
Contributions made	(814,184)
Increase (decrease) in net pension obligation	(7,958)
Net pension obligation beginning of year	470,753
Net pension obligation end of year	$462,795

D. Trend Information

McAlester Employees' Retirement System			
Fiscal Year	Required Contribution	Percentage Contributed	Net Pension Obligation (Asset)
2008	$ 533,593	99.5%	$ 572,508
2009	518,694	116.3%	487,961
2010	657,455	102.6%	470,753
2011	806,226	101.0%	462,795

Funded Status and Funding Progress

As of July 1, 2011, the funded status of the McAlester Employees' Retirement System defined benefit plan is as follows:

Actuarial accrued liability (AAL)	$15,986,289
Actuarial value of plan assets	10,503,533
Overfunded (Unfunded) actuarial accrued liability (UAAL)	$ (5,482,756)
Funded ratio (actuarial value of plan assets/AAL)	65.7%
Annual covered payroll (active plan members)	$4,037,185
UAAL as a percentage of covered payroll	135.8%

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

Firefighter Pension System:

Plan Summary Information. The City of McAlester, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter's Pension and Retirement System (OFPRS). The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ fulltime or volunteer firefighters.

The State made on-behalf payments to the Oklahoma Firefighter's Pension and Retirement System of $508,174 (or 24.6% of covered payroll).

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

Funding Policy. OFPRS plan members are required to contribute 8% of their annual salary to the plan. The City is required by state law to contribute 13% of the members' annual salary. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

Police Pension System:

Plan Summary Information. Pursuant to the requirements of Title 11, section 22-102, the City of McAlester participates in the statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Police Pension and Retirement System (OPPRS).

The State made on-behalf payments to the Oklahoma Police Pension and Retirement System of $226,566 (or 10.03% of covered payroll).

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

Funding Policy. OPPRS plan members are required to contribute 8% of their annual salary to the plan. The City is required by state law to contribute 13% of the members' annual salary. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

Summary of Contributions:

Oklahoma Firefighter's Pension and Retirement System			Oklahoma Police Pension and Retirement System		
Fiscal Year	Required Contribution	Percentage Contributed	Fiscal Year	Required Contribution	Percentage Contributed
2009	$ 312,728	100%	2009	$ 299,518	100%
2010	281,276	100%	2010	296,068	100%
2011	269,253	100%	2011	295,100	100%

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedules (Budgetary Basis) – Year Ended June 30, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Beginning Budgetary Fund Balance, Restated:	-	$819,891	$853,814	$33,923
Resources (Inflows):				
TAXES:				
Sales tax	$7,365,964	7,405,211	7,909,279	504,068
Use tax	570,000	570,000	554,710	(15,290)
Franchise tax	478,000	478,000	690,709	212,709
Total Taxes	8,413,964	8,453,211	9,154,698	701,487
INTERGOVERNMENTAL:				
Alcoholic beverage tax	111,000	111,000	115,636	4,636
Tobacco/cigarette tax	174,000	174,000	198,172	24,172
Gas excise tax	40,000	40,000	34,954	(5,046)
Vehicle tax	126,000	126,000	127,218	1,218
Grant revenue	24,000	30,000	48,585	18,585
Total Intergovernmental	475,000	481,000	524,565	43,565
CHARGES FOR SERVICES:				
Court costs	340,000	340,000	363,076	23,076
Cemetery opening/closing	31,200	31,200	31,697	497
Cemetery fees	3,000	4,600	12,450	7,850
Swimming pool revenue	25,000	25,000	31,440	6,440
Ambulance revenue	380,000	420,000	424,145	4,145
False alarms	1,500	1,500	-	(1,500)
Street cuts	2,000	2,000	3,789	1,789
Recreation fees	4,000	4,000	6,175	2,175
Administrative reimbursement	-	17,100	17,100	-
Oil and gas leases	230,000	592,025	620,226	28,201
Abatements	32,000	32,000	23,367	(8,633)
Rental property	12,000	12,000	6,400	(5,600)
Rental rooms	6,500	6,500	6,830	330
Burgular alarms	3,000	3,000	10,100	7,100
Complex concessions	9,000	10,000	15,137	5,137
Complex rental	12,700	13,700	23,373	9,673
Total Charges for Services	1,091,900	1,514,625	1,595,305	80,680
FINES AND FORFEITURES	877,450	877,450	743,659	(133,791)
LICENSES AND PERMITS	117,270	119,770	159,227	39,457
INVESTMENT INCOME	50,000	50,000	54,212	4,212
MISCELLANEOUS:				
Auctions	-	-	18,909	18,909
Hay sales	800	800	2,612	1,812
Vendors	1,000	1,000	560	(440)
Cemetery lots	16,500	16,500	16,494	(6)
Demolitions	4,400	4,400	4,283	(117)
Court admin fee	7,000	7,000	4,019	(2,981)
Miscellaneous	60,000	60,000	14,210	(45,790)
Credit card payment fees	3,000	3,000	7,617	4,617
Restitution reimbursements	5,604	5,604	6,617	1,013
Reimbursements	81,000	91,500	60,330	(31,170)
Total Miscellaneous	179,304	189,804	135,651	(54,153)
OTHER FINANCING SOURCES:				
Transfers from other funds	1,591,377	1,580,050	1,580,050	-
Total Other Financing Sources	1,591,377	1,580,050	1,580,050	-
Amounts available for appropriation	12,796,265	14,085,801	14,801,181	715,380

(Continued)

(Continued)

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Original	Amounts	Positive (Negative)
Charges to Appropriations (Outflows):				
LEGISLATURE:				
Mayor and Council:				
Personal services	4,845	4,845	4,198	647
Materials and supplies	750	750	329	421
Other services and charges	112,900	108,560	91,148	17,412
Capital outlay	-	-	190	(190)
TOTAL LEGISLATURE	118,495	114,155	95,865	18,290
ADMINISTRATION:				
City Manager:				
Personal services	191,652	211,900	201,896	10,004
Materials and supplies	5,000	2,000	1,851	149
Other services and charges	29,300	139,393	118,899	20,494
Capital outlay	120,000	-	-	-
Total City Manager	345,952	353,293	322,646	30,647
Finance:				
Personal services	348,470	288,724	262,161	26,563
Materials and supplies	5,200	7,100	6,076	1,024
Other services and charges	10,300	7,400	4,017	3,383
Capital outlay	38,500	4,500	4,442	58
Total Finance	402,470	307,724	276,696	31,028
City Clerk:				
Personal services	66,201	84,293	79,786	4,507
Materials and supplies	1,500	1,500	1,375	125
Other services and charges	10,800	20,895	16,472	4,423
Total City Clerk	78,501	106,688	97,633	9,055
City Attorney:				
Personal services	17,374	18,674	17,369	1,305
Materials and supplies	200	200	-	200
Other services and charges	110,200	112,900	101,174	11,726
Total City Attorney	127,774	131,774	118,543	13,231
Court:				
Personal services	146,726	153,130	145,229	7,901
Materials and supplies	7,000	5,625	5,618	7
Other services and charges	16,000	16,375	14,525	1,850
Total Court	169,726	175,130	165,372	9,758
Interdepartmental:				
Personal services	237,500	-	-	-
Materials and supplies	3,300	6,800	4,958	1,842
Other services and charges	851,358	729,219	709,756	19,463
Total Interdepartmental	1,092,158	736,019	714,714	21,305
Information Services:				
Personal services	64,365	72,209	68,562	3,647
Materials and supplies	3,000	3,090	2,052	1,038
Other services and charges	39,540	45,290	40,951	4,339
Capital outlay	20,000	30,920	23,540	7,380
Total Information Services	126,905	151,509	135,105	16,404

(Continued)

(Continued)

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Original	Amounts	Positive (Negative)
ADMINISTRATION, (Continued):				
CID:				
Personal services	521,293	567,716	550,266	17,450
Materials and supplies	9,300	8,850	8,826	24
Other services and charges	3,500	4,350	2,190	2,160
Total CID	534,093	580,916	561,282	19,634
TOTAL ADMINISTRATION	2,877,579	2,543,053	2,391,991	151,062
PUBLIC SAFETY:				
Patrol:				
Personal services	2,522,999	2,827,503	2,776,018	51,485
Materials and supplies	42,700	177,600	161,521	16,079
Other services and charges	49,250	219,600	204,816	14,784
Capital outlay	6,000	16,500	16,447	53
Debt service	62,220	62,220	62,220	-
Total Patrol	2,683,169	3,303,423	3,221,022	82,401
Animal Control:				
Personal services	80,407	94,039	74,321	19,718
Materials and supplies	4,000	10,200	8,089	2,111
Other services and charges	2,500	11,825	9,338	2,487
Total Animal Control	86,907	116,064	91,748	24,316
Communications:				
Personal services	171,605	180,297	157,627	22,670
Materials and supplies	1,300	1,300	947	353
Other services and charges	500	500	80	420
Total Communications	173,405	182,097	158,654	23,443
Fire:				
Personal services	2,658,310	3,118,633	3,070,383	48,250
Materials and supplies	51,000	70,050	65,834	4,216
Other services and charges	37,550	41,525	40,095	1,430
Debt service	53,024	53,024	37,802	15,222
Total Fire	2,799,884	3,283,232	3,214,114	69,118
EMS:				
Materials and supplies	16,000	41,150	38,491	2,659
Other services and charges	51,500	54,350	52,059	2,291
Total EMS	67,500	95,500	90,550	4,950
TOTAL PUBLIC SAFETY	5,810,865	6,980,316	6,776,088	204,228
COMMUNITY SERVICES:				
Parks:				
Personal services	627,621	718,582	687,283	31,299
Materials and supplies	82,950	127,350	107,454	19,896
Other services and charges	37,800	104,300	100,796	3,504
Debt service	5,748	5,748	5,747	1
Total Parks	754,119	955,980	901,280	54,700
Swimming Pools:				
Personal services	76,348	82,271	73,149	9,122
Materials and supplies	30,500	46,000	45,044	956
Other services and charges	5,000	9,800	9,018	782
Total Swimming Pools	111,848	138,071	127,211	10,860
Recreation:				
Personal services	163,924	183,350	177,651	5,699
Materials and supplies	14,500	21,200	19,888	1,312
Other services and charges	17,600	26,250	24,631	1,619
Total Recreation	196,024	230,800	222,170	8,630

(Continued)

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Original	Amounts	Positive (Negative)
COMMUNITY SERVICES, (Continued):				
Cemetery:				
Personal services	286,849	303,934	288,724	15,210
Materials and supplies	16,750	23,270	16,407	6,863
Other services and charges	100	21,500	21,342	158
Total Cemetery	303,699	348,704	326,473	22,231
Facility Maintenance:				
Personal services	174,778	198,381	193,580	4,801
Materials and supplies	55,000	57,719	57,090	629
Other services and charges	23,600	32,915	32,797	118
Total Facility Maintenance	253,378	289,015	283,467	5,548
TOTAL COMMUNITY SERVICES	1,619,068	1,962,570	1,860,601	101,969
ADMINISTRATIVE SERVICES:				
Planning & Community Development:				
Personal services	229,141	285,686	280,580	5,106
Materials and supplies	3,300	9,100	6,055	3,045
Other services and charges	87,400	64,100	37,246	26,854
Total Planning & Community Development	319,841	358,886	323,881	35,005
Human Resources/Risk Management:				
Personal services	111,189	194,696	187,529	7,167
Materials and supplies	13,750	21,970	22,135	(165)
Other services and charges	14,500	21,180	20,164	1,016
Capital outlay	-	2,200	2,170	30
Total Human Resources/Risk Management	139,439	240,046	231,998	8,048
TOTAL ADMINISTRATIVE SERVICES	459,280	598,932	555,879	43,053
PUBLIC WORKS:				
Fleet Maintenance:				
Materials and supplies	268,700	-	-	-
Total Fleet Maintenance	268,700	-	-	-
Streets:				
Personal services	625,873	804,120	719,729	84,391
Materials and supplies	285,658	309,354	301,172	8,182
Other services and charges	1,000	207,700	206,976	724
Capital outlay	-	-	17,781	(17,781)
Total Streets	912,531	1,321,174	1,245,658	75,516
TOTAL PUBLIC WORKS	1,181,231	1,321,174	1,245,658	75,516
OTHER FINANCING USES:				
Transfers to other funds	729,747	565,601	565,601	-
Total Charges to Appropriations	12,796,265	14,085,801	13,491,683	594,118
Ending Budgetary Fund Balance	-	-	$1,309,498	1,309,498

	SPECIAL REVENUE - RESERVE FUND (Budgetary Basis)			
	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Beginning Budgetary Fund Balance	-	-	$3,534,476	$3,534,476
Resources (Inflows):				
Investment income	-	-	42,985	42,985
Amounts available for appropriation	-	-	3,577,461	3,577,461
Charges to appropriations (outflows):				
Transfers out	-	-	-	-
Total Charges to Appropriations	-	-	-	-
Ending Budgetary Fund Balance	-	-	$3,577,461	$3,577,461

See accompanying notes to budgetary comparison schedules

Footnotes to Budgetary Comparison Schedules:

1. The City prepares its budgets for all funds on the cash basis of accounting for all revenues except for those that are billed by the City (i.e., misc receivables and utility receivables). The modified accrual basis of accounting is used for budgeting of expenditures with the exception of the net effect of certain year-end payroll accruals and outstanding encumbrances related to capital items. The City utilizes encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation. Encumbrances outstanding and their related appropriations, other than those outstanding items related to capital, are lapsed at year end and are re-appropriated and re-encumbered in the subsequent fiscal year.

2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require the approval of the City Manager, subject to a dollar limitation of $25,000. All transfers of appropriation above this limitation and all supplemental appropriations require the approval of the City Council. Supplemental appropriations must be filed with the Office of the State Auditor and Inspector.

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

	General Fund
Sources/Inflows of resources	
Actual amounts (budgetary basis) "available appropriation" from the budgetary comparison schedule	$14,801,181
Differences – budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(853,814)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(1,580,050)
The City reports on-behalf payments made by state in the General Fund in the fund financial statements, but are not budgeted.	734,741

The City budgets for revenues on the modified cash basis of accounting, rather than on the modified accrual basis.	(21,454)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	$13,080,604
Uses/Outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$13,491,683
Differences – budget to GAAP:	
The City budgets for payroll and miscellaneous accrued liabilities on the modified cash basis, rather than on the modified accrual basis.	261,017
The City reports on-behalf payments made by state in the General Fund in the fund financials statements, but are not budgeted.	734,741
Transfers to other funds and component units are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(565,601)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	$13,921,840

	Reserve Fund
Sources/Inflows of resources	
Actual amounts (budgetary basis) "available appropriation" from the budgetary comparison schedule	$3,577,461
Differences – budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(3,534,476)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	$42,985

4. For the year ended June 30, 2011, the City complied, in all material respects, with the applicable budget laws.

Trend Schedule of Pension Plan Funding Progress – McAlester Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (AUUL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2002	$ 6,841,538	$ 8,291,427	$1,449,889	82.5%	$ 4,717,418	30.7%
7/1/2003	7,212,203	8,673,171	1,460,968	83.2%	4,556,448	32.1%
7/1/2004	7,756,230	9,041,242	1,285,012	85.8%	4,684,360	27.4%
7/1/2005	7,832,545	9,483,292	1,650,747	82.6%	4,555,872	36.2%
7/1/2006	8,201,138	10,499,055	2,297,917	78.1%	4,071,060	56.4%
7/1/2007	8,777,906	11,058,765	2,280,859	79.4%	4,523,484	50.4%
7/1/2008	9,233,904	11,532,207	2,298,303	80.1%	4,082,914	56.3%
7/1/2009	9,779,352	13,164,083	3,384,731	74.3%	4,326,276	78.2%
7/1/2010	9,990,470	14,807,371	4,816,901	67.5%	4,274,311	112.7%
7/1/2011	10,503,533	15,986,289	5,482,756	65.7%	4,037,185	135.8%

Trend Schedule of Employer Contributions

McAlester Employees' Retirement System			
Fiscal Year	Required Contribution	Percentage Contributed	Net Pension Obligation (Asset)
2002	$343,956	98.8%	($91,803)
2003	468,209	72.6%	36,406
2004	448,502	98.6%	41,837
2005	441,700	0.6%	480,720
2006	473,699	101%	470,216
2007	516,115	81%	569,651
2008	533,593	99.5%	572,508
2009	518,694	116.3%	487,961
2010	657,455	102.6%	470,753
2011	806,226	101.0%	462,795

SUPPLEMENTARY INFORMATION

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

	General Fund	Nutrition Fund	Total General Fund
ASSETS:			
Cash and cash equivalents	$1,665,207	$22,605	$1,687,812
Receivables:			
Due from other governments	1,149,169	6,014	1,155,183
Franchise tax receivable	77,255	-	77,255
Court fines receivable, net of allowance	1,118,368	-	1,118,368
Ambulance receivable, net of allowance	81,904	-	81,904
Other receivables, net of allowance	1,946	-	1,946
Total assets	$4,093,849	$28,619	$4,122,468
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Accounts payable	$183,630	$1,572	$185,202
Accrued payroll liabilities	530,885	12,784	543,669
Due to other funds	989,315	-	989,315
Due to other governments	11,166	-	11,166
Amounts held in escrow	65,385	-	65,385
Deferred revenue	1,114,675	-	1,114,675
Total liabilities	2,895,056	14,356	2,909,412
Fund Balances:			
Assigned	45,000	14,263	59,263
Unassigned	1,153,793	-	1,153,793
Total fund balances	1,198,793	14,263	1,213,056
Total liabilities and fund balances	$4,093,849	$28,619	$4,122,468

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

	General Fund	Nutrition Fund	Total General Fund
Revenues:			
Taxes	$9,117,666	-	$9,117,666
Intergovernmental	1,263,804	$62,418	1,326,222
Charges for services	1,592,858	-	1,592,858
Fines and forfeitures	757,186	-	757,186
Licenses and permits	159,227	-	159,227
Investment income	54,212	-	54,212
Miscellaneous	135,651	-	135,651
Total Revenues	13,080,604	62,418	13,143,022
Expenditures:			
Current:			
Legislature	95,728	-	95,728
Administration	2,376,889	-	2,376,889
Public safety	7,526,527	-	7,526,527
Community services	1,882,561	-	1,882,561
Administration services	580,634	-	580,634
Health and welfare	-	288,913	288,913
Public works	1,234,246	-	1,234,246
Capital outlay	119,486	-	119,486
Debt service:			
Principal retirement	92,934	-	92,934
Interest and fiscal charges	12,835	-	12,835
Total Expenditures	13,921,840	288,913	14,210,753
Excess (deficiency) of revenues over expenditures	(841,236)	(226,495)	(1,067,731)
Other Financing Sources (Uses):			
Transfers in	1,580,050	244,232	1,824,282
Transfers out	(534,517)	-	(534,517)
Total Other Financing Sources (Uses)	1,045,533	244,232	1,289,765
Net change in fund balances	204,297	17,737	222,034
Fund balances (deficits) - beginning	994,496	(3,474)	991,022
Fund balances - ending	$1,198,793	$14,263	$1,213,056

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

	SPECIAL REVENUE FUNDS				
	JUVENILE FINE FUND	TOURISM/ SE EXPO FUND	E-911 FUND	ECONOMIC DEVELOPMENT FUND	GIFTS & CONTRIBUTIONS FUND
ASSETS					
Cash and cash equivalents	$42,251	$448,560	$870,248	$1,025,353	$33,038
Investments	-	-	-	535,262	-
Receivables:					
Due from other funds	-	-	-	-	25,000
Due from other governments	-	51,480	-	127,943	-
Notes receivable	-	-	-	886,500	-
Other receivable	-	-	76,470	-	-
Total Assets	$42,251	$500,040	$946,718	$2,575,058	$58,038
LIABILITIES					
Accounts payable and accrued liabilities	-	$24,803	$7,142	$153,154	$20,654
Accrued payroll liabilities	-	11,677	24,049	-	-
Due to other funds	$25,000	-	-	-	-
Total Liabilities	25,000	36,480	31,191	153,154	20,654
FUND EQUITY					
Fund Balance:					
Restricted	17,251	298,002	914,395	2,421,904	4,884
Assigned	-	165,558	1,132	-	32,500
Total fund balances	17,251	463,560	915,527	2,421,904	37,384
Total Liabilities and Fund Balances	$42,251	$500,040	$946,718	$2,575,058	$58,038

(Continued)

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

	CAPITAL PROJECT FUNDS				
	POLICE EQUIPMENT FUND	STATE FORFEITURE FUND	CEMETERY PERPETUAL CARE FUND	CDBG GRANTS FUND	FEDERAL FORFEITURE FUND
ASSETS					
Cash and cash equivalents	$5,860	$17,808	$358,151	$84,416	$41,326
Investments	-	-	-	-	-
Receivables:					
Due from other funds	-	-	-	-	-
Due from other governments	-	-	-	-	-
Notes receivable	-	-	-	-	-
Other receivable	-	-	-	-	-
Total Assets	$5,860	$17,808	$358,151	$84,416	$41,326
LIABILITIES					
Accounts payable and accrued liabilities	-	-	-	-	-
Accrued payroll liabilities	-	-	-	-	-
Due to other funds	-	-	-	-	-
Total Liabilities	-	-	-	-	-
FUND EQUITY					
Fund Balance:					
Restricted	$5,860	$17,808	$358,151	$84,416	$41,326
Assigned	-	-	-	-	-
Total fund balances	5,860	17,808	358,151	84,416	41,326
Total Liabilities and Fund Balances	$5,860	$17,808	$358,151	$84,416	$41,326

(Continued)

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

	DEBT SERVICE FUND SALES TAX - SCHOOLS FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS		
Cash and cash equivalents	$1,186,917	$4,113,928
Investments	-	535,262
Receivables:		
Due from other funds	-	25,000
Due from other governments	127,943	307,366
Notes receivable	-	886,500
Other receivable	-	76,470
Total Assets	$1,314,860	$5,944,526
LIABILITIES		
Accounts payable and accrued liabilities	-	$205,753
Accrued payroll liabilities	-	35,726
Due to other funds	-	25,000
Total Liabilities	-	266,479
FUND EQUITY		
Fund Balance:		
Restricted	$1,314,860	5,478,857
Assigned	-	199,190
Total fund balances	1,314,860	5,678,047
Total Liabilities and Fund Balances	$1,314,860	$5,944,526

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

	SPECIAL REVENUE FUNDS				
	JUVENILE FINE FUND	TOURISM/ SE EXPO FUND	E-911 FUND	ECONOMIC DEVELOPMENT FUND	GIFTS & CONTRIBUTIONS FUND
Revenues:					
Taxes	-	$507,415	$677,966	$985,452	-
Intergovernmental	-	-	47,500	-	-
Charges for services	$24,526	160,567	-	-	-
Investment income	-	-	9,815	16,617	$52
Miscellaneous	-	1,789	1,132	-	69,327
Total Revenues	24,526	669,771	736,413	1,002,069	69,379
Expenditures:					
Current:					
Administration	-	-	-	-	24,648
Public safety	20,707	-	446,773	-	-
Community services	-	-	-	-	-
Administrative services	-	512,208	-	-	-
Economic development	-	-	-	250,974	-
Capital outlay	-	35,032	58,660	134,614	70,399
Debt service:					
Principal retirement	-	176,446	-	-	-
Interest and fiscal charges	-	6,253	-	-	-
Total Expenditures	20,707	729,939	505,433	385,588	95,047
Excess (deficiency) of revenues over expenditures	3,819	(60,168)	230,980	616,481	(25,668)
Other Financing Sources (Uses):					
Transfers in	-	3,202	-	-	32,500
Transfers out	-	-	-	(738,612)	-
Total Other Financing Sources (Uses)	-	3,202	-	(738,612)	32,500
Net change in fund balances	3,819	(56,966)	230,980	(122,131)	6,832
Fund balances (deficits) - beginning	13,432	520,526	684,547	2,544,035	30,552
Fund balances - ending	$17,251	$463,560	$915,527	$2,421,904	$37,384

(Continued)

Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Nonmajor Governmental Funds – Year Ended June 30, 2011 (Continued)

	SPECIAL REVENUE FUNDS				
	POLICE EQUIPMENT FUND	STATE FORFEITURE FUND	CEMETERY PERPETUAL CARE FUND	CDBG GRANTS FUND	FEDERAL FORFEITURE FUND
Revenues:					
Taxes	-	-	-	-	-
Intergovernmental	$26,465	-	-	-	$307,193
Charges for services	-	-	$6,884	-	-
Investment income	-	$381	2,711	-	1,297
Miscellaneous	-	-	-	-	-
Total Revenues	26,465	381	9,595	-	308,490
Expenditures:					
Current:					
Administration	-	-	-	-	-
Public safety	-	-	-	-	-
Community services	-	-	5,160	-	-
Administrative services	-	-	-	-	-
Economic development	-	-	-	-	-
Capital outlay	3,110	21,373	32,249	$11,970	275,257
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total Expenditures	3,110	21,373	37,409	11,970	275,257
Excess (deficiency) of revenues over expenditures	23,355	(20,992)	(27,814)	(11,970)	33,233
Other Financing Sources (Uses):					
Transfers in	6,750	-	-	-	-
Transfers out	-	-	-	-	-
Total Other Financing Sources (Uses)	6,750	-	-	-	-
Net change in fund balances	30,105	(20,992)	(27,814)	(11,970)	33,233
Fund balances (deficits) - beginning	(24,245)	38,800	385,965	96,386	8,093
Fund balances - ending	$5,860	$17,808	$358,151	$84,416	$41,326

(Continued)

Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Nonmajor Governmental Funds – Year Ended June 30, 2011 (Continued)

	DEBT SERVICE FUND SALES TAX - SCHOOLS FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
Revenues:		
Taxes	$985,452	$3,156,285
Intergovernmental	-	381,158
Charges for services	-	191,977
Investment income	11,642	42,515
Miscellaneous	-	72,248
Total Revenues	997,094	3,844,183
Expenditures:		
Current:		
Administration	-	24,648
Public safety	-	467,480
Community services	44,258	49,418
Administrative services	-	512,208
Economic development	-	250,974
Capital outlay	-	642,664
Debt service:		
Principal retirement	-	176,446
Interest and fiscal charges	-	6,253
Total Expenditures	44,258	2,130,091
Excess (deficiency) of revenues over expenditures	952,836	1,714,092
Other Financing Sources (Uses):		
Transfers in	-	42,452
Transfers out	(430,715)	(1,169,327)
Total Other Financing Sources (Uses)	(430,715)	(1,126,875)
Net change in fund balances	522,121	587,217
Fund balances (deficits) - beginning	792,739	5,090,830
Fund balances - ending	$1,314,860	$5,678,047

Combining Schedule of Net Assets, MPWA Accounts – June 30, 2011

	Enterprise Fund - MPWA			
	McAlester Public Works Authority	Landfill Reserve Account	Bond Trustee Account	Total
ASSETS:				
Current Assets:				
Cash and cash equivalents	$918,521	$279,051	-	$1,197,572
Restricted cash and cash equivalents	918,561	-	$3,135,378	4,053,939
Restricted interest receivable	-	-	25	25
Accounts receivable, net of allowance	1,306,231	59,756	-	1,365,987
Due from other governments	10,345	-	-	10,345
Total current assets	3,153,658	338,807	3,135,403	6,627,868
Noncurrent Assets:				
Restricted Assets:				
Cash and cash equivalents	-	-	1,559,735	1,559,735
Investment in joint venture	1,645,935	-	-	1,645,935
Capital assets:				
Land and other non-depreciable assets	967,779	-	-	967,779
Other capital assets, net of depreciation	19,374,419	-	-	19,374,419
Unamortized bond issuance costs	1,805,826	-	-	1,805,826
Total noncurrent assets	23,793,959	-	1,559,735	25,353,694
Total Assets	26,947,617	338,807	4,695,138	31,981,562
LIABILITIES:				
Current Liabilities:				
Accounts payable	324,806	30,669	-	355,475
Accrued payroll liabilities	120,726	-	-	120,726
Due to other funds	169,455	-	-	169,455
Escrow deposit liability	509,914	-	-	509,914
Interest payable	1,303,742	-	-	1,303,742
Deferred revenue	98,669	-	-	98,669
Landfill closure and postclosure liability	260,829	-	-	260,829
Due to depositors	81,729	-	-	81,729
Notes payable	174,950	-	-	174,950
Water rights contract obligation	25,286	-	-	25,286
Revenue bonds payable, net	2,625,000	-	-	2,625,000
Accrued compensated absences	26,688	-	-	26,688
Total current liabilities	5,721,794	30,669	-	5,752,463
Noncurrent Liabilities:				
Landfill closure and post-closure liability	2,289,171	-	-	2,289,171
Due to depositors	326,918	-	-	326,918
Net pension benefit obligation	103,286	-	-	103,286
Notes payable	489,975	-	-	489,975
Water rights contract obligation	227,571	-	-	227,571
Revenue bonds payable, net	55,253,101	-	-	55,253,101
Accrued compensated absences	240,193	-	-	240,193
Total noncurrent liabilities	58,930,215	-	-	58,930,215
Total liabilities	64,652,009	30,669	-	64,682,678
NET ASSETS:				
Invested in capital assets, net of related debt	19,424,416	-	-	19,424,416
Restricted for debt service	(4,026,005)	-	4,026,005	-
Restricted for economic development	-	-	669,133	669,133
Unrestricted (deficit)	(53,102,803)	308,138	-	(52,794,665)
Total net assets (deficit)	($37,704,392)	$308,138	$4,695,138	($32,701,116)

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

	Enterprise Fund - MPWA			
	McAlester Public Works Authority	Landfill Reserve Account	Bond Trustee Account	Total
Operating Revenues:				
Charges for services:				
Water	$3,524,139	-	-	$3,524,139
Sewer	1,659,078	-	-	1,659,078
Sanitation	2,625,989	-	-	2,625,989
Water taps	25,735	-	-	25,735
Sewer taps	18,100	-	-	18,100
Water districts	812,741	-	-	812,741
Service charges	92,300	-	-	92,300
Landfill	81,564	-	-	81,564
Roll-off garbage	169,659	-	-	169,659
Penalties	165,245	$8,158	-	173,403
Use fee	1,777	-	-	1,777
Recycle fees	30,795	-	-	30,795
Subtitle "D" fees	-	353,477	-	353,477
Total operating revenues	9,207,122	361,635	-	9,568,757
Operating Expenses:				
Utility office	458,326	-	-	458,326
Interdepartmental	656,339	-	-	656,339
Sanitation	1,790,575	-	-	1,790,575
Engineering	356,634	-	-	356,634
Sewer	759,416	-	-	759,416
Water	1,013,947	-	-	1,013,947
Utility maintenance	732,806	-	-	732,806
Landfill	587,862	245,735	-	833,597
Utilities Administration	152,050	-	-	152,050
Depreciation expense	1,052,869	-	-	1,052,869
Amortization expense	128,380	-	-	128,380
Total operating expenses	7,689,204	245,735	-	7,934,939
Operating income (loss)	1,517,918	115,900	-	1,633,818
Non-Operating Revenues (Expenses):				
Investment income	15,471	1,172	$605	17,248
Interest expense and fiscal charges	(3,454,184)	-	-	(3,454,184)
Grant revenue - operating	5,624	-	-	5,624
Miscellaneous revenue	19,167	-	-	19,167
Gain on joint venture	27,771	-	-	27,771
Total non-operating revenues (expenses)	(3,386,151)	1,172	605	(3,384,374)
Net income (loss) before contributions and transfers	(1,868,233)	117,072	605	(1,750,556)
Contributed capital revenue	416,192	-	-	416,192
Interaccount transfers	4,775,933	212,434	(4,988,367)	-
Transfers in	44,734	-	4,507,312	4,552,046
Transfer out	(1,721,139)	-	-	(1,721,139)
Change in net assets	1,647,487	329,506	(480,450)	1,496,543
Total net assets (deficit) - beginning	(39,351,879)	(21,368)	5,175,588	(34,197,659)
Total net assets (deficit) - ending	($37,704,392)	$308,138	$4,695,138	($32,701,116)

Combining Schedule of Net Assets, MAA Accounts – June 30, 2011

	McAlester Airport Authority			
	McAlester Airport Authority	Airport Grant Account	Airport Hangar Account	Total
ASSETS:				
Current Assets:				
Cash and cash equivalents	$59,023	$6,544	$36,760	$102,327
Accounts receivable, net of allowance	14,351	-	-	14,351
Total current assets	73,374	6,544	36,760	116,678
Noncurrent Assets:				
Capital assets:				
Land and other non-depreciable assets	42,364	-	-	42,364
Other capital assets, net of depreciation	3,023,570	-	-	3,023,570
Total noncurrent assets	3,065,934	-	-	3,065,934
Total Assets	3,139,308	6,544	36,760	3,182,612
LIABILITIES:				
Current Liabilities:				
Accounts payable	1,774	-	-	1,774
Accrued payroll liabilities	6,311	-	-	6,311
Interest payable	594	-	-	594
Notes payable	335,326	-	-	335,326
Accrued compensated absences	2,522	-	-	2,522
Total current liabilities	346,527	-	-	346,527
Noncurrent Liabilities:				
Net pension benefit obligation	3,558	-	-	3,558
Accrued compensated absences	22,696	-	-	22,696
Total noncurrent liabilities	26,254	-	-	26,254
Total liabilities	372,781	-	-	372,781
NET ASSETS:				
Invested in capital assets, net of related debt	2,730,608	-	-	2,730,608
Unrestricted	35,919	6,544	36,760	79,223
Total net assets	$2,766,527	$6,544	$36,760	$2,809,831

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

	McAlester Airport Authority			
	McAlester Airport Authority	Airport Grant Account	Airport Hangar Account	Total
Operating Revenues:				
Rents and fees	$123,874	-	-	$123,874
Total operating revenues	123,874	-	-	123,874
Operating Expenses:				
Airport	177,441	-	-	177,441
Depreciation expense	143,735	-	-	143,735
Total operating expenses	321,176	-	-	321,176
Net income (loss) before contributions and transfers	(197,302)	-	-	(197,302)
Interest expense	(14,726)	-	-	(14,726)
Miscellaneous	1,200	-	-	1,200
Contributed capital revenue	-	$22,231	-	22,231
Interaccount transfers	17,650	(17,650)	-	-
Transfers in	106,489	-	-	106,489
Change in net assets	(86,689)	4,581	-	(82,108)
Total net assets - beginning	2,853,216	$1,963	$36,760	2,891,939
Total net assets - ending	$2,766,527	$6,544	$36,760	$2,809,831

Combining Statement of Net Assets, Internal Service Funds – June 30, 2011

	Internal Service Funds		
	Worker's Compensation Fund	FLEET Maintenance Fund	Total
ASSETS:			
Current Assets:			
Cash and cash equivalents	$942	$9,326	$10,268
Due from other funds	319,759	39,011	358,770
Total assets	320,701	48,337	369,038
LIABILITIES:			
Current Liabilities:			
Accounts payable	942	9,326	10,268
Accrued payroll liabilities	-	12,762	12,762
Estimated liability for claims	319,759	-	319,759
Net pension benefit obligation	-	253	253
Accrued compensated absences - current	-	2,600	2,600
Accrued compensated absences - noncurrent	-	23,396	23,396
Total liabilities	320,701	48,337	369,038
NET ASSETS:			
Unrestricted	-	-	-
Total net assets	-	-	-

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

	Internal Service Funds		
	Worker's Compensation Fund	FLEET Maintenance Fund	Total
Operating Revenues:			
Charges for services:			
Self insurance charges	$397,482	$734,177	$1,131,659
Miscellaneous	456	762	1,218
Total operating revenues	397,938	734,939	1,132,877
Operating Expenses:			
Claims expense	397,938	-	397,938
FLEET maintenance expenses	-	734,939	734,939
Total operating expenses	397,938	734,939	1,132,877
Operating Income (loss)	-	-	-
Total net assets - beginning	-	-	-
Total net assets - ending	-	-	-

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

Federal/State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Grant #	Award Amount	Federal Expenditures
FEDERAL AWARDS:				
U.S. DEPARTMENT OF JUSTICE:				
Bulletproof Vest Partnership Program	16.607	N/A	$13,250	$890
Office of Justice Programs:				
2009 Recovery Act Justice Assistance Grant (ARRA)	16.804	2009-SB-B9-2947	40,595	1,330
Total U.S. Department of Justice			53,845	2,220
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:				
Passed Through to Oklahoma Department of Human Services and the Kiamichi Area Nutrition Project:				
Special Program for the Aging - Title III, Part C - Nutrition Services	93.045	N/A	62,418	62,418
Total U.S. Department of Health and Human Services			62,418	62,418
U.S. DEPARTMENT OF TRANSPORTATION:				
Federal Aviation Administration:				
Airport Improvement Grant	20.106	AIP 3-40-0057-009-2008	332,169	22,231
Passed through Oklahoma Department of Public Safety:				
E911 Services Grant	20.610	NHTSA-2008-0142	126,877	47,500
Passed through Oklahoma Highway Safety Office:				
State and Community Highway Safety	20.600	SE-11-03-06-03	30,000	24,236
State and Community Highway Safety	20.600	PT-10-03-23-02	30,000	7,761
Total U.S. Department of Transportation			519,046	101,728
U.S. DEPARTMENT OF HOMELAND SECURITY:				
Passed through Oklahoma Office of Homeland Security:				
Disaster Grant - Public Assistance (Flooding)	97.036	FEMA-1678-DR-OK	29,990	5,623
Total U.S. Department of Homeland Security			29,990	5,623
TOTAL FEDERAL AWARDS			$665,299	$171,989

Notes to Schedule of Expenditures of Federal Awards

Note A - Significant Accounting Policies - The accompanying schedule of expenditures of federal awards is prepared on the basis of accounting consistent with the definition of federal awards expended in paragraph 205 of OMB Circular A-133.

Schedule of Revenue Bond Coverage – Year Ended June 30, 2011

	Series 1999, 2002 Bonds & 1999 Loan
Gross Revenue Available for Debt Service:	
Charges for services	$9,568,757
Sales tax pledged and transferred	3,341,375
Total Gross Revenues Available	12,910,132
Operating Expenses:	
Water, Sewer and Sanitation	6,753,690
Total Operating Expenses	6,753,690
Net Revenues Available for Debt Service	$6,156,442
Debt Service Requirements:	
Average annual principal and interest requirements on bonds and subordinate debt:	
Series 1999 Utility System Revenue Bonds	$3,014,371
Series 2002 Utility System Revenue Bonds	940,443
1999 CDBG Loan	13,750
Total average annual debt service	$3,968,564
Computed Coverage	155%
Coverage Requirement	125%

INTERNAL CONTROL AND COMPLIANCE INFORMATION

COLE+REED P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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

Honorable Mayor and Members of City Council
The City of McAlester, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of McAlester, Oklahoma (the "City"), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 1, 2012. Our report includes a reference to other auditors. Our report contained an explanatory paragraph describing the City's adoption of GASB Statement No. 54 in the year ended June 30, 2011. 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. Other auditors audited the financial statements of the City's discretely presented component unit, the McAlester Regional Health Center Authority, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by the other auditors.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

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Compliance and Other Matters

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

This report is intended solely for the information of the governing body, management and others within the City and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma
March 1, 2012