

THE CITY OF MCALESTER, OKLAHOMA

**ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS**

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2009**

**CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2009**

CITY OF MCALESTER, OKLAHOMA

LIST OF PRINCIPAL OFFICIALS

JUNE 30, 2009

City Council

Kevin Priddle, Mayor
Chris Fiedler, Member Ward 1
Donnie Condit, Member Ward 2
John Browne, Member Ward 3
Haven Wilkinson, Member Ward 4
Buddy Garvin, Vice-Mayor Ward 5
Sam Mason, Member Ward 6

Administration

Mark Roath	City Manager
Cora Middleton	City Clerk
Sherry Alessi	Acting City Treasurer

**CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2009**

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Independent Auditors' Report

Honorable Mayor and City Council
City of McAlester, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the fiduciary-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 and for the year ended June 30, 2009, 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 of McAlester's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of McAlester Regional Health Center Authority which represents 99.8% of the net assets and 99.9% of the revenues 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 McAlester Regional Health Authority is based on the report of 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. 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 and the reports of other auditors provide 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

fiduciary-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, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2010, on our consideration of the City of McAlester's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management Discussion and Analysis and the Required Supplementary Information on pages 7 through 15 and pages 66 through 75, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of McAlester's basic financial statements. The accompanying schedule of expenditures of federal awards (page 87), as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and other supplementary information on pages 77 through 88 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This schedule of expenditures of federal awards and other supplementary information (pages 77 through 88) have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hulme Rahhal Henderson, Jr.

Ardmore, Oklahoma
March 17, 2010

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, 2009. 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, 2009. Total net assets increased by \$3,418,200 and the City's total government-wide assets continued to exceed its total liabilities at June 30, 2009, by \$16,631,464 which represents its total government-wide net assets.
- The City's governmental activities experienced an increase in net assets of \$1,385,306, while business-type activities experienced a current year increase in net assets of \$2,032,894. 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 \$16,631,464, there is a total of \$59,025,772 invested in capital assets, net of related debt and \$14,863,969 of net assets restricted for various purposes, thus leaving the City with a negative \$57,258,277 of unrestricted net assets, with \$57,385,625 of the negative unrestricted net assets located in the City's business-type 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 for the benefit of entities not included within the City's primary government, for example, school system improvements and economic development activities, and on behalf of the City's governmental activities in the form of street and drainage improvements. 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.
 - 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, which affirmed that these excess sales taxes could only be used for debt service.
 - At June 30, 2009, the City's governmental funds reported combined ending fund balances of \$12,969,099. However, that net amount is the result of \$14,373,107 in unreserved fund balances reported in special revenue funds and a negative \$1,404,008 of unreserved fund balance in the General Fund. This negative fund balance in the General Fund is primarily the result of an interfund payable in the amount of \$2,881,826 due to Capital Improvement Plan Fund (MPWA) resulting from a forensic audit on prior period use of restricted bond proceeds. This interfund 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 is taking a conservative stance regarding the issues raised in the forensic audit, and 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.

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
 - McAlester Economic Development Services, Inc.

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, Parking Authority, and the Economic Development Service, Inc.

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, 2009, net assets for the governmental activities and business-type activities increased \$3,418,200. 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, restated	\$ 45,168,757	\$ (31,955,493)	\$ 13,213,264
Increase/(Decrease)	1,385,306	2,032,894	3,418,200
Ending net assets	\$ 46,554,063	\$ (29,922,599)	\$ 16,631,464

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	
	2009	Restated 2008	2009	Restated 2008	2009	Restated 2008
Assets:						
Current and other assets	\$ 14,879,274	\$ 12,183,468	\$ 13,311,549	\$ 13,297,758	\$ 28,190,823	\$ 25,481,226
Capital assets	35,796,440	37,520,108	24,600,921	23,752,544	60,397,361	61,272,652
Total assets	50,675,714	49,703,576	37,912,470	37,050,302	88,588,184	86,753,878
Liabilities:						
Long-term liabilities	3,144,661	3,535,000	64,615,559	66,007,261	67,760,220	69,542,261
Other liabilities	976,990	999,819	3,219,510	2,998,534	4,196,500	3,998,353
Total liabilities	4,121,651	4,534,819	67,835,069	69,005,795	71,956,720	73,540,614
Net assets:						
Invested in capital assets	35,524,842	36,913,324	23,500,930	22,794,648	59,025,772	59,707,972
Restricted	10,901,873	6,315,262	3,962,096	8,222,759	14,863,969	14,538,021
Unrestricted	127,348	1,940,171	(57,385,625)	(62,972,900)	(57,258,277)	(61,032,729)
Total net assets	\$ 46,554,063	\$ 45,168,757	\$ (29,922,599)	\$ (31,955,493)	\$ 16,631,464	\$ 13,213,264

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 \$59 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, \$14.9 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 \$57 million. The majority of this negative or deficit balance is the result of issuing revenue bonded indebtedness related to activities and capital improvements for the benefit of entities not included within the City's primary government, for example, school system improvements and economic development activities, along with other bond issues on behalf of the City for non-utility street and drainage improvements. 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.

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. In 2009, administration and council reviewed questions pertinent to the dedicated one-cent sales tax and uses of those funds. As a result, a special election was held on August 11, 2009, which affirmed that these excess sales taxes could only be used for debt service.

Prior to July 2007, the excess sales taxes from this dedicated one-cent sales tax were estimated to be approximately \$13 million. At this date, a significant uncertainty still remains about whether the \$13 million in excess sales taxes were spent on allowable activities. Due to the existence of this uncertainty, no liability to the one-cent dedicated sales tax special revenue fund has been recorded in the general fund, nor has a corresponding asset been recorded in the one-cent dedicated sales tax special revenue fund.

The City of McAlester's Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2009	Restated 2008	2009	Restated 2008	2009	Restated 2008
Revenues:						
Program revenues:						
Charges for Services	\$ 2,465,723	\$ 3,429,675	\$ 8,858,096	\$ 8,432,222	\$ 11,323,819	\$ 11,861,897
Grants & Contributions	1,022,913	1,229,191	105,170	-	1,128,083	1,229,191
Capital Grants & Contributions	11,895	76,885	389,438	-	401,333	76,885
General Revenues:						
Sales & Use Tax	15,629,476	15,824,676	-	-	15,629,476	15,824,676
Other Taxes	2,027,934	2,091,950	-	-	2,027,934	2,091,950
Other General Revenues	731,953	758,561	52,395	179,541	784,348	938,102
Total Revenues	21,889,894	23,410,938	9,405,099	8,611,763	31,294,993	32,022,701
Program Expenses:						
Legislature	32,311	72,611	-	-	32,311	72,611
Administration	3,077,346	2,262,740	-	-	3,077,346	2,262,740
Public safety	7,348,140	8,376,584	-	-	7,348,140	8,376,584
Community services	2,111,274	2,126,035	-	-	2,111,274	2,126,035
Administration services	910,172	907,937	-	-	910,172	907,937
Health and welfare	257,350	124,894	-	-	257,350	124,894
Public works	3,536,482	3,500,144	-	-	3,536,482	3,500,144
Economic development	214,845	166,887	-	-	214,845	166,887
Payment to health center authority	362,398	1,017,568	-	-	362,398	1,017,568
Interest on long-term debt	16,574	32,684	-	-	16,574	32,684
Water	-	-	2,702,777	2,512,766	2,702,777	2,512,766
Sewer	-	-	1,497,767	1,453,532	1,497,767	1,453,532
Sanitation	-	-	1,875,151	2,225,325	1,875,151	2,225,325
Airport	-	-	346,238	155,347	346,238	155,347
Governmental interest & amortization expense	-	-	3,587,968	3,728,898	3,587,968	3,728,898
Total Expenses	17,866,892	18,588,084	10,009,901	10,075,868	27,876,793	28,663,952
Excess/(Deficiency)	4,023,002	4,822,854	(604,802)	(1,464,105)	3,418,200	3,358,749
Net Transfers	(2,637,696)	(3,314,213)	2,637,696	3,314,213	-	-
Increase/(Decrease) Net Assets	\$ 1,385,306	\$ 1,508,641	\$ 2,032,894	\$ 1,850,108	\$ 3,418,200	\$ 3,358,749

For the year ended June 30, 2009, on a government-wide basis, the City experienced an improvement in its financial condition resulting in an increase in total net assets of \$3,418,200. The increase in net assets can be attributable to tighter controls over expenditures.

The City's governmental activities increase in net assets of \$1,385,306 in 2009 represents a slightly lower change from the increase in net assets experienced in the prior year.

The business-type activities current year increase in net assets of \$2,032,894 indicates that current year revenues were sufficient to cover current year expense. It also represents a higher increase in net assets from that experienced in the prior year, which is largely attributable to an increase in revenues in the current year.

In reviewing the activity net (expense)/revenue, all business-type functions, (including water, sewer, sanitation, and airport) charges for services more than covered all related expenses. Governmental interest and amortization 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 2009 fiscal year, the governmental funds reported a combined fund balance of \$12,969,099. However, that net amount is the result of \$14,373,107 of unreserved fund balances reported in special revenue funds and a negative \$1,404,008 of unreserved fund balance in the General Fund. This negative fund balance in the General Fund is primarily the result of an interfund payable in the amount of \$2,881,826 due to Capital Improvement Plan Fund (MPWA) resulting from a forensic audit on prior period use of restricted bond proceeds previously discussed in regards to governmental activities.

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

There were no reservations of fund balances of the governmental funds at year end; however, proprietary fund net asset restrictions are listed below:

Net Asset Restrictions:	
Restricted for debt service	\$ 2,698,864
Restricted for street improvements	179,792
Restricted for economic development	1,083,440
Total Enterprise Fund Net Asset Restrictions	<u>\$ 3,962,096</u>

Despite the General Fund reporting a negative unreserved fund balance at year end as discussed above, for the year ended June 30, 2009, the General Fund's total fund balance increased by \$1,008,166, or 41.8% in large part due to an increase in transfers from the MPWA and a reduction of current year expenditures.

The McAlester Public Works Authority enterprise fund reported an increase in net assets, after transfers and capital contributions of \$1,861,621 for the year.

General Fund Budgetary Highlights

For the year ended June 30, 2009, the General Fund reported actual budgetary basis revenues above final estimates by \$221,492 or a 1.5% positive variance. General Fund actual expenditures were under final appropriations by \$513,904 or a 3.6% positive variance.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the City had approximately \$60.4 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 approximately \$875,000 from last year.

Below are details regarding the City's capital assets for the years ended June 30, 2009 and 2008.¹

The City of McAlester's Capital Assets

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Land	\$ 675,209	\$ 675,209	\$ 212,571	\$ 212,571	\$ 887,780	\$ 887,780
Buildings and Improvements	6,949,556	6,654,409	5,794,566	5,781,496	12,744,122	12,435,905
Machinery and Equipment	7,893,754	8,090,925	2,020,474	1,710,892	9,914,228	9,801,817
Infrastructure	61,924,842	61,866,276	-	-	61,924,842	61,866,276
Utility Property	-	-	39,455,517	37,497,200	39,455,517	37,497,200
Water rights contracts	-	-	719,075	719,075	719,075	719,075
Construction-in-progress	150,685	203,968	202,941	681,994	353,626	885,962
Totals	77,594,046	77,490,787	48,405,144	46,603,228	125,999,190	124,094,015
Less Depreciation	(41,797,606)	(39,970,679)	(23,804,223)	(22,850,684)	(65,601,829)	(62,821,363)
Totals, Net	\$ 35,796,440	\$ 37,520,108	\$ 24,600,921	\$ 23,752,544	\$ 60,397,361	\$ 61,272,652

This year's more significant capital asset additions include \$109,349 for Sandy Creek canal wall repair, \$326,400 for Airport Ramp and Renumbering project, \$1,142,889 for Water Treatment Plant Upgrade project, \$379,679 for Phase II Water Plant project, \$153,399 for Komar Park Improvements, and \$257,565 for 2 sanitation trucks.

Debt Administration

At year-end, the City had \$68.6 million in long-term debt outstanding, which represents a \$1,827,801 decrease from the prior year.²

The City of McAlester's Long-term Debt

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Capital leases payable	\$ 271,598	\$ 606,784	\$ -	\$ -	\$ 271,598	\$ 606,784
Claims liability	185,357	191,215	151,678	64,354	337,035	255,569
Accrued compensation	2,315,475	2,295,908	356,457	420,378	2,671,932	2,716,286
Notes Payable	-	-	798,420	632,887	798,420	632,887
Revenue Bonds Payable	-	-	61,057,126	62,514,230	61,057,126	62,514,230
Landfill Closure and Post-Closure	-	-	2,035,056	2,074,721	2,035,056	2,074,721
Net pension benefit obligation	372,231	441,093	115,730	131,415	487,961	572,508
Settlement obligation	-	-	263,714	386,970	263,714	386,970
Water contract obligations	-	-	301,571	325,009	301,571	325,009
Deposits subject to refund	-	-	344,283	311,533	344,283	311,533
Totals	\$ 3,144,661	\$ 3,535,000	\$ 65,424,035	\$ 66,861,497	\$ 68,568,696	\$ 70,396,497

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.

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

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

The City's economic outlook, which has been impacted by the national economy, has seen a slowing of the oil and gas industry due to the decrease in the cost of energy. In turn, the decrease in oil and gas industry has impacted the tourism industry including room occupancy in its hotels. However, the City's solid institutional base including the Ammunition Plant and Penal Institution has lessened the fiscal impact on the local economy. The City continues to work on the diversification of the economy through the expansion of its industrial park.

The City's fiscal approach to dealing with the local economy continues to be: First, the City is currently monitoring its revenues and expenses with a guarded approach. Second, the City is reducing staffing through a job fit program with the consolidation of positions. And third, the City is better utilizing its manpower resources through sharing personnel amongst departments to provide services to the community.

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.

**CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2009**

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2009

Government-Wide Statement of Net Assets– June 30, 2009

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$8,546,802	\$8,613,151	\$17,159,953	\$11,477,193
Investments	2,016,426	-	2,016,426	2,426,021
Interest receivable	1,215	403	1,618	-
Accounts receivable, net of allowance	-	1,418,430	1,418,430	20,402,638
Franchise tax receivable	88,306	-	88,306	-
Ambulance receivable, net of allowance	53,727	-	53,727	-
Court fines receivable, net of allowance	945,788	-	945,788	-
Due from other governments	1,855,871	-	1,855,871	-
Due from component unit	46,387	-	46,387	-
Prepaid expenses	-	-	-	900,679
Other receivables	86,109	-	86,109	311,161
Inventory	-	-	-	1,986,713
Investment in joint venture	-	1,236,317	1,236,317	3,651,501
Notes receivable:				
Due within one year	174,000	-	174,000	-
Due in more than one year	1,064,643	-	1,064,643	-
Capital assets:				
Land and other non-depreciable assets	825,894	1,134,587	1,960,481	1,174,074
Other capital assets, net of depreciation	34,970,546	23,466,334	58,436,880	27,271,321
Intangible asset, net of amortization	-	-	-	2,186
Unamortized bond issuance costs	-	2,043,248	2,043,248	-
Total assets	50,675,714	37,912,470	88,588,184	69,603,487
LIABILITIES:				
Accounts payable	375,684	311,319	687,003	3,644,364
Accrued payroll liabilities	518,808	106,784	625,592	1,577,641
Accrued interest payable	7,362	1,599,429	1,606,791	-
Due to other governments	8,023	-	8,023	-
Escrow deposit liabilities	35,144	1,104,860	1,140,004	-
Estimated third-party settlements	-	-	-	448,687
Deferred revenue	31,969	97,118	129,087	-
Long-term liabilities:				
Due within one year	326,494	2,561,190	2,887,684	2,910,828
Due in more than one year	2,818,167	62,054,369	64,872,536	3,814,246
Total liabilities	4,121,651	67,835,069	71,956,720	12,395,766
NET ASSETS:				
Invested in capital assets, net of related debt	35,524,842	23,500,930	59,025,772	21,351,590
Restricted for:				
Debt service	2,398,021	2,698,864	5,096,885	-
Street improvements	-	179,792	179,792	-
Economic development	2,750,922	1,083,440	3,834,362	-
Education	677,794	-	677,794	-
Public safety	890,538	-	890,538	-
Cemetery improvements	373,799	-	373,799	-
Tourism	535,768	-	535,768	-
Capital projects	3,275,031	-	3,275,031	4,762,265
Unrestricted	127,348	(57,385,625)	(57,258,277)	31,093,866
Total net assets	\$46,554,063	(\$29,922,599)	\$16,631,464	\$57,207,721

See accompanying notes to the basic financial statements.

CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2009

Government-Wide Statement of Activities –Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental activities:								
Legislature	\$32,311	-	-	-	(\$32,311)	-	(\$32,311)	-
Administration	3,077,346	\$268,950	-	-	(2,808,396)	-	(2,808,396)	-
Public safety	7,348,140	1,814,780	\$790,445	\$5,663	(4,737,252)	-	(4,737,252)	-
Community services	2,111,274	98,837	-	6,232	(2,006,205)	-	(2,006,205)	-
Administration services	910,172	282,857	-	-	(627,315)	-	(627,315)	-
Health and welfare	257,350	-	71,149	-	(186,201)	-	(186,201)	-
Public works	3,536,482	299	161,319	-	(3,374,864)	-	(3,374,864)	-
Economic development	214,845	-	-	-	(214,845)	-	(214,845)	-
Payment to health center authority	362,398	-	-	-	(362,398)	-	(362,398)	-
Interest on long-term debt	16,574	-	-	-	(16,574)	-	(16,574)	-
Total governmental activities	17,866,892	2,465,723	1,022,913	11,895	(14,366,361)	-	(14,366,361)	-
Business-type activities:								
Water	2,702,777	4,137,365	48,483	39,750	-	\$1,522,821	1,522,821	-
Sewer	1,497,767	1,456,628	20,298	39,750	-	18,909	18,909	-
Sanitation	1,875,151	3,135,166	36,389	-	-	1,296,404	1,296,404	-
Airport	346,238	128,937	-	309,938	-	92,637	92,637	-
Governmental interest & amort expense	3,587,968	-	-	-	-	(3,587,968)	(3,587,968)	-
Total business-type activities	10,009,901	8,858,096	105,170	389,438	-	(657,197)	(657,197)	-
Total primary government	\$27,876,793	\$11,323,819	\$1,128,083	\$401,333	(14,366,361)	(657,197)	(15,023,558)	-
Component Units:								
Parking	\$1,990	\$7,145	-	-	-	-	-	\$5,155
Health and welfare	79,899,924	81,436,484	-	-	-	-	-	1,536,560
Economic development	192,895	-	\$19,150	-	-	-	-	(173,745)
Total Component Units	\$80,094,809	\$81,443,629	\$19,150	-	-	-	-	1,367,970
General revenues:								
Taxes:								
Sales and use taxes					15,629,476	-	15,629,476	-
Franchise and public service taxes					729,844	-	729,844	-
Hotel/motel taxes					583,258	-	583,258	-
E-911 taxes					714,832	-	714,832	-
Intergovernmental revenue not restricted to specific programs					321,874	-	321,874	-
Investment income					193,521	32,956	226,477	97,956
Miscellaneous					216,558	19,439	235,997	-
Transfers from primary government					-	-	-	720,324
Transfers - Internal activity					(2,637,696)	2,637,696	-	-
Total general revenues and transfers					15,751,667	2,690,091	18,441,758	818,280
Change in net assets					1,385,306	2,032,894	3,418,200	2,186,250
Net assets - beginning, (restated)					45,168,757	(31,955,493)	13,213,264	55,021,471
Net assets - ending					\$46,554,063	(\$29,922,599)	\$16,631,464	\$57,207,721

See accompanying notes to the basic financial statements.

**CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2009**

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2009

Governmental Funds Balance Sheet - June 30, 2009

	<u>General Fund</u>	<u>Capital Improvement Plan Fund</u>	<u>Dedicated Sales Tax - MPWA</u>	<u>Reserve Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:						
Cash and cash equivalents	\$1,065,344	\$81,812	\$1,903,188	\$2,622,341	\$2,874,117	\$8,546,802
Investments	-	311,393	-	835,097	869,936	2,016,426
Receivables:						
Accrued interest receivable	-	-	-	-	1,215	1,215
Due from other funds	26,506	2,881,826	13,253	-	8,992	2,930,577
Due from other governments	1,088,733	-	481,580	-	285,558	1,855,871
Due from component unit - MRHCA	-	-	-	-	46,387	46,387
Franchise tax receivable	88,306	-	-	-	-	88,306
Court fines receivable, net of allowance	945,788	-	-	-	-	945,788
Ambulance receivable, net of allowance	53,727	-	-	-	-	53,727
Notes receivable	-	-	-	-	1,238,643	1,238,643
Other receivables	21,643	-	-	-	64,466	86,109
Total assets	<u>\$3,290,047</u>	<u>\$3,275,031</u>	<u>\$2,398,021</u>	<u>\$3,457,438</u>	<u>\$5,389,314</u>	<u>\$17,809,851</u>
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable	\$304,270	-	-	-	\$71,414	\$375,684
Accrued payroll liabilities	489,912	-	-	-	28,896	518,808
Due to other funds	2,884,190	-	-	-	46,387	2,930,577
Due to other governments	8,023	-	-	-	-	8,023
Amounts held in escrow	35,144	-	-	-	-	35,144
Deferred revenue	972,516	-	-	-	-	972,516
Total liabilities	<u>4,694,055</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>146,697</u>	<u>4,840,752</u>
Fund Balances:						
Unreserved, reported in:						
General Fund	(1,404,008)	-	-	-	-	(1,404,008)
Special revenue funds	-	3,275,031	2,398,021	3,457,438	5,242,617	14,373,107
Total fund balances	<u>(1,404,008)</u>	<u>3,275,031</u>	<u>2,398,021</u>	<u>3,457,438</u>	<u>5,242,617</u>	<u>12,969,099</u>
Total liabilities and fund balances	<u>\$3,290,047</u>	<u>\$3,275,031</u>	<u>\$2,398,021</u>	<u>\$3,457,438</u>	<u>\$5,389,314</u>	<u>\$17,809,851</u>

See accompanying notes to the basic financial statements.

CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2009

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances – Year Ended June 30, 2009

	<u>General Fund</u>	<u>Capital Improvement Plan Fund</u>	<u>Dedicated Sales Tax - MPWA</u>	<u>Reserve Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Taxes	\$9,701,167	-	\$4,197,170	-	\$3,759,073	\$17,657,410
Intergovernmental	1,266,274	-	-	-	173,862	1,440,136
Charges for services	921,642	-	-	-	184,249	1,105,891
Fines and forfeitures	856,251	-	-	-	-	856,251
Licenses and permits	112,865	-	-	-	-	112,865
Investment income	56,296	\$6,668	11,520	\$65,055	53,982	193,521
Miscellaneous	224,677	-	-	4,618	245	229,540
Total Revenues	<u>13,139,172</u>	<u>6,668</u>	<u>4,208,690</u>	<u>69,673</u>	<u>4,171,411</u>	<u>21,595,614</u>
Expenditures:						
Current:						
Legislature	30,901	-	-	-	-	30,901
Administration	2,987,279	-	3,000	-	-	2,990,279
Public safety	6,719,902	-	-	-	437,779	7,157,681
Community services	1,697,719	-	-	-	221,122	1,918,841
Administration services	474,051	-	-	-	446,423	920,474
Health and welfare	-	-	-	-	249,118	249,118
Public works	1,976,844	-	-	-	-	1,976,844
Economic development	-	-	-	-	214,845	214,845
Capital outlay	120,741	30,284	-	-	350,321	501,346
Debt service:						
Principal retirement	35,834	-	-	-	299,352	335,186
Interest and fiscal charges	1,268	-	-	-	22,468	23,736
Total Expenditures	<u>14,044,539</u>	<u>30,284</u>	<u>3,000</u>	<u>-</u>	<u>2,241,428</u>	<u>16,319,251</u>
Excess (deficiency) of revenues over expenditures	(905,367)	(23,616)	4,205,690	69,673	1,929,983	5,276,363
Other Financing Sources (Uses):						
Transfers in	2,403,180	-	-	250,220	257,891	2,911,291
Transfers out	(489,647)	(310,000)	(3,212,738)	-	(1,481,739)	(5,494,124)
Transfers out - McAlester Regional Health Center Authority	-	-	-	-	(362,398)	(362,398)
Total Other Financing Sources (Uses)	<u>1,913,533</u>	<u>(310,000)</u>	<u>(3,212,738)</u>	<u>250,220</u>	<u>(1,586,246)</u>	<u>(2,945,231)</u>
Net change in fund balances	1,008,166	(333,616)	992,952	319,893	343,737	2,331,132
Fund balances - beginning (restated)	(2,412,174)	3,608,647	1,405,069	3,137,545	4,898,880	10,637,967
Fund balances - ending	<u>(\$1,404,008)</u>	<u>\$3,275,031</u>	<u>\$2,398,021</u>	<u>\$3,457,438</u>	<u>\$5,242,617</u>	<u>\$12,969,099</u>

See accompanying notes to the basic financial statements.

**CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2009**

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	\$12,969,099
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 \$41,797,606	<u>35,796,440</u>
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 \$945,788	936,591
Ambulance receivable, net of allowance for doubtful accounts of \$1,465,593	<u>3,956</u>
	<u>940,547</u>
Certain long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:	
Accrued interest payable	(7,362)
Capital lease obligations payable	(271,598)
Accrued compensated absences	(2,315,475)
Claims liability	(185,357)
Net pension benefit obligation	<u>(372,231)</u>
	<u>(3,152,023)</u>
Net assets of governmental activities	<u><u>\$46,554,063</u></u>

See accompanying notes to the basic financial statements.

**CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2009**

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 \$2,331,132

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	488,079
Depreciation expense	(2,211,747)
	(1,723,668)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Deferred revenue	380,341
	380,341

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 obligation principal payments	335,186
	335,186

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	7,162
Accrued compensated absences expenses	(19,567)
Accrued claims liability	5,858
Accrued net pension benefit obligation	68,862
	62,315

Change in net assets of governmental activities \$1,385,306

See accompanying notes to the basic financial statements.

**CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2009**

BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2009

Proprietary Funds Statement of Net Assets - June 30, 2009

	Enterprise Funds		
	McAlester Public Works Authority	McAlester Airport Authority	Total
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$1,515,870	\$87,016	\$1,602,886
Restricted cash and cash equivalents	5,450,530	-	5,450,530
Restricted interest receivable	403	-	403
Accounts receivable, net of allowance	1,415,380	3,050	1,418,430
Total current assets	<u>8,382,183</u>	<u>90,066</u>	<u>8,472,249</u>
Noncurrent Assets:			
Restricted Assets:			
Cash and cash equivalents	1,559,735	-	1,559,735
Investment in joint venture	1,236,317	-	1,236,317
Capital assets:			
Land and other non-depreciable assets	1,092,223	42,364	1,134,587
Other capital assets, net of depreciation	20,194,135	3,272,199	23,466,334
Unamortized bond issuance costs	2,043,248	-	2,043,248
Total noncurrent assets	<u>26,125,658</u>	<u>3,314,563</u>	<u>29,440,221</u>
Total Assets	<u>34,507,841</u>	<u>3,404,629</u>	<u>37,912,470</u>
LIABILITIES:			
Current Liabilities:			
Accounts payable	309,753	1,566	311,319
Accrued payroll liabilities	101,821	4,963	106,784
Escrow deposit liability	1,104,860	-	1,104,860
Interest payable	1,599,429	-	1,599,429
Deferred revenue	97,118	-	97,118
Landfill closure and postclosure liability	20,147	-	20,147
Due to depositors	68,857	-	68,857
Settlement obligation	123,256	-	123,256
Notes payable	64,405	14,869	79,274
Water rights contract obligation	24,010	-	24,010
Revenue bonds payable	2,210,000	-	2,210,000
Accrued compensated absences	33,444	2,202	35,646
Total current liabilities	<u>5,757,100</u>	<u>23,600</u>	<u>5,780,700</u>
Noncurrent Liabilities:			
Claims liability	151,678	-	151,678
Landfill closure and post-closure liability	2,014,909	-	2,014,909
Due to depositors	275,426	-	275,426
Net pension benefit obligation	111,801	3,929	115,730
Settlement obligation	140,458	-	140,458
Notes payable	368,550	350,596	719,146
Water rights contract obligation	277,561	-	277,561
Revenue bonds payable, net	58,038,650	-	58,038,650
Accrued compensated absences	300,997	19,814	320,811
Total noncurrent liabilities	<u>61,680,030</u>	<u>374,339</u>	<u>62,054,369</u>
Total liabilities	<u>67,437,130</u>	<u>397,939</u>	<u>67,835,069</u>
NET ASSETS:			
Invested in capital assets, net of related debt	20,551,832	2,949,098	23,500,930
Restricted for debt service	2,698,864	-	2,698,864
Restricted for street improvements	179,792	-	179,792
Restricted for economic development	1,083,440	-	1,083,440
Unrestricted	(57,443,217)	57,592	(57,385,625)
Total net assets	<u>(\$32,929,289)</u>	<u>\$3,006,690</u>	<u>(\$29,922,599)</u>

See accompanying notes to the basic financial statements.

CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2009

Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Assets - Year Ended June 30, 2009

	Enterprise Funds		
	McAlester Public Works Authority	McAlester Airport Authority	Total
Operating Revenues:			
Charges for services:			
Water	\$3,339,177	-	\$3,339,177
Sewer	1,398,249	-	1,398,249
Sanitation	2,500,699	-	2,500,699
Water taps	32,685	-	32,685
Sewer taps	7,000	-	7,000
Water districts	642,780	-	642,780
Service charges	68,214	-	68,214
Landfill	199,872	-	199,872
Penalties	176,696	-	176,696
Use fee	21,300	-	21,300
Subtitle "D" fees	342,487	-	342,487
Airport rents and fees	-	\$128,937	128,937
Total operating revenues	8,729,159	128,937	8,858,096
Operating Expenses:			
Utility office	295,841	-	295,841
Interdepartmental	1,068,351	-	1,068,351
Sanitation	535,558	-	535,558
Engineering	276,574	-	276,574
Sewer	732,940	-	732,940
Water	868,786	-	868,786
Utility maintenance	598,704	-	598,704
Fleet maintenance	384,000	-	384,000
Landfill	340,715	-	340,715
Utilities Administration	133,387	-	133,387
Airport	-	182,145	182,145
Depreciation expense	896,595	148,264	1,044,859
Amortization expense	109,041	-	109,041
Total operating expenses	6,240,492	330,409	6,570,901
Operating income (loss)	2,488,667	(201,472)	2,287,195
Non-Operating Revenues (Expenses):			
Investment income	32,956	-	32,956
Interest expense and fiscal charges	(3,490,140)	(15,829)	(3,505,969)
Grant revenue - operating	105,170	-	105,170
Miscellaneous revenue	1,839	17,600	19,439
Gain on sale of assets	6,025	-	6,025
Gain on joint venture	60,944	-	60,944
Total non-operating revenues (expenses)	(3,283,206)	1,771	(3,281,435)
Net income (loss) before contributions and transfers	(794,539)	(199,701)	(994,240)
Capital contributions	140,406	309,938	450,344
Transfers in	5,004,477	61,036	5,065,513
Transfer out	(2,488,723)	-	(2,488,723)
Change in net assets	1,861,621	171,273	2,032,894
Total net assets - beginning, restated	(34,790,910)	2,835,417	(31,955,493)
Total net assets - ending	(\$32,929,289)	\$3,006,690	(\$29,922,599)

See accompanying notes to the basic financial statements.

CITY OF MCALESTER, OKLAHOMA
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Proprietary Funds Statement of Cash Flows - Year Ended June 30, 2009

	Enterprise Funds		
	McAlester	McAlester	Total
	Public Works Authority	Airport Authority	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$8,613,325	132,624	\$8,745,949
Payments to suppliers	(2,357,291)	(53,243)	(2,410,534)
Payments to employees	(3,123,635)	(123,428)	(3,247,063)
Receipts of customer meter deposits	148,274	-	148,274
Refund of customer meter deposits	(115,524)	-	(115,524)
Other receipts (payments)	173,978	17,600	191,578
Net Cash Provided by (Used in) Operating Activities	<u>3,339,127</u>	<u>(26,447)</u>	<u>3,312,680</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	5,004,477	392,546	5,397,023
Transfers to other funds	(2,488,723)	(331,510)	(2,820,233)
Net Cash Provided by Noncapital Financing Activities	<u>2,515,754</u>	<u>61,036</u>	<u>2,576,790</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(1,421,699)	(331,131)	(1,752,830)
Proceeds from capital grant	-	309,938	309,938
Proceeds from capital debt	257,565	-	257,565
Principal payment of capital debt	(2,224,435)	(14,291)	(2,238,726)
Interest and fiscal charges paid on capital debt	(2,670,351)	(15,829)	(2,686,180)
Net Cash Used in Capital and Related Financing Activities	<u>(6,058,920)</u>	<u>(51,313)</u>	<u>(6,110,233)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	38,574	-	38,574
Net Cash Provided by Investing Activities	<u>38,574</u>	<u>-</u>	<u>38,574</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(165,465)	(16,724)	(182,189)
Balances - beginning of the year	<u>8,691,600</u>	<u>103,740</u>	<u>8,795,340</u>
Balances - end of the year	<u>\$8,526,135</u>	<u>\$87,016</u>	<u>\$8,613,151</u>

See accompanying notes to the basic financial statements.

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Proprietary Funds Statement of Cash Flows - Year Ended June 30, 2009, (Continued)

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$2,488,667	(\$201,472)	\$2,287,195
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	896,595	148,264	1,044,859
Amortization expense	109,041	-	109,041
Operating grant	105,170	-	105,170
Other non-operating revenues (expenses)	68,808	17,600	86,408
Change in assets and liabilities:			
Receivables, net	(123,824)	3,687	(120,137)
Investment in joint venture	(190,503)	-	(190,503)
Accounts payable	(21,532)	1,437	(20,095)
Accrued payroll liabilities	1,500	448	1,948
Escrow deposit liability	11,045	-	11,045
Claims liability	87,325	-	87,325
Deferred revenue	(3,055)	-	(3,055)
Due to depositors	32,750	-	32,750
Landfill closure liability	(39,665)	-	(39,665)
Pension benefit obligation	(14,956)	(729)	(15,685)
Accrued compensated absences	(68,239)	4,318	(63,921)
	<u>\$3,339,127</u>	<u>(\$26,447)</u>	<u>\$3,312,680</u>
Net Cash Provided by (Used in) Operating Activities			
Noncash capital and related financing activities:			
Capital assets contributed from governmental funds	<u>\$140,406</u>	<u>-</u>	<u>\$140,406</u>
Accretion of capital appreciation bonds	<u>(\$542,896)</u>	<u>-</u>	<u>(\$542,896)</u>

See accompanying notes to the basic financial statements.

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FIDUCIARY FUND

CITY OF MCALESTER, OKLAHOMA
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Statement of Fiduciary Net Assets – Pension Trust Fund - June 30, 2009

	Defined Benefit Retirement Plan and Trust Fund
ASSETS:	
Cash and cash equivalents	\$1,966,705
Investments:	
International bonds	94,589
Corporate bonds	1,029,065
Mortgage and asset backed securities	323,495
Government bonds	567,654
Common stocks	3,694,492
Interest receivable	18,572
Total assets	7,694,572
LIABILITIES:	
Accounts payable	1,773
NET ASSETS:	
Held in trust for employee pension benefits	\$7,692,799

Statement of Changes in Fiduciary Net Assets – Pension Trust Fund - Year Ended June 30, 2009

	Defined Benefit Retirement Plan and Trust Fund
ADDITIONS:	
Contribution from employer	\$502,437
Investment income	29,004
Total additions	531,441
DEDUCTIONS:	
Benefits paid to participants or beneficiaries	481,685
Administrative expenses	18,618
Realized and unrealized loss on investments	1,049,729
Total deductions	1,550,032
Change in net assets held in trust for employees' pension benefits	(1,018,591)
Net assets - beginning	8,711,390
Net assets - ending	\$7,692,799

See accompanying notes to the basic financial statements.

**CITY OF MCALESTER, OKLAHOMA
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DISCRETELY PRESENTED COMPONENT UNITS

CITY OF MCALESTER, OKLAHOMA
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Discretely Presented Component Units Combining Statement of Net Assets - June 30, 2009

	Component Units			Total Component Units
	Public Trusts		Nonprofit	
	McAlester Regional Health Center Authority	McAlester Parking Authority	McAlester Economic Development Service, Inc.	
ASSETS:				
Cash and cash equivalents	\$11,435,876	\$20,025	\$21,292	\$11,477,193
Investments	2,387,546	-	38,475	2,426,021
Accounts receivable, net	20,402,318	320	-	20,402,638
Other receivables	297,661	-	13,500	311,161
Inventory	1,986,713	-	-	1,986,713
Investment in joint venture	3,651,501	-	-	3,651,501
Prepaid expenses	900,679	-	-	900,679
Capital assets:				
Land and construction in progress	1,174,074	-	-	1,174,074
Other capital assets, net of depreciation	27,268,049	-	3,272	27,271,321
Intangible asset, net of amortization	-	-	2,186	2,186
Total assets	<u>69,504,417</u>	<u>20,345</u>	<u>78,725</u>	<u>69,603,487</u>
LIABILITIES:				
Current Liabilities:				
Accounts payable	3,635,077	-	9,287	3,644,364
Accrued payroll payable	1,574,281	-	3,360	1,577,641
Estimated third-party settlements	448,687	-	-	448,687
Long-term liabilities:				
Due within one year	2,904,572	-	6,256	2,910,828
Due in more than one year	3,814,246	-	-	3,814,246
Total liabilities	<u>12,376,863</u>	<u>-</u>	<u>18,903</u>	<u>12,395,766</u>
NET ASSETS:				
Invested in capital assets, net of related debt	21,348,318	-	3,272	21,351,590
Restricted for capital projects	4,762,265	-	-	4,762,265
Unrestricted	31,016,971	20,345	56,550	31,093,866
Total net assets	<u>\$57,127,554</u>	<u>\$20,345</u>	<u>\$59,822</u>	<u>\$57,207,721</u>

See accompanying notes to the basic financial statements.

CITY OF MCALESTER, OKLAHOMA
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Discretely Presented Component Units Combining Statement of Revenues, Expenses, and Changes in Net Assets - Year Ended June 30, 2009

	Component Units			Total Component Units
	Public Trusts		Nonprofit	
	McAlester Regional Health Center Authority	McAlester Parking Authority	McAlester Economic Development Service, Inc.	
Operating Revenues:				
Charges for services	-	\$7,145	-	\$7,145
Net patient service revenue	\$77,228,824	-	-	77,228,824
Miscellaneous	3,222,033	-	-	3,222,033
Total Operating Revenues	80,450,857	7,145	-	80,458,002
Operating Expenses:				
Parking	-	1,990	-	1,990
Health and welfare	79,643,424	-	-	79,643,424
Economic development	-	-	\$192,895	192,895
Total Operating Expenses	79,643,424	1,990	192,895	79,838,309
Net Operating Income (Loss)	807,433	5,155	(192,895)	619,693
Non-Operating Revenues (Expenses):				
Investment income	97,151	-	805	97,956
Income from joint ventures	985,627	-	-	985,627
Interest expense and fiscal agent fees	(256,500)	-	-	(256,500)
Donations	-	-	19,150	19,150
Net Non-Operating Revenues (Expenses)	826,278	-	19,955	846,233
Net Income (Loss) Before Transfers, Contributions and Extraordinary Items	1,633,711	5,155	(172,940)	1,465,926
Transfer from primary government	549,824	-	170,500	720,324
Changes in net assets	2,183,535	5,155	(2,440)	2,186,250
Total net assets - beginning	54,944,019	15,190	62,262	55,021,471
Total net assets - ending	\$57,127,554	\$20,345	\$59,822	\$57,207,721

See accompanying notes to the basic financial statements.

**CITY OF MCALESTER, OKLAHOMA
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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF MCALESTER, OKLAHOMA
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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 three 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 18,388 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.

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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 Economic Development Service, Inc. (MEDS) – a non-profit corporation that operates to promote economic development for the City and the surrounding area for which the City is financially accountable. Separate audited component unit financial statements are issued by MEDS and may be obtained from their administrative offices.

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

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- 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.
- Capital Improvement Plan Fund – accounts for monies set aside by City Council for repayment of unsupported bond activity.
- Dedicated Sales Tax MPWA – special revenue 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.
- Reserve Fund – special revenue fund that accounts for excess revenues mainly from oil and gas royalties designated by City Council for emergencies.

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

Special Revenue Funds:

- Nutrition Fund – accounts for revenues and expenditures of various nutrition grants per grant agreement requirements.
- Wellness Center Fund – accounts for revenue received from sales tax (1/4 of one-cent) approved by the voters to be paid to the McAlester Regional Health Center Authority for support of the wellness center. This sales tax ended in FY 08-09.
- Juvenile Fine Fund – accounts for revenues from fines restricted by state for juvenile programs.
- Police Equipment Fund – accounts for revenues and expenditures related to Local Law Enforcement Block Grants.
- Police Revolving Evidence Fund – accounts for revenues received from state drug forfeitures restricted for equipment purchases.
- Hotel/Motel Tax Fund – accounts for revenues of a hotel/motel tax levy to be expended for promotion of tourism.
- E-911 Fund – accounts for E-911 revenues legally restricted for E-911 services.
- Cemetery Perpetual Care – accounts for 12.5% of all cemetery revenues which are legally restricted for cemetery use.

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- CDBG Grants Fund – accounts for revenues and expenditures related to CDBG grants.
- 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.
- 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.
- Federal Forfeiture Fund – Accounts for revenues received from federal drug forfeitures restricted for equipment purchases.

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:

The City's proprietary 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 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.

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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 |

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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

Fund Balances:

Fund balances generally reported in the governmental funds financial statements are displayed in two components:

- a. *Reserved* – Consists of fund balances that are either legally restricted as to use (such as voter-restricted sales taxes), or fund balances that are not available for expenditure in the subsequent year (such as long-term receivables, inventory, etc.).
- b. *Unreserved* – All other fund balances not classified as “reserved”.

At June 30, 2009, there were no governmental fund balance reserves.

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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.

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.

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2. Deposits and Investments

Primary Government Deposits and Investments:

At June 30, 2009, the primary government held the following deposits and investments:

Type of Deposits and Investments - Primary Government	Carrying Value	Maturities in Years				
		On Demand	Less Than One	1 - 5	6 - 10	More Than 10
Deposits:						
Petty Cash	\$ 5,673	\$ 5,673	\$ -	\$ -	\$ -	\$ -
Demand deposits	11,602,856	11,602,856	-	-	-	-
Time deposits	2,016,426	-	1,668,426	348,000	-	-
	<u>13,624,955</u>	<u>11,608,529</u>	<u>1,668,426</u>	<u>348,000</u>	<u>-</u>	<u>-</u>
	Credit Rating					
Investments:						
Western Asset Institutional MM Fund Class A	AAAm	\$ 1,615,745	\$ 1,615,745	\$ -	\$ -	\$ -
Citibank NA South Dakota Bank Deposit Program	A+	218,797	218,797	-	-	-
Federated Treasury Obligations Fund IS #68	Aaa	3,818,267	3,818,267	-	-	-
TSL (USA) Commercial Paper	A-1+	1,157,000	1,157,000	-	-	-
Morgan Stanley Cap Serv Inc - D.S. Fund Agree	AAA	1	1	-	-	-
Goldman Fst Treasury Obligations Instl #468	Aaa	585,854	585,854	-	-	-
Dreyfus Liquid Assets Inc Class 2	Aaa	122,465	122,465	-	-	-
International Bonds	A-	57,486	-	-	36,370	21,116
International Bonds	AA-	17,737	-	-	-	17,737
International Bonds	BBB+	19,366	-	-	19,366	-
Corporate Bonds	AAA	4,175	-	-	-	4,175
Corporate Bonds	AA-	19,335	-	19,335	-	-
Corporate Bonds	A+	54,498	-	36,249	18,249	-
Corporate Bonds	AA	34,689	-	16,810	-	17,879
Corporate Bonds	AA+	38,504	-	6,243	13,527	18,734
Corporate Bonds	A	114,311	-	36,878	77,433	-
Corporate Bonds	A-	17,158	-	-	-	17,158
Corporate Bonds	BBB+	125,893	-	-	72,259	53,634
Corporate Bonds	BBB	110,377	-	5,333	66,805	38,239
Corporate Bonds	BBB-	111,014	-	19,100	66,301	25,613
Corporate Bonds	BB+	95,000	-	95,000	-	-
Corporate Bonds	BB-	93,324	-	93,324	-	-
Corporate Bonds	CCC	181,037	-	181,037	-	-
Corporate Bonds	D	29,750	-	-	29,750	-
Governmental Bonds	N/A	567,654	-	111,294	185,230	40,315
Mortgage and asset backed securities	N/A	323,495	-	-	9,315	314,180
Common Stocks	N/A	3,694,492	3,694,492	-	-	-
		<u>13,227,424</u>	<u>11,212,621</u>	<u>111,294</u>	<u>740,224</u>	<u>568,780</u>
Total Deposits and Investments		<u>\$ 26,852,379</u>	<u>\$ 22,821,150</u>	<u>\$ 1,779,720</u>	<u>\$ 1,088,224</u>	<u>\$ 594,505</u>
Reconciliation to Statement of Net Assets:						
Cash and cash equivalents		\$ 17,159,953				
Investments		2,016,426				
Add: Fiduciary Fund cash and cash equivalents		1,966,705				
Add: Fiduciary Fund investments		5,709,295				
		<u>\$ 26,852,379</u>				

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.

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At June 30, 2009, the City was not exposed to custodial credit risk as defined above, except for cemetery certificates of deposits that were unable to be determined whether they were held in the City's name or on behalf of the City of McAlester.

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 counterparty 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.

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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	\$ 344,283	-	-
Lowe's Escrow Account	1,104,860	-	-
Trustee Accounts (MPWA):			
1999A Sinking Fund	759,866	-	-
1999B Sinking Fund	201,849	-	-
2002 Sinking Fund	403,264	-	-
2002 Construction Fund	179,792	-	-
2003A Bond Fund	674,200	-	-
2003A Bond Reserve Fund	-	\$ 649,097	-
2003B Bond Fund	494,511	-	-
2003B Bond Reserve Fund	-	640,638	-
2003B Project Fund	972,051	-	-
2004 Sinking Fund	204,465	-	-
2004 Reserve Fund	-	270,000	-
2004 Construction Fund	111,389	-	-
Interest Receivable	-	-	\$ 403
 Total Restricted Assets	 \$ 5,450,530	 \$ 1,559,735	 \$ 403

Component Units Deposits and Investments:

McAlester Regional Health Center Authority

Deposits

At June 30, 2009, the Authority had bank balances of \$12,082,823. \$64,289 of these balances were uninsured and uncollateralized.

McAlester Economic Development Service, Inc.

Deposits

All cash and cash equivalents were FDIC insured.

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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, 2009, the "Investment in joint venture" balance changed as follows:

Beginning Investment in Joint Venture	\$ 1,045,814
Current Year Contributions	129,559
Gain from Joint Venture	60,944
Ending Investment in Joint Venture	<u><u>\$ 1,236,317</u></u>

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, 2009, is as follows:

	General Fund		MPWA	Airport	Total
	Ambulance	Court			
Accounts receivable	\$1,519,320	\$1,891,576	\$2,626,015	\$15,467	\$6,052,378
Allowance for doubtful accounts	<u>(1,465,593)</u>	<u>(945,788)</u>	<u>(1,210,635)</u>	<u>(12,417)</u>	<u>(\$3,634,433)</u>
Accounts receivable, net	<u><u>\$53,727</u></u>	<u><u>\$945,788</u></u>	<u><u>\$1,415,380</u></u>	<u><u>\$3,050</u></u>	<u><u>\$2,417,945</u></u>

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Component Units:

McAlester Regional Health Center Authority

Patient receivable balances at June 30, 2009 were as follows:

<u>MRHCA</u>	
Patient receivable	\$44,204,853
Physician receivable	494,882
Allowance for doubtful accounts	<u>(24,297,417)</u>
Accounts receivable, net	<u><u>\$20,402,318</u></u>

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, 2008	Additions	Deductions	Balance June 30, 2009
Note Receivable				
McAlester Foundation	<u>\$1,408,500</u>	<u>\$ -</u>	<u>\$169,857</u>	<u>\$1,238,643</u>

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5. Capital Assets and Depreciation

For the year ended June 30, 2009, capital assets balances changed as follows:

	Balance at June 30, 2008	Additions	Disposals	Balance at June 30, 2009
Governmental activities:				
Non-depreciable:				
Land	\$ 675,209	\$ -	\$ -	\$ 675,209
Construction-in-progress	203,968	150,685	(203,968)	150,685
Total non-depreciable assets at historical cost	<u>879,177</u>	<u>150,685</u>	<u>(203,968)</u>	<u>825,894</u>
Depreciable:				
Buildings	5,344,833	5,565	-	5,350,398
Other improvements	1,309,576	289,582	-	1,599,158
Machinery and equipment	8,090,925	194,211	(391,382)	7,893,754
Infrastructure	61,866,276	58,566	-	61,924,842
Total depreciable assets at historical cost	<u>76,611,610</u>	<u>547,924</u>	<u>(391,382)</u>	<u>76,768,152</u>
Less accumulated depreciation				
Buildings	(2,328,702)	(159,718)	-	(2,488,420)
Other improvements	(810,806)	(48,327)	-	(859,133)
Machinery and equipment	(5,912,749)	(484,763)	384,820	(6,012,692)
Infrastructure	(30,918,422)	(1,518,939)	-	(32,437,361)
Total accumulated depreciation	<u>(39,970,679)</u>	<u>(2,211,747)</u>	<u>384,820</u>	<u>(41,797,606)</u>
Net depreciable assets	<u>36,640,931</u>	<u>(1,663,823)</u>	<u>(6,562)</u>	<u>34,970,546</u>
Governmental activities capital assets, net	<u>\$ 37,520,108</u>	<u>\$ (1,513,138)</u>	<u>\$ (210,530)</u>	<u>\$ 35,796,440</u>
Business-type activities				
Non-depreciable:				
Land	\$ 212,571	\$ -	\$ -	\$ 212,571
Water rights contracts	719,075	-	-	719,075
Construction-in-progress	681,994	1,369,915	(1,848,968)	202,941
Total non-depreciable assets at historical cost	<u>1,613,640</u>	<u>1,369,915</u>	<u>(1,848,968)</u>	<u>1,134,587</u>
Depreciable:				
Buildings	2,750,511	5,550	-	2,756,061
Other improvements	3,030,985	7,520	-	3,038,505
Machinery and equipment	1,710,892	400,902	(91,320)	2,020,474
Utility property	37,497,200	1,958,317	-	39,455,517
Total depreciable assets at historical cost	<u>44,989,588</u>	<u>2,372,289</u>	<u>(91,320)</u>	<u>47,270,557</u>
Less accumulated depreciation				
Buildings	(1,104,570)	(69,109)	-	(1,173,679)
Other improvements	(1,124,668)	(129,815)	-	(1,254,483)
Machinery and equipment	(1,186,463)	(120,877)	91,320	(1,216,020)
Utility property	(19,434,983)	(725,058)	-	(20,160,041)
Total accumulated depreciation	<u>(22,850,684)</u>	<u>(1,044,859)</u>	<u>91,320</u>	<u>(23,804,223)</u>
Net depreciable assets	<u>22,138,904</u>	<u>1,327,430</u>	<u>-</u>	<u>23,466,334</u>
Business-type capital assets, net	<u>\$ 23,752,544</u>	<u>\$ 2,697,345</u>	<u>\$ (1,848,968)</u>	<u>\$ 24,600,921</u>

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	Balance at June 30, 2008	Additions	Reclassified Amounts	Disposals	Balance at June 30, 2009
Component Units:					
Non-depreciable:					
Land	\$ 907,823	\$ -	\$ -	\$ -	\$ 907,823
Construction-in-progress	345,406	498,042	(496,536)	(80,661)	266,251
Total non-depreciable assets at historical cost	<u>1,253,229</u>	<u>498,042</u>	<u>(496,536)</u>	<u>(80,661)</u>	<u>1,174,074</u>
Depreciable:					
Land improvements	564,750	-	-	-	564,750
Buildings and improvements	27,607,973	722,271	496,536	-	28,826,780
Machinery and equipment	32,725,292	3,526,071	-	(618,031)	35,633,332
Total depreciable assets at historical cost	<u>60,898,015</u>	<u>4,248,342</u>	<u>496,536</u>	<u>(618,031)</u>	<u>65,024,862</u>
Less accumulated depreciation					
Land improvements	(611,410)	(23,330)	-	-	(634,740)
Buildings and improvements	(15,333,210)	(835,587)	-	-	(16,168,797)
Machinery and equipment	(18,277,290)	(3,287,329)	-	614,615	(20,950,004)
Total accumulated depreciation	<u>(34,221,910)</u>	<u>(4,146,246)</u>	<u>-</u>	<u>614,615</u>	<u>(37,753,541)</u>
Net depreciable assets	<u>26,676,105</u>	<u>102,096</u>	<u>496,536</u>	<u>(3,416)</u>	<u>27,271,321</u>
Component Unit capital assets, net	<u>\$ 27,929,334</u>	<u>\$ 600,138</u>	<u>\$ -</u>	<u>\$ (84,077)</u>	<u>\$ 28,445,395</u>

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	\$ 1,410
Administration	48,811
Public safety	293,994
Community services	248,464
Public works	1,619,068

Total governmental activities depreciation expense \$ 2,211,747

Depreciation expense charged to business-type activities:

Water	\$ 554,995
Sewer	238,779
Sanitation	102,821
Airport	148,264

Total business-type activities depreciation expense \$ 1,044,859

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 \$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.

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The agreement states that the City will reimburse Lowe's Home Centers, Inc. for the public infrastructure improvements (estimated to be \$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 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 during fiscal year 08-09. However, \$200,000 was paid to Lowe's in March 2010 related to the 08-09 fiscal year liability. The City has recorded on the financial statements of McAlester Public Works Authority an escrow deposit liability in the amount of \$1,104,860. This amount is considered a current liability of the MPWA.

7. Long-Term Debt and Debt Service Requirements

For the year ended June 30, 2009, the reporting entity's long-term debt changed as follows:

	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009	Amounts Due Within One Year
Governmental Activities:					
Capital Lease Obligations	\$ 606,784	\$ -	\$ 335,186	\$ 271,598	\$ 94,946
Accrued Compensated Absences	2,295,908	19,567	-	2,315,475	231,548
Claims Liability	191,215	343,873	349,731	185,357	-
Net Pension Benefit Obligation	441,093	-	68,862	372,231	-
Total Governmental Long-Term Debt	\$ 3,535,000	\$ 363,440	\$ 753,779	\$ 3,144,661	\$ 326,494
Business-type Activities:					
Claims Liability	\$ 64,353	\$ 373,509	\$ 286,184	\$ 151,678	\$ -
Landfill Closure and Post-closure Liability	2,074,721	-	39,665	2,035,056	20,147
Due to Depositors	311,533	148,274	115,524	344,283	68,857
Net Pension Benefit Obligation	131,415	-	15,685	115,730	-
Settlement Obligation	386,970	-	123,256	263,714	123,256
Notes Payable	632,887	257,565	92,032	798,420	79,274
Water Contract Obligations	325,009	-	23,438	301,571	24,010
Revenue Bonds Payable	62,514,230	542,896	2,000,000	61,057,126	2,210,000
Accrued Compensated Absences	420,378	-	63,921	356,457	35,646
Total Business-type Long-Term Debt	\$ 66,861,496	\$ 1,322,244	\$ 2,759,705	\$ 65,424,035	\$ 2,561,190
				Less: Unamortized Loss on Refunding (1,230,229)	
				Less: Unamortized Discount (286,854)	
				Add: Unamortized Premium 708,607	
				\$ 64,615,559	

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:

\$167,900 capital lease with First National Bank for motor grader, payable in monthly Installments of \$3,092, final payment due October 23, 2009, with interest at 3.99%, paid from the General Fund

\$12,227

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\$834,750 capital lease with First National Bank for expo seating, payable in annual installments of \$94,009, final payment due September 16, 2011, with interest at 4.2%, paid from the Hotel/Motel Tax Fund	<u>259,371</u>
Total Capital Lease Obligation	<u>\$271,598</u>
Capital Lease Obligations:	
Current portion	\$ 94,946
Noncurrent portion	<u>176,652</u>
Total Capital Lease Obligations	<u>\$271,598</u>
Accrued Compensated Absences:	
Current portion	\$ 231,548
Noncurrent portion	<u>2,083,927</u>
Total Accrued Compensated Absences	<u>\$2,315,475</u>
Claims Liability:	
Current portion	\$ -
Non-current portion	<u>185,357</u>
Total Claims Liability	<u>\$ 185,357</u>
Net Pension Obligation:	
Current portion	\$ -
Non-current portion	<u>372,231</u>
Total Pension Obligation	<u>\$ 372,231</u>

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.	\$170,729
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.	59,890
2009 PWA Note Payable 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.	202,336
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.	<u>365,465</u>
Total Notes Payable	<u>\$798,420</u>
Current portion	\$79,274
Non-current portion	<u>719,146</u>
Total Notes Payable	<u>\$798,420</u>

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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.	<u>\$301,571</u>
Current portion	\$ 24,010
Non-current portion	<u>277,561</u>
Total Water Rights Contract	<u>\$301,571</u>

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.	\$17,630,000
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	<u>(15,108,748)</u>
Principal outstanding at year end	<u>10,514,872</u>

1999B Series Utility System Revenue Bonds:

Term bonds in the amount of \$1,675,000 dated May 1, 1999, issued by McAlester Public Works Authority, secured by utility revenue and pledged sales tax, total principal due at maturity, interest rate at 6.75%, final maturity February 1, 2011.	955,000
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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.	14,615,000
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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	<u>(13,112,746)</u>
Principal outstanding at year end	<u>4,447,254</u>

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.	5,335,000
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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. 4,860,000

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 2,700,000

Total Revenue Bonds Payable \$61,057,126

Current portion \$ 2,210,000

Noncurrent portion 58,847,126

Total Revenue Bonds Payable \$61,057,126

Unamortized loss on refunding (1,230,229)

Unamortized bond premium/discount 421,753

Total Revenue Bonds Payable, **net** \$60,248,650

Settlement Obligations:

Water Settlement Obligation with Pittsburg County Rural Water District No. 7, in the original amount of \$713,500 dated October 25, 2005, whereby the Authority will provide 355,000,000 gallons of water free of charge (valued at \$2.01 per thousand gallons) and any water used above that will be purchased by the District at the wholesale contract water rate; contract ends in fiscal year 2026.

Current portion 123,256

Noncurrent portion 140,458

Total Settlement Obligations \$ 263,714

Landfill Closure and Post-Closure Liability:

A \$2,035,056 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 64.3% of the estimated capacity of the landfill. It is estimated that an additional \$1,129,883 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 80 months.

Current portion \$ 20,147

Noncurrent portion 2,014,909

Total Landfill Closure and Postclosure Liability \$2,035,056

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Accrued Compensated Absences:		
Current portion		\$ 35,646
Noncurrent portion		<u>320,811</u>
Total Accrued Compensated Absences		<u>\$ 356,457</u>
Deposits Subject to Refund:		
Current portion		\$ 68,857
Noncurrent portion		<u>275,426</u>
Total Deposits Subject to Refund		<u>\$ 344,283</u>
Claims Liability:		
Current portion		\$ -
Non-current portion		<u>151,678</u>
Total Claims Liability		<u>\$ 151,678</u>
Net Pension Obligation:		
Current portion		\$ -
Non-current portion		<u>115,730</u>
Total Pension Obligation		<u>\$ 115,730</u>

Debt Service Requirements to Maturity

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

Year Ended June 30,	<u>Governmental Activity Debt</u>	
	<u>Capital Lease Obligations Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$94,946	11,360
2011	86,447	7,561
2012	<u>90,205</u>	<u>3,860</u>
Total	<u><u>\$271,598</u></u>	<u><u>\$22,781</u></u>

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Year Ended June 30,	Business-Type Activity Debt			
	Settlement Obligation		Notes Payable	
	Principal	Interest	Principal	Interest
2010	\$123,256	-	\$79,274	\$24,125
2011	123,256	-	81,992	21,407
2012	17,202	-	403,724	5,785
2013	-	-	71,371	2,378
2014	-	-	17,140	-
2015-2019	-	-	85,700	-
2020-2024	-	-	50,179	-
2025-2029	-	-	9,040	-
Total	<u>\$263,714</u>	<u>-</u>	<u>\$798,420</u>	<u>\$53,695</u>

Year Ended June 30,	Water Rights Contract Obligation		Revenue Bonds Payable	
	Principal	Interest	Principal	Interest
	2010	\$24,010	\$7,908	\$2,210,000
2011	24,640	7,279	2,395,000	2,449,212
2012	25,286	6,633	2,625,000	2,318,258
2013	25,949	5,970	2,895,000	2,177,880
2014	26,629	5,289	3,090,000	2,017,766
2015-2019	143,994	15,599	20,600,000	6,811,992
2020-2024	31,063	856	8,751,099	9,553,842
2025-2029	-	-	7,786,182	11,353,911
2030-2034	-	-	4,708,727	16,782,217
Total	<u>\$301,571</u>	<u>\$49,534</u>	<u>\$55,061,008</u>	<u>\$56,023,086</u>
Accreted Portion of Debt			<u>5,996,118</u>	<u>(5,996,118)</u>
			<u>\$61,057,126</u>	<u>\$50,026,968</u>

Component Units have the following long-term debt at June 30, 2009:

	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009	Amounts Due Within One Year
Component Unit Activities:					
Capital Lease Obligations	\$ 2,821,340	\$ 1,480,000	\$ 1,017,501	\$ 3,283,839	\$ 1,106,095
Notes Payable	2,817,891	567,729	749,728	2,635,892	999,390
Accrued Compensated Absences	866,863	-	61,520	805,343	805,343
Total Component Unit Debt	<u>\$ 6,506,094</u>	<u>\$ 2,047,729</u>	<u>\$ 1,828,749</u>	<u>\$ 6,725,074</u>	<u>\$ 2,910,828</u>

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McAlester Regional Health Center Authority Component Unit

Notes Payable:

3.95% note payable, due July 15, 2012. Collateralized by a mortgage on property and assignment of rents; used for wellness center.	\$1,363,909
5.5% note payable, due July 5, 2009. Collateralized by a mortgage on property and assignment of rents; used for assisted living center.	224,627
5% note payable, due May 1, 2012. Collateralized by a mortgage on property and assignment of rents; used for assisted living center remodel.	171,126
4.2% note payable, due November 15, 2010. Collateralized by a mortgage on equipment.	438,358
3.25% note payable, due December 1, 2015. Unsecured.	77,224
5.15% note payable, due December 10, 2022. Collateralized by a mortgage on property; used for Choctaw Nation clinic.	<u>360,648</u>
Total Notes Payable	<u>\$2,635,892</u>
Current portion	\$999,390
Non-current portion	<u>1,636,502</u>
Total Notes Payable	<u>\$2,635,892</u>

Capital Lease Obligations:

Capital lease obligations, at varying rates of imputed interest from 3.25% to 6.5% collateralized by leased equipment with cost of \$5,810,654.	<u>\$3,283,839</u>
Current portion	\$ 1,106,095
Noncurrent portion	<u>2,177,744</u>
Total Capital Lease Obligations	<u>\$3,283,839</u>

Accrued Compensated Absences:

Current portion	<u>\$ 799,087</u>
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Long-term debt service requirements to maturity for the component unit are as follows:

Year Ended June 30,	<u>Discretely Presented Component Unit Debt</u>			
	<u>Notes Payable</u>		<u>Capital Lease Obligations Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$999,390	\$120,049	\$1,106,095	\$117,003
2011	806,934	85,917	980,368	75,906
2012	334,439	50,491	708,108	37,737
2013	138,265	25,934	369,136	13,736
2014	79,865	18,278	120,132	2,167
2015-2019	161,018	51,156	-	-
2020-2024	115,981	10,644	-	-
Total	<u>\$2,635,892</u>	<u>\$362,469</u>	<u>\$3,283,839</u>	<u>\$246,549</u>

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McAlester Economic Development Service, Inc. Component Unit

Accrued Compensated Absences:

Current portion \$ 6,256

8. Net Assets and Fund Balances

Net assets restricted for debt service in the MPWA as of June 30, 2009, consisted of the following:

Enterprise Funds:	
1999A Revenue Bond Trust Accounts	\$759,866
1999B Revenue Bond Trust Accounts	201,849
2002 Revenue Bond Trust Accounts	403,264
2003A Revenue Bond Trust Accounts	1,323,297
2003B Revenue Bond Trust Accounts	1,135,149
2004 Revenue Bond Trust Accounts	<u>474,465</u>
Restricted per bond indenture	\$4,297,890
Add: Accrued interest receivable	403
Less: Accrued interest payable	<u>(1,599,429)</u>
Total Restricted for Debt Service	<u><u>\$2,698,864</u></u>

Reclassification of Assets

Beginning fund balance of a governmental fund was restated as of June 30, 2009. Beginning net assets of enterprise funds, governmental activities and business-type activities were restated as of June 30, 2009, as follows:

	Capital Improvement Plan Fund	Governmental Activities	MPWA	Business-Type Activities
Beginning fund balance/net assets, as previously reported	\$316,821	\$41,876,931	(\$31,499,084)	(\$28,663,667)
Reclassification of due from other funds	3,291,826	3,291,826	(3,291,826)	(3,291,826)
Beginning fund balance/net assets, restated	<u><u>\$3,608,647</u></u>	<u><u>\$45,168,757</u></u>	<u><u>(\$34,790,910)</u></u>	<u><u>(\$31,955,493)</u></u>

9. Dedicated Tax Revenues and Pledges of Future Revenues

Sales and Use Tax

Sales and use tax revenue represents a 3.75 cents tax on each dollar of taxable sales through November 1st and a 3.50 for the remainder of the year 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.

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- ¼ cent paid to the McAlester Regional Health Center Authority for the purpose of financing the acquisition, construction, and equipment maintenance of a wellness center. This sales tax ended November 1, 2008.
- 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 \$61,057,126 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 bonds 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 \$111,084,094, which includes \$43,183,620 of accreted bonds. Pledged sales taxes transferred in the current year were \$4,691,087 and the net utility revenues were \$3,494,303. Debt service payments of \$4,672,149, excluding accreted interest, for the current fiscal year were 99.6% of the pledged and transferred sales taxes and 57.1% 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, 2009, were as follows:

Transfer From	Transfer To	Amount	Nature of Transfer
General Fund	Police Equipment Fund	\$968	Matching grant monies
General Fund	Nutrition Fund	177,423	Operating transfer
General Fund	McAlester Airport Authority	61,036	Operating transfer
General Fund	Reserve Fund	250,220	Council designated oil & gas royalty revenue
Dedicated Sales Tax Fund	MPWA	3,212,738	Debt payments to trustee bank
Sales Tax - Schools Fund	MPWA - Bond Trustee Acct	642,657	Debt payments to trustee bank
Economic Development Fund	MPWA - Bond Trustee Acct	835,692	Debt payments to trustee bank
Economic Development Fund	MPWA	3,390	Trustee bank fiscal agent fees
Capital Improvement Plan Fund	MPWA	310,000	Operating transfer-bond issue related
MPWA	General Fund	2,093,180	Operating transfer
MPWA	General Fund	310,000	Operating transfer-bond issue related
MPWA	Governmental Activities	6,043	Capital asset purchases
MPWA	CDBG Grants Fund	79,500	Matching grant monies
		\$7,982,847	

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	Transfers In	Transfers Out	Net Transfers/ Internal Activity
Reconciliation to Fund			
Financial Statements:			
Governmental Funds	\$2,911,291	(\$5,494,124)	(\$2,582,833)
Enterprise Funds	5,065,513	(2,488,723)	2,576,790
Total Transfers	<u>\$7,976,804</u>	<u>(\$7,982,847)</u>	<u>(\$6,043)</u>
Reconciliation to statement of activities:		Governmental	Business-Type
Net transfers		(\$2,582,833)	\$2,576,790
Reclassification of capital grant between activities		\$79,500	(\$79,500)
Reclassification of capital asset purchases between activities		(\$140,406)	\$140,406
Reclassification of capital asset purchases between activities		6,043	-
Total Transfers - Internal Activity		<u>(\$2,637,696)</u>	<u>\$2,637,696</u>

Balances:

Interfund receivables and payables at June 30, 2009, were as follows:

Due From	Due To	Amount	Nature of Interfund Balance
General Fund	Cemetery Perpetual Care Fund	\$2,364	12.5% required transfer
General Fund	Capital Improvement Plan Fund	2,881,826	Bond related issues
Wellness Center Fund	General Fund	26,506	Error in sales tax transferred
Wellness Center Fund	Dedicated Sales Tax - MPWA	13,253	Error in sales tax transferred
Wellness Center Fund	Sales Tax - Schools Fund	3,314	Error in sales tax transferred
Wellness Center Fund	Economic Development Fund	3,314	Error in sales tax transferred
		<u>\$2,930,577</u>	
Due From Other Fund	Due To Other Funds	Net Activity/ Internal Balances	
Reconciliation to Fund			
Financial Statements:			
Governmental Funds	\$2,930,577	(\$2,930,577)	-
Enterprise Funds	-	-	-
Total Interfund Balances	<u>\$2,930,577</u>	<u>(\$2,930,577)</u>	<u>-</u>

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 \$2,881,826.

The City has recorded a due from component unit in the amount of \$46,387. This is the result of segregating sales tax improperly upon the expiration of the ¼ cent sales tax effective November 1, 2009. As a result, the City overpaid sales tax to the Wellness Center in the amount equivalent to ½ month of sales tax collections. The City intends to collect this overpayment from the Hospital. The Hospital Authority had already released its audit for FY 08-09 before the City realized this situation. Therefore, the amounts reported as owed between the two component units will not equal.

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Internal Transfers and Balances – Component Unit:

The City’s primary government has an exchange of resources with the McAlester Regional Health Center Authority component unit through December 2009. For the year ended June 30, 2009, the City transferred \$362,398 of resources to the Authority. The component unit reported amounts within these financial statements differ from the City reported amounts due to timing of the receipt by the component unit.

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, 2007 to June 30, 2009 are as follows:

	General Fund	MPWA
Claims liability, July 1, 2007	\$294,908	\$51,684
Claims incurred	206,153	116,949
Claims paid	(309,846)	(104,280)
Claims liability, June 30, 2008	191,215	64,353
Claims incurred	343,873	373,509
Claims paid	(349,731)	(286,184)
Claims liability, June 30, 2009	\$185,357	\$151,678

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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 2009, the City's involvement in federal and state award programs was 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):

Since inception of the one-cent dedicated sales tax discussed in Note 10 pledged to the MPWA for debt service, the City's position has been that any excess sales tax collected annually above the amount needed for the current debt service payments on the related revenue bonds could be used for capital improvements of both the City and MPWA. Questions have been raised in prior years as to whether the City management's interpretation of the dedicated use of the tax for both debt service and capital improvements is the proper interpretation and intent of the dedication or restriction. 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, council decided to continue segregation of these excess funds and restrict them for debt service.

DEQ Consent Order:

The City of McAlester is currently under three Consent Orders from the Oklahoma Department of Environmental Quality, Case 02-101A, Case No. 07-233, and Case 09-241 related to the water treatment plant. Case 02-101A relates to turbidity. Funds to upgrade the water plant filters and associated work for this Consent Order have been allocated and this work should be completed within the next 12 months. Case 07-233 relates to disinfection by-products (dbp's). This work has been completed and the plant is approaching compliance with dbp's. Case 09-241 relates to permit exceedances of the discharge permit from the plant's backwash lagoons. An engineering report is currently being conducted to determine the corrective actions necessary. Engineering design and construction is expected in FY 2010-2011 and is estimated at \$500,000.

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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	13.1% of Payroll (\$535,657 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, 2009
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level Dollar
Amortization period	17 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%

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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, 2009, 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, 2009 was as follows:

	<u>2009</u>
Annual pension cost	\$518,694
Contributions made	<u>(603,241)</u>
Increase (decrease) in net pension obligation	(84,547)
Net pension obligation beginning of year	<u>572,508</u>
Net pension obligation end of year	<u>\$487,961</u>

D. Trend Information

McAlester Employees' Retirement System			
Fiscal Year	Required Contribution	Percentage Contributed	Net Pension Obligation (Asset)
2007	\$ 516,115	80.7%	\$ 569,651
2008	533,593	99.5%	572,508
2009	518,694	116.3%	487,961

Funded Status and Funding Progress

As of January 1, 2009, the funded status of the McAlester Employees' Retirement System defined benefit plan is as follows:

Actuarial accrued liability (AAL)	\$13,164,083
Actuarial value of plan assets	<u>9,779,352</u>
Overfunded (Unfunded) actuarial accrued liability (UAAL)	<u>\$ (3,384,731)</u>
Funded ratio (actuarial value of plan assets/AAL)	74.3%
Annual covered payroll (active plan members)	\$4,326,276
UAAL as a percentage of covered payroll	78.2%

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.

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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 \$508,126 (or 21.9% 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 \$253,823 (or 11.2% 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
2007	\$ 315,859	100%	2007	\$ 300,533	100%
2008	268,784	100%	2008	298,714	100%
2009	312,728	100%	2009	299,518	100%

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Other Post-Employment Benefits

For the year ended June 30, 2009, the City provided post-employment benefits (other than pension) to retired employees. The City accounts for these costs on a pay-as-you-go basis. These benefits are in the form of health insurance for retired employees. The retirees pay 100% of the City's established blended premium for active and retired employees. The City did not perform an actuarial evaluation to determine these amounts and disclosures for fiscal year 08-09.

14. Noncompliance with Finance-Related Legal or Contractual Requirements

Budgetary Compliance:

For the year ended June 30, 2009, expenditures exceeded appropriations at the legal level of control as follows:

<u>Fund</u>	<u>Department</u>	<u>Expenditures Exceeding Appropriations</u>
General Fund	Fleet Maintenance	\$13,746
General Fund	Streets	4,135

Fund Equity Restrictions:

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund (excluding public trusts). The City had the following fund with a negative fund balance:

General Fund	(\$1,404,008)
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As of and for the Year Ended June 30, 2009**

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MCALESTER, OKLAHOMA
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Budgetary Comparison Schedules (Budgetary Basis) – Year Ended June 30, 2009

	GENERAL FUND (Budgetary Basis)			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	-	-	\$88,227	\$88,227
Resources (Inflows):				
TAXES:				
Sales tax	\$8,137,547	\$8,600,298	8,559,473	(40,825)
Use tax	540,000	540,000	579,941	39,941
Franchise tax	685,000	685,000	729,742	44,742
Total Taxes	<u>9,362,547</u>	<u>9,825,298</u>	<u>9,869,156</u>	<u>43,858</u>
INTERGOVERNMENTAL:				
Alcoholic beverage tax	91,500	91,500	113,773	22,273
Tobacco/cigarette tax	206,550	206,550	213,909	7,359
Gas excise tax	40,000	40,000	34,915	(5,085)
Vehicle tax	126,000	126,000	126,900	900
Grant revenue	-	24,000	18,796	(5,204)
Total Intergovernmental	<u>464,050</u>	<u>488,050</u>	<u>508,293</u>	<u>20,243</u>
CHARGES FOR SERVICES:				
Court costs	200,000	200,000	180,460	(19,540)
Cemetery opening/closing	38,534	38,534	31,497	(7,037)
Dog pound fees	3,000	3,000	630	(2,370)
Swimming pool revenue	25,191	25,191	34,372	9,181
Ambulance revenue	320,470	320,470	473,341	152,871
Street cuts	1,000	1,000	299	(701)
Recreation fees	5,246	5,246	5,374	128
Oil and gas leases	201,684	321,684	249,959	(71,725)
Abatements	24,799	24,799	11,956	(12,843)
Rental property	15,145	15,145	12,146	(2,999)
Rental rooms	7,169	7,169	6,845	(324)
Burgular alarms	5,805	5,805	2,050	(3,755)
Complex concessions	15,350	15,350	9,926	(5,424)
Complex rental	12,011	12,011	9,265	(2,746)
Total Charges for Services	<u>875,404</u>	<u>995,404</u>	<u>1,028,120</u>	<u>32,716</u>
FINES AND FORFEITURES	<u>623,000</u>	<u>623,000</u>	<u>841,278</u>	<u>218,278</u>
LICENSES AND PERMITS	<u>110,515</u>	<u>110,515</u>	<u>112,865</u>	<u>2,350</u>
INVESTMENT INCOME	<u>52,000</u>	<u>52,000</u>	<u>56,296</u>	<u>4,296</u>
MISCELLANEOUS:				
Auctions	-	42,627	42,652	25
Hay sales	1,500	1,500	-	(1,500)
Vendors	555	555	545	(10)
Cemetery lots	24,439	24,439	27,325	2,886
Demolitions	5,000	5,000	14,760	9,760
Donations	75,000	75,000	6,232	(68,768)
Miscellaneous	60,000	60,000	44,872	(15,128)
Reimbursements	150,333	204,032	88,291	(115,741)
Total Miscellaneous	<u>316,827</u>	<u>413,153</u>	<u>224,677</u>	<u>(188,476)</u>
OTHER FINANCING SOURCES:				
Transfers from other funds	2,093,180	2,093,180	2,093,180	-
Total Other Financing Sources	<u>2,093,180</u>	<u>2,093,180</u>	<u>2,093,180</u>	<u>-</u>
Amounts available for appropriation	<u>13,897,523</u>	<u>14,600,600</u>	<u>14,822,092</u>	<u>221,492</u>

(Continued)

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(Continued)

GENERAL FUND (Budgetary Basis)				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Charges to Appropriations (Outflows):				
LEGISLATURE:				
Mayor and Council:				
Personal services	4,844	4,846	4,844	2
Materials and supplies	2,000	2,000	1,521	479
Other services and charges	26,527	40,025	24,510	15,515
TOTAL LEGISLATURE	33,371	46,871	30,875	15,996
ADMINISTRATION:				
City Manager:				
Personal services	173,343	175,406	174,776	630
Materials and supplies	5,500	6,000	5,228	772
Other services and charges	5,103	4,090	4,036	54
Total City Manager	183,946	185,496	184,040	1,456
Finance:				
Personal services	203,218	124,063	111,950	12,113
Materials and supplies	6,050	8,150	8,058	92
Other services and charges	10,000	46,818	40,609	6,209
Total Finance	219,268	179,031	160,617	18,414
City Clerk:				
Personal services	61,900	64,002	63,540	462
Materials and supplies	2,400	2,562	2,562	-
Other services and charges	7,750	7,578	7,307	271
Total City Clerk	72,050	74,142	73,409	733
Legal:				
Personal services	60,695	60,695	35,667	25,028
Other services and charges	120,000	120,000	115,261	4,739
Total Legal	180,695	180,695	150,928	29,767
Court:				
Personal services	90,522	119,764	117,288	2,476
Materials and supplies	3,000	7,000	4,464	2,536
Other services and charges	156,800	152,394	131,345	21,049
Total Court	250,322	279,158	253,097	26,061
Interdepartmental:				
Personal services	188,526	349,731	349,731	-
Materials and supplies	-	44	44	-
Other services and charges	1,094,672	1,033,856	1,013,564	20,292
Capital outlay	-	46,445	45,988	457
Total Interdepartmental	1,283,198	1,430,076	1,409,327	20,749
Information Services:				
Personal services	60,236	62,420	62,306	114
Materials and supplies	4,000	4,000	3,145	855
Other services and charges	31,900	31,774	28,050	3,724
Capital outlay	47,500	72,500	58,769	13,731
Total Information Services	143,636	170,694	152,270	18,424

(Continued)

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(Continued)

	GENERAL FUND (Budgetary Basis)			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
ADMINISTRATION, (Continued):				
CID:				
Personal services	753,232	808,284	799,426	8,858
Materials and supplies	13,000	16,500	15,550	950
Total CID	<u>766,232</u>	<u>824,784</u>	<u>814,976</u>	<u>9,808</u>
TOTAL ADMINISTRATION	<u>3,099,347</u>	<u>3,324,076</u>	<u>3,198,664</u>	<u>125,412</u>
PUBLIC SAFETY:				
Police:				
Personal services	2,473,927	2,566,966	2,498,249	68,717
Materials and supplies	42,200	46,940	44,516	2,424
Other services and charges	72,683	67,943	50,475	17,468
Total Police	<u>2,588,810</u>	<u>2,681,849</u>	<u>2,593,240</u>	<u>88,609</u>
Animal Shelter:				
Personal services	85,618	88,343	86,560	1,783
Materials and supplies	4,500	4,500	2,798	1,702
Other services and charges	5,500	5,500	3,273	2,227
Total Animal Shelter	<u>95,618</u>	<u>98,343</u>	<u>92,631</u>	<u>5,712</u>
Communications:				
Personal services	152,356	155,334	149,744	5,590
Materials and supplies	1,000	2,276	1,848	428
Other services and charges	500	500	216	284
Total Communications	<u>153,856</u>	<u>158,110</u>	<u>151,808</u>	<u>6,302</u>
Fire/EMS:				
Personal services	2,844,428	2,965,645	2,973,158	(7,513)
Materials and supplies	66,625	60,670	60,591	79
Other services and charges	54,500	51,634	51,893	(259)
Capital outlay	10,000	10,000	10,000	-
Debt service	-	19,498	-	19,498
Total Fire/EMS	<u>2,975,553</u>	<u>3,107,447</u>	<u>3,095,642</u>	<u>11,805</u>
TOTAL PUBLIC SAFETY	<u>5,813,837</u>	<u>6,045,749</u>	<u>5,933,321</u>	<u>112,428</u>
COMMUNITY SERVICES:				
Parks and Recreation:				
Personal services	697,590	668,988	650,586	18,402
Materials and supplies	175,250	180,250	104,610	75,640
Other services and charges	71,600	65,616	62,621	2,995
Capital outlay	-	5,984	5,984	-
Total Parks and Recreation	<u>944,440</u>	<u>920,838</u>	<u>823,801</u>	<u>97,037</u>
Swimming Pools:				
Personal services	86,717	82,717	81,582	1,135
Materials and supplies	44,500	53,106	52,575	531
Other services and charges	11,500	27,894	25,108	2,786
Total Swimming Pools	<u>142,717</u>	<u>163,717</u>	<u>159,265</u>	<u>4,452</u>
Recreation:				
Personal services	137,108	165,597	161,168	4,429
Materials and supplies	10,500	10,500	10,375	125
Total Recreation	<u>147,608</u>	<u>176,097</u>	<u>171,543</u>	<u>4,554</u>

(Continued)

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(Continued)

	GENERAL FUND (Budgetary Basis)			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
COMMUNITY SERVICES, (Continued):				
Library:				
Personal services	37,748	38,957	38,849	108
Materials and supplies	9,750	9,750	6,430	3,320
Other services and charges	7,000	7,000	6,330	670
Total Library	<u>54,498</u>	<u>55,707</u>	<u>51,609</u>	<u>4,098</u>
Cemetery:				
Personal services	291,372	291,994	282,336	9,658
Materials and supplies	15,550	16,050	11,344	4,706
Other services and charges	600	100	4,103	(4,003)
Total Cemetery	<u>307,522</u>	<u>308,144</u>	<u>297,783</u>	<u>10,361</u>
Facility Maintenance:				
Personal services	129,196	131,196	131,182	14
Materials and supplies	45,750	50,919	50,313	606
Other services and charges	16,000	13,120	12,790	330
Capital outlay	-	36,851	-	36,851
Total Facility Maintenance	<u>190,946</u>	<u>232,086</u>	<u>194,285</u>	<u>37,801</u>
TOTAL COMMUNITY SERVICES	<u>1,787,731</u>	<u>1,856,589</u>	<u>1,698,286</u>	<u>158,303</u>
ADMINISTRATIVE SERVICES:				
Codes Administration:				
Personal services	326,773	293,306	286,334	6,972
Materials and supplies	9,700	9,028	5,128	3,900
Other services and charges	46,500	52,219	48,318	3,901
Total Codes Administration	<u>382,973</u>	<u>354,553</u>	<u>339,780</u>	<u>14,773</u>
Human Resources/Risk Management:				
Personal services	104,576	105,814	105,259	555
Materials and supplies	11,250	13,870	11,749	2,121
Other services and charges	14,500	13,989	13,038	951
Total Human Resources/Risk Management	<u>130,326</u>	<u>133,673</u>	<u>130,046</u>	<u>3,627</u>
TOTAL ADMINISTRATIVE SERVICES	<u>513,299</u>	<u>488,226</u>	<u>469,826</u>	<u>18,400</u>
PUBLIC WORKS:				
Fleet Maintenance:				
Personal services	383,197	396,688	396,688	-
Materials and supplies	614,670	534,082	547,828	(13,746)
Other services and charges	1,000	-	-	-
Total Fleet Maintenance	<u>998,867</u>	<u>930,770</u>	<u>944,516</u>	<u>(13,746)</u>
Traffic Control:				
Personal services	154,920	172,438	165,773	6,665
Materials and supplies	50,750	33,140	19,677	13,463
Total Traffic Control	<u>205,670</u>	<u>205,578</u>	<u>185,450</u>	<u>20,128</u>

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(Continued)

	GENERAL FUND (Budgetary Basis)			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
PUBLIC WORKS, (Continued):				
Streets:				
Personal services	609,495	563,955	563,740	215
Materials and supplies	163,000	275,084	279,434	(4,350)
Other services and charges	1,500	-	-	-
Debt service	37,102	37,102	37,102	-
Total Streets	<u>811,097</u>	<u>876,141</u>	<u>880,276</u>	<u>(4,135)</u>
TOTAL PUBLIC WORKS	<u>2,015,634</u>	<u>2,012,489</u>	<u>2,010,242</u>	<u>2,247</u>
OTHER FINANCING USES:				
Transfers to other funds	<u>550,637</u>	<u>670,765</u>	<u>589,647</u>	<u>81,118</u>
Total Charges to Appropriations	<u>13,813,856</u>	<u>14,444,765</u>	<u>13,930,861</u>	<u>513,904</u>
Ending Budgetary Fund Balance	<u><u>\$83,667</u></u>	<u><u>\$155,835</u></u>	<u><u>\$891,231</u></u>	<u><u>\$735,396</u></u>

SPECIAL REVENUE - CAPITAL IMPROVEMENT PLAN FUND (Budgetary Basis)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance, restated	\$316,821	\$316,821	\$316,821	-
Resources (Inflows):				
Taxes	-	-	-	-
Investment income	5,000	5,000	6,668	\$1,668
Transfer in	-	100,000	100,000	-
Amounts available for appropriation	<u>321,821</u>	<u>421,821</u>	<u>423,489</u>	<u>1,668</u>
Charges to appropriations (outflows):				
Capital outlay	-	37,500	30,284	7,216
Total Charges to Appropriations	<u>-</u>	<u>37,500</u>	<u>30,284</u>	<u>7,216</u>
Ending Budgetary Fund Balance	<u><u>\$321,821</u></u>	<u><u>\$384,321</u></u>	<u><u>\$393,205</u></u>	<u><u>\$8,884</u></u>

See accompanying notes to budgetary comparison schedules

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SPECIAL REVENUE - DEDICATED SALES TAX - MPWA (Budgetary Basis)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$840,922	\$840,922	\$840,922	-
Resources (Inflows):				
Taxes	4,068,774	4,089,106	4,279,737	\$190,631
Investment income	13,000	13,000	11,520	(1,480)
Amounts available for appropriation	<u>4,922,696</u>	<u>4,943,028</u>	<u>5,132,179</u>	<u>189,151</u>
Charges to appropriations (outflows):				
Administration	8,600	3,000	3,000	-
Transfers out	<u>3,150,627</u>	<u>3,212,738</u>	<u>3,212,738</u>	-
Total Charges to Appropriations	<u>3,159,227</u>	<u>3,215,738</u>	<u>3,215,738</u>	-
Ending Budgetary Fund Balance	<u>\$1,763,469</u>	<u>\$1,727,290</u>	<u>\$1,916,441</u>	<u>\$189,151</u>

See accompanying notes to budgetary comparison schedules

SPECIAL REVENUE - RESERVE FUND (Budgetary Basis)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$3,137,545	\$3,137,545	\$3,137,545	-
Resources (Inflows):				
Investment income	25,000	25,000	65,055	\$40,055
Miscellaneous	-	11,052	4,618	(6,434)
Transfers in	201,684	201,684	250,220	48,536
Amounts available for appropriation	<u>3,364,229</u>	<u>3,375,281</u>	<u>3,457,438</u>	<u>82,157</u>
Charges to appropriations (outflows):				
Transfers out	<u>1,721,351</u>	-	-	-
Total Charges to Appropriations	<u>1,721,351</u>	-	-	-
Ending Budgetary Fund Balance	<u>\$1,642,878</u>	<u>\$3,375,281</u>	<u>\$3,457,438</u>	<u>\$82,157</u>

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. 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 at year-end are lapsed at year end and are re-appropriated and re-encumbered in the subsequent fiscal year.

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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:

	<u>General Fund</u>
Sources/Inflows of resources	
Actual amounts (budgetary basis) "available appropriation" from the budgetary comparison schedule	\$14,822,092
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.	(88,227)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(2,093,180)
The City reports on-behalf payments made by state in the General Fund in the fund financial statements, but are not budgeted.	761,949
The City budgets for revenues on the modified cash basis of accounting, rather than on the modified accrual basis.	<u>(263,462)</u>
 Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	 <u><u>\$13,139,172</u></u>
Uses/Outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$13,930,861
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.	(58,624)
The City reports on-behalf payments made by state in the General Fund in the fund financials statements, but are not budgeted.	761,949
Transfers to other funds and component units are outflows of budgetary resources but are not expenditures for financial reporting purposes.	<u>(589,647)</u>
 Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	 <u><u>\$14,044,539</u></u>

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	<u>Capital Improvement Plan Fund</u>
Sources/Inflows of resources	
Actual amounts (budgetary basis) “available appropriation” from the budgetary comparison schedule	\$423,489
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.	(316,821)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	<u>(100,000)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$6,668</u>
	<u>Dedicated Sales Tax Fund</u>
Sources/Inflows of resources	
Actual amounts (budgetary basis) “available appropriation” from the budgetary comparison schedule	\$5,132,179
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.	(840,922)
The City budgets for revenues on the modified cash basis of accounting, rather than on the modified accrual basis.	<u>(82,567)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$4,208,690</u>
Uses/Outflows of resources	
Actual amounts (budgetary basis) “total charges to appropriations” from the budgetary comparison schedule	\$3,215,738
Differences – budget to GAAP:	
Transfers to other funds and component units are outflows of budgetary resources but are not expenditures for financial reporting purposes.	<u>(3,212,738)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$3,000</u>

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Sources/Inflows of resources	<u>Reserve Fund</u>
Actual amounts (budgetary basis) “available appropriation” from the budgetary comparison schedule	\$3,457,438
Differences – budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(250,220)
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	<u>(3,137,545)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$69,673</u>

4. For the year ended June 30, 2009, the City complied, in all material respects, with the applicable budget laws, except as noted below:

➤ Expenditures exceeded appropriations at the legal level of control, immaterially, as follows:

<u>Fund</u>	<u>Department</u>	<u>Expenditures Exceeding Appropriations</u>
General Fund	Fleet Maintenance	\$13,746
General Fund	Streets	4,135

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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%

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

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SUPPLEMENTARY INFORMATION

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Combining Balance Sheet, Nonmajor Governmental Funds – June 30, 2009

	SPECIAL REVENUE FUNDS				
	NUTRITION FUND	WELLNESS CENTER FUND	JUVENILE FINE FUND	POLICE EQUIPMENT FUND	POLICE REVOLVING EVIDENCE FUND
<u>ASSETS</u>					
Cash and cash equivalents	\$5,177	-	\$47,748	-	\$41,818
Investments	-	-	-	-	-
Receivables:					
Accrued interest receivable	-	-	-	-	-
Due from other funds	-	-	-	-	-
Due from other governments	5,641	-	-	-	-
Due from component unit - MRHCA	-	\$46,387	-	-	-
Notes receivable	-	-	-	-	-
Other receivable	-	-	-	-	-
Total Assets	\$10,818	\$46,387	\$47,748	-	\$41,818
<u>LIABILITIES</u>					
Accounts payable and accrued liabilities	\$520	-	-	-	-
Accrued payroll liabilities	10,298	-	-	-	-
Due to other funds	-	\$46,387	-	-	-
Total Liabilities	10,818	46,387	-	-	-
<u>FUND BALANCES</u>					
Unreserved, reported in:					
Special revenue funds	-	-	\$47,748	-	\$41,818
Total fund balances	-	-	47,748	-	41,818
Total Liabilities and Fund Balances	\$10,818	\$46,387	\$47,748	-	\$41,818

(Continued)

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Combining Balance Sheet, Nonmajor Governmental Funds – June 30, 2009, Continued

	SPECIAL REVENUE FUNDS				
	HOTEL/MOTEL TAX FUND	E-911 FUND	CEMETERY PERPETUAL CARE FUND	CDBG GRANTS FUND	SALES TAX - SCHOOLS FUND
<u>ASSETS</u>					
Cash and cash equivalents	\$509,780	\$812,857	\$22,220	\$5,756	\$554,086
Investments	-	-	348,000	-	-
Receivables:					
Accrued interest receivable	-	-	1,215	-	-
Due from other funds	-	-	2,364	-	3,314
Due from other governments	39,129	-	-	-	120,394
Due from component unit - MRHCA	-	-	-	-	-
Notes receivable	-	-	-	-	-
Other receivable	-	64,466	-	-	-
Total Assets	<u>\$548,909</u>	<u>\$877,323</u>	<u>\$373,799</u>	<u>\$5,756</u>	<u>\$677,794</u>
<u>LIABILITIES</u>					
Accounts payable and accrued liabilities	\$4,282	\$66,612	-	-	-
Accrued payroll liabilities	8,859	9,739	-	-	-
Due to other funds	-	-	-	-	-
Total Liabilities	<u>13,141</u>	<u>76,351</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>FUND BALANCES</u>					
Unreserved, reported in:					
Special revenue funds	<u>535,768</u>	<u>800,972</u>	<u>373,799</u>	<u>5,756</u>	<u>\$677,794</u>
Total fund balances	<u>535,768</u>	<u>800,972</u>	<u>373,799</u>	<u>5,756</u>	<u>677,794</u>
Total Liabilities and Fund Balances	<u>\$548,909</u>	<u>\$877,323</u>	<u>\$373,799</u>	<u>\$5,756</u>	<u>\$677,794</u>

(Continued)

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Combining Balance Sheet, Nonmajor Governmental Funds – June 30, 2009, Continued

	<u>SPECIAL REVENUE FUNDS</u>		<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
	<u>ECONOMIC DEVELOPMENT FUND</u>	<u>FEDERAL FORFEITURE FUND</u>	
<u>ASSETS</u>			
Cash and cash equivalents	\$866,635	\$8,040	\$2,874,117
Investments	521,936	-	869,936
Receivables:			
Accrued interest receivable	-	-	1,215
Due from other funds	3,314	-	8,992
Due from other governments	120,394	-	285,558
Due from component unit - MRHCA	-	-	46,387
Notes receivable	1,238,643	-	1,238,643
Other receivable	-	-	64,466
 Total Assets	 <u>\$2,750,922</u>	 <u>\$8,040</u>	 <u>\$5,389,314</u>
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	-	-	\$71,414
Accrued payroll liabilities	-	-	28,896
Due to other funds	-	-	46,387
 Total Liabilities	 <u>-</u>	 <u>-</u>	 <u>146,697</u>
<u>FUND BALANCES</u>			
Unreserved, reported in:			
Special revenue funds	<u>\$2,750,922</u>	<u>\$8,040</u>	<u>5,242,617</u>
 Total fund balances	 <u>2,750,922</u>	 <u>8,040</u>	 <u>5,242,617</u>
 Total Liabilities and Fund Balances	 <u>\$2,750,922</u>	 <u>\$8,040</u>	 <u>\$5,389,314</u>

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Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Nonmajor Governmental Funds – Year Ended June 30, 2009

	SPECIAL REVENUE FUNDS				
	NUTRITION FUND	WELLNESS CENTER FUND	JUVENILE FINE FUND	POLICE EQUIPMENT FUND	POLICE REVOLVING EVIDENCE FUND
Revenues:					
Taxes	-	\$362,398	-	-	-
Intergovernmental	\$71,149	-	-	\$16,038	-
Charges for services	-	-	\$14,496	-	\$3,314
Investment income	-	-	-	-	-
Miscellaneous	-	-	-	-	189
Total Revenues	<u>71,149</u>	<u>362,398</u>	<u>14,496</u>	<u>16,038</u>	<u>3,503</u>
Expenditures:					
Current:					
Public safety	-	-	5,192	-	21,472
Community services	-	-	-	-	-
Health and welfare	249,118	-	-	-	-
Administrative services	-	-	-	-	-
Economic development	-	-	-	-	-
Capital outlay	-	-	-	13,177	24,998
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total Expenditures	<u>249,118</u>	<u>-</u>	<u>5,192</u>	<u>13,177</u>	<u>46,470</u>
Excess (deficiency) of revenues over expenditures	(177,969)	362,398	9,304	2,861	(42,967)
Other Financing Sources (Uses):					
Transfers in	177,423	-	-	968	-
Transfers out	-	-	-	-	-
Transfers out - McAlester Regional Health Center Authority	-	(362,398)	-	-	-
Total Other Financing Sources (Uses)	<u>177,423</u>	<u>(362,398)</u>	<u>-</u>	<u>968</u>	<u>-</u>
Net change in fund balances	(546)	-	9,304	3,829	(42,967)
Fund balances (deficits) - beginning	546	-	38,444	(3,829)	84,785
Fund balances - ending	<u>-</u>	<u>-</u>	<u>\$47,748</u>	<u>-</u>	<u>\$41,818</u>

(Continued)

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**Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Nonmajor
Governmental Funds – Year Ended June 30, 2009 (Continued)**

	SPECIAL REVENUE FUNDS				
	HOTEL/MOTEL TAX FUND	E-911 FUND	CEMETERY PERPETUAL CARE FUND	CDBG GRANTS FUND	SALES TAX - SCHOOLS FUND
Revenues:					
Taxes	\$583,258	\$714,832	-	-	\$1,049,293
Intergovernmental	-	-	-	\$79,500	-
Charges for services	158,036	-	\$8,403	-	-
Investment income	-	-	15,146	-	11,853
Miscellaneous	56	-	-	-	-
Total Revenues	<u>741,350</u>	<u>714,832</u>	<u>23,549</u>	<u>79,500</u>	<u>1,061,146</u>
Expenditures:					
Current:					
Public safety	-	411,115	-	-	-
Community services	-	-	4,103	-	217,019
Health and welfare	-	-	-	-	-
Administrative services	446,423	-	-	-	-
Economic development	-	-	-	-	-
Capital outlay	50,114	52,978	27,469	140,520	-
Debt service:					
Principal retirement	299,352	-	-	-	-
Interest and fiscal charges	22,468	-	-	-	-
Total Expenditures	<u>818,357</u>	<u>464,093</u>	<u>31,572</u>	<u>140,520</u>	<u>217,019</u>
Excess (deficiency) of revenues over expenditures	(77,007)	250,739	(8,023)	(61,020)	844,127
Other Financing Sources (Uses):					
Transfers in	-	-	-	79,500	-
Transfers out	-	-	-	-	(642,657)
Transfers out - McAlester Regional Health Center Authority	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,500</u>	<u>(642,657)</u>
Net change in fund balances	(77,007)	250,739	(8,023)	18,480	201,470
Fund balances (deficits) - beginning	612,775	550,233	381,822	(12,724)	476,324
Fund balances - ending	<u>\$535,768</u>	<u>\$800,972</u>	<u>\$373,799</u>	<u>\$5,756</u>	<u>\$677,794</u>

(Continued)

CITY OF MCALESTER, OKLAHOMA
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Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Nonmajor Governmental Funds – Year Ended June 30, 2009 (Continued)

	SPECIAL REVENUE FUNDS		TOTAL NONMAJOR GOVERNMENTAL FUNDS
	ECONOMIC DEVELOPMENT FUND	FEDERAL FORFEITURE FUND	
Revenues:			
Taxes	\$1,049,292	-	\$3,759,073
Intergovernmental	-	\$7,175	173,862
Charges for services	-	-	184,249
Investment income	26,983	-	53,982
Miscellaneous	-	-	245
Total Revenues	1,076,275	7,175	4,171,411
Expenditures:			
Current:			
Public safety	-	-	437,779
Community services	-	-	221,122
Health and welfare	-	-	249,118
Administrative services	-	-	446,423
Economic development	214,845	-	214,845
Capital outlay	41,065	-	350,321
Debt service:			
Principal retirement	-	-	299,352
Interest and fiscal charges	-	-	22,468
Total Expenditures	255,910	-	2,241,428
Excess (deficiency) of revenues over expenditures	820,365	7,175	1,929,983
Other Financing Sources (Uses):			
Transfers in	-	-	257,891
Transfers out	(839,082)	-	(1,481,739)
Transfers out - McAlester Regional Health Center Authority	-	-	(362,398)
Total Other Financing Sources (Uses)	(839,082)	-	(1,586,246)
Net change in fund balances	(18,717)	7,175	343,737
Fund balances (deficits) - beginning	2,769,639	865	4,898,880
Fund balances - ending	\$2,750,922	\$8,040	\$5,242,617

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Combining Schedule of Net Assets, MPWA Accounts – June 30, 2009

	Enterprise Fund - MPWA		Total
	McAlester Public Works Authority	Bond Trustee Account	
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$1,515,870	-	\$1,515,870
Restricted cash and cash equivalents	1,449,143	\$4,001,387	5,450,530
Restricted interest receivable	-	403	403
Accounts receivable, net of allowance	1,415,380	-	1,415,380
Total current assets	4,380,393	4,001,790	8,382,183
Noncurrent Assets:			
Restricted Assets:			
Cash and cash equivalents	-	1,559,735	1,559,735
Investment in joint venture	1,236,317	-	1,236,317
Capital assets:			
Land and other non-depreciable assets	1,092,223	-	1,092,223
Other capital assets, net of depreciation	20,194,135	-	20,194,135
Unamortized bond issuance costs	2,043,248	-	2,043,248
Total noncurrent assets	24,565,923	1,559,735	26,125,658
Total Assets	28,946,316	5,561,525	34,507,841
LIABILITIES:			
Current Liabilities:			
Accounts payable	309,753	-	309,753
Accrued payroll liabilities	101,821	-	101,821
Escrow deposit liability	1,104,860	-	1,104,860
Interest payable	1,599,429	-	1,599,429
Deferred revenue	97,118	-	97,118
Landfill closure and postclosure liability	20,147	-	20,147
Due to depositors	68,857	-	68,857
Settlement obligation	123,256	-	123,256
Notes payable	64,405	-	64,405
Water rights contract obligation	24,010	-	24,010
Revenue bonds payable, net	2,210,000	-	2,210,000
Accrued compensated absences	33,444	-	33,444
Total current liabilities	5,757,100	-	5,757,100
Noncurrent Liabilities:			
Claims liability	151,678	-	151,678
Landfill closure and post-closure liability	2,014,909	-	2,014,909
Due to depositors	275,426	-	275,426
Net pension benefit obligation	111,801	-	111,801
Settlement obligation	140,458	-	140,458
Notes payable	368,550	-	368,550
Water rights contract obligation	277,561	-	277,561
Revenue bonds payable, net	58,038,650	-	58,038,650
Accrued compensated absences	300,997	-	300,997
Total noncurrent liabilities	61,680,030	-	61,680,030
Total liabilities	67,437,130	-	67,437,130
NET ASSETS:			
Invested in capital assets, net of related debt	20,551,832	-	20,551,832
Restricted for debt service	(1,599,429)	4,298,293	2,698,864
Restricted for street improvements	-	179,792	179,792
Restricted for economic development	-	1,083,440	1,083,440
Unrestricted	(57,443,217)	-	(57,443,217)
Total net assets	(\$38,490,814)	\$5,561,525	(\$32,929,289)

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Combining Schedule of Revenues, Expenses, and Changes in Net Assets, MPWA Accounts – Year Ended June 30, 2009

	Enterprise Fund - MPWA		Total
	McAlester Public Works Authority	Bond Trustee Account	
Operating Revenues:			
Charges for services:			
Water	\$3,339,177	-	\$3,339,177
Sewer	1,398,249	-	1,398,249
Sanitation	2,500,699	-	2,500,699
Water taps	32,685	-	32,685
Sewer taps	7,000	-	7,000
Water districts	642,780	-	642,780
Service charges	68,214	-	68,214
Landfill	199,872	-	199,872
Penalties	176,696	-	176,696
Use fee	21,300	-	21,300
Subtitle "D" fees	342,487	-	342,487
Total operating revenues	<u>8,729,159</u>	<u>-</u>	<u>8,729,159</u>
Operating Expenses:			
Utility office	295,841	-	295,841
Interdepartmental	1,068,351	-	1,068,351
Sanitation	535,558	-	535,558
Engineering	276,574	-	276,574
Sewer	732,940	-	732,940
Water	868,786	-	868,786
Utility maintenance	598,704	-	598,704
Fleet maintenance	384,000	-	384,000
Landfill	340,715	-	340,715
Utilities Administration	133,387	-	133,387
Depreciation expense	896,595	-	896,595
Amortization expense	109,041	-	109,041
Total operating expenses	<u>6,240,492</u>	<u>-</u>	<u>6,240,492</u>
Operating income (loss)	2,488,667	-	2,488,667
Non-Operating Revenues (Expenses):			
Investment income	-	\$32,956	32,956
Interest expense and fiscal charges	(3,490,140)	-	(3,490,140)
Grant revenue - operating	105,170	-	105,170
Miscellaneous revenue	1,839	-	1,839
Gain on sale of assets	6,025	-	6,025
Gain on joint venture	60,944	-	60,944
Total non-operating revenues (expenses)	<u>(3,316,162)</u>	<u>32,956</u>	<u>(3,283,206)</u>
Net income (loss) before contributions and transfers	(827,495)	32,956	(794,539)
Contributed capital revenue	140,406	-	140,406
Interaccount transfers	5,461,747	(5,461,747)	-
Transfers in	313,390	4,691,087	5,004,477
Transfer out	(2,488,723)	-	(2,488,723)
Change in net assets	2,599,325	(737,704)	1,861,621
Total net assets - beginning, restated	(41,090,139)	6,299,229	(34,790,910)
Total net assets - ending	<u>(\$38,490,814)</u>	<u>\$5,561,525</u>	<u>(\$32,929,289)</u>

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Combining Schedule of Net Assets, MAA Accounts – June 30, 2009

	McAlester Airport Authority			Total
	McAlester Airport Authority	Airport Grant Account	Airport Hangar Account	
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$48,293	\$1,963	\$36,760	\$87,016
Accounts receivable, net of allowance	3,050	-	-	3,050
Total current assets	<u>51,343</u>	<u>1,963</u>	<u>36,760</u>	<u>90,066</u>
Noncurrent Assets:				
Capital assets:				
Land and other non-depreciable assets	42,364	-	-	42,364
Other capital assets, net of depreciation	3,272,199	-	-	3,272,199
Total noncurrent assets	<u>3,314,563</u>	<u>-</u>	<u>-</u>	<u>3,314,563</u>
Total Assets	<u>3,365,906</u>	<u>1,963</u>	<u>36,760</u>	<u>3,404,629</u>
LIABILITIES:				
Current Liabilities:				
Accounts payable	1,566	-	-	1,566
Accrued payroll liabilities	4,963	-	-	4,963
Notes payable	14,869	-	-	14,869
Accrued compensated absences	2,202	-	-	2,202
Total current liabilities	<u>23,600</u>	<u>-</u>	<u>-</u>	<u>23,600</u>
Noncurrent Liabilities:				
Net pension benefit obligation	3,929	-	-	3,929
Notes payable	350,596	-	-	350,596
Accrued compensated absences	19,814	-	-	19,814
Total noncurrent liabilities	<u>374,339</u>	<u>-</u>	<u>-</u>	<u>374,339</u>
Total liabilities	<u>397,939</u>	<u>-</u>	<u>-</u>	<u>397,939</u>
NET ASSETS:				
Invested in capital assets, net of related debt	2,949,098	-	-	2,949,098
Unrestricted	18,869	1,963	36,760	57,592
Total net assets	<u>\$2,967,967</u>	<u>\$1,963</u>	<u>\$36,760</u>	<u>\$3,006,690</u>

**CITY OF MCALESTER, OKLAHOMA
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Combining Schedule of Revenues, Expenses, and Changes in Net Assets, MAA Accounts – Year Ended June 30, 2009

	McAlester Airport Authority			Total
	McAlester Airport Authority	Airport Grant Account	Airport Hangar Account	
Operating Revenues:				
Rents and fees	\$128,937	-	-	\$128,937
Total operating revenues	<u>128,937</u>	<u>-</u>	<u>-</u>	<u>128,937</u>
Operating Expenses:				
Airport	182,145	-	-	182,145
Depreciation expense	148,264	-	-	148,264
Total operating expenses	<u>330,409</u>	<u>-</u>	<u>-</u>	<u>330,409</u>
Net income (loss) before contributions and transfers	(201,472)	-	-	(201,472)
Interest expense	(15,829)	-	-	(15,829)
Miscellaneous	4,600	\$13,000	-	17,600
Contributed capital revenue	-	309,938	-	309,938
Transfers in	387,122	5,424	-	392,546
Transfer out	(5,424)	(326,086)	-	(331,510)
Change in net assets	168,997	2,276	-	171,273
Total net assets - beginning	2,798,970	(313)	\$36,760	2,835,417
Total net assets - ending	<u>\$2,967,967</u>	<u>\$1,963</u>	<u>\$36,760</u>	<u>\$3,006,690</u>

**CITY OF MCALESTER, OKLAHOMA
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Schedule of Expenditures of Federal Awards – Year Ended June 30, 2009

Federal/State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Grant #	Award Amount	Federal Expenditures
FEDERAL AWARDS:				
<u>U. S. DEPARTMENT OF JUSTICE:</u>				
Bulletproof Vest Partnership Program Passed through District Attorney's Council:	16.607	N/A	\$64,091	\$675
Justice Assistance Grant	16.738	N/A	4,988	4,988
Total U.S. Department of Justice			<u>69,079</u>	<u>5,663</u>
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>				
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	71,149	71,149
Total U.S. Department of Health and Human Services			<u>71,149</u>	<u>71,149</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>				
Passed through Oklahoma Department of Commerce: Community Development Block Grant	14.228	12557 CDBG 06	79,500	79,500
Total U.S. Department of Housing and Urban Development			<u>79,500</u>	<u>79,500</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>				
Federal Aviation Administration: Airport Improvement Grant	20.106	AIP 3-40-0057-009-2008	337,746	309,938
Passed through Oklahoma Highway Safety Office: State and Community Highway Safety	20.600	PT-09-03-36-01	30,000	21,132
Total U.S. Department of Transportation			<u>367,746</u>	<u>331,070</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>				
Passed through Oklahoma Office of Homeland Security: Disaster Grant - Public Assistance (Flooding)	97.036	PA-1754	105,170	105,170
Total U.S. Department of Homeland Security			<u>105,170</u>	<u>105,170</u>
TOTAL FEDERAL AWARDS			<u>\$692,644</u>	<u>\$592,552</u>

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Schedule of Revenue Bond Coverage – Year Ended June 30, 2009

Gross Revenue Available for Debt Service:	
Charges for services	\$8,729,159
Sales tax pledged and transferred	<u>4,691,087</u>
 Total Gross Revenues Available	 <u>13,420,246</u>
 Operating Expenses:	
Water, Sewer and Sanitation	<u>5,234,856</u>
 Total Operating Expenses	 <u>5,234,856</u>
 Net Revenues Available for Debt Service	 <u><u>\$8,185,390</u></u>
 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
Series 2003A Sales Tax Revenue Bonds	649,098
Series 2003B Sales Tax Revenue Bonds	640,638
Series 2004 Sales Tax Revenue Bonds	270,000
1999 CDBG Loan	<u>13,750</u>
 Total average annual debt service	 <u><u>\$5,528,300</u></u>
 Computed Coverage	 <u><u>148%</u></u>
 Coverage Requirement	 <u><u>125%</u></u>

NOTE: The above gross revenue and operating expenses only include the activities of the Authority related to water, sewer and sanitation services, excluding depreciation and amortization expense.

**CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2009**

INTERNAL CONTROL AND COMPLIANCE INFORMATION

**CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2009**

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100 E Street S.W., Suite 200 Ardmore, OK 73401
(580) 223-6454 FAX (580) 226-0439

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and City Council
City of McAlester, Oklahoma

Compliance

We have audited the compliance of City of McAlester, Oklahoma, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. City of McAlester, Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of McAlester, Oklahoma's management. Our responsibility is to express an opinion on City of McAlester, Oklahoma's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of McAlester, Oklahoma's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of McAlester, Oklahoma's compliance with those requirements.

In our opinion, City of McAlester, Oklahoma, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of City of McAlester, Oklahoma, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of McAlester, Oklahoma's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of McAlester, Oklahoma's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

This report is intended solely for the information and use of management, City Council, others within the entity, 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.

Hedme Rishal Henderson, Inc.

Ardmore, Oklahoma

March 17, 2010

City of McAlester, Oklahoma
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_____ Yes	___ <input checked="" type="checkbox"/> ___ None reported
Reportable condition(s) identified not considered to be material weakness(es)?	___ <input checked="" type="checkbox"/> ___ Yes	_____ None reported

Non-compliance material to financial noted? Unqualified

	_____ Yes	___ <input checked="" type="checkbox"/> ___ None reported
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Federal Awards

Internal control over Major Programs:

Material weakness(es) identified?	_____ Yes	___ <input checked="" type="checkbox"/> ___ None reported
Reportable condition(s) identified not considered to be material weakness(es)?	_____ Yes	___ <input checked="" type="checkbox"/> ___ None reported

Type of auditors’ report issued on compliance For major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? Unqualified

	_____ Yes	___ <input checked="" type="checkbox"/> ___ None reported
--	-----------	---

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.106	FAA – Airport Improvement Grant

Dollar threshold used to distinguish between type A and type B programs? \$300,000

Auditee qualified as low-risk auditee? Unqualified

	_____ Yes	___ <input checked="" type="checkbox"/> ___ No
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City of McAlester, Oklahoma
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

Section II – Financial Statement Findings

2009-01 Deficit Fund Balances

Specific requirement – Oklahoma statutes prohibit the creation of deficit fund balances.

Condition – The General Fund started fiscal year 2008-09 with a deficit fund balance of \$2,412,174 that was decreased \$1,008,166 during the year ending at \$1,404,008 on June 30, 2009. The beginning deficit balance was the result of a large “Due To Other Funds” created in a prior year due to questioned/unauthorized expenditures of PWA bond funds by the General Fund. The City has addressed this issue through a repayment plan approved July 28, 2009.

Context – Fund statement financial reporting.

Effect – Noncompliance with Oklahoma statutes.

Cause – The General Fund current year deficit decreased \$1,008,166 due to revenues and transfers in exceeding expenditures and transfers out.

Recommendation – The City of McAlester should continue to repay the amount due to McAlester Public Works Authority bond fund.

Views of responsible officials and planned corrective actions –

The City management plans on elimination of the debt as soon as possible, and has been and will ask for authorization of projects as they are able to fund them. These will be applied to reduce the obligation and are being tracked in a separate fund. These projects are all of a capital nature and apply to the appropriate required categories of expenditures as needed. These costs for projects far exceed those required by the above mentioned payment plan and are much needed capital expenditures for the City of McAlester.

2009-02 Collateral

Specific requirement – City deposits in excess of FDIC insurance should be covered by adequate collateral.

City of McAlester, Oklahoma
Schedule of Findings and Questioned Costs - continued
Year Ended June 30, 2009

2009-02, continued

Condition – We were unable to obtain written or verbal confirmation that Cemetery Fund CD's purchased by Bank of Oklahoma/Southwest Trust Company were held in the name of the City in various FDIC insured financial institutions.

Context – Cash collateral.

Effect – Possible noncompliance with Oklahoma statutes and investment loss risk and inability to verify existence of Certificates of Deposit.

Cause – Lack of controls surrounding allowable investments and monitoring pledged collateral.

Recommendation – We recommend the City review investment policy and purchases through investment companies.

Views of responsible officials and planned corrective actions –

The City is presently reviewing and updating their present investment policy. With regards to the Cemetery Fund investments, investigation has found that the bank that acts as the official trustee of the Cemetery Trust uses another bank to handle their pooled investments. That bank uses a custody bank as well and the present investments shown on our statements are not held directly in the name of City of McAlester Cemetery Trust, but under the custody bank with an investor number assigned internally. Said investments made through the Trust have been discussed and reviewed by the staff, the audit and finance committee, the cemetery board, the City Council, and the City attorney. Recommendations have been made and changes will be made upon appropriate additional review and approval of Council. We need to either direct said trust to separate and only handle the investments directly instead of within a pooled environment to receive better rates, or find a new trustee for the Cemetery Trust to handle the investments, or investigate the possibility of elimination of the trust entirely and have the City handle and monitor the investments directly.

2009-03 Budget

Specific requirement – The revenues and expenditures of the City's funds should be compared to budget monthly and appropriate budget transfers and supplements filed if budget expenditures are exceeded.

City of McAlester, Oklahoma
Schedule of Findings and Questioned Costs - continued
Year Ended June 30, 2009

2009-03, continued

Condition – Certain departments within the General Fund exceeded budget appropriations during 2008-09.

Context – Budget.

Effect – Noncompliance with Oklahoma statutes.

Cause – Lack of controls surrounding monitoring of budget to actual expenditures.

Recommendation – We recommend budget to actual revenue and expenditure reports be monitored monthly by a responsible person who then prepares budget amendments for approval.

Views of responsible officials and planned corrective actions –

The City has increased staffing in the Finance department and hired a full time Chief Financial Officer. Budget to actual expenditures comparisons are taking place on a daily basis within the system as requisitions for purchase orders are entered into the system and balances are verified as well as monitored reports being verified. Budget amendments and transfers are prepared timely and require the correct approvals. Timely reports and budget presentations are being presented to management as well as City Council.

2009-04 Segregation of Key Accounting Duties

Specific requirement – Key accounting functions should be performed by different individuals.

Condition – We noticed one of the key employees collected receipts as well as assisted cashiers, performed payroll duties, had administrative control over the accounting program, reconciled bank statements, created and posted journal entries, assisted with accounts payable, and input budget and budget adjustments.

Context – Review of internal controls.

Effect – Weak internal controls surrounding key accounting functions.

Cause – Lack of personnel to fill key accounting positions.

City of McAlester, Oklahoma
Schedule of Findings and Questioned Costs - continued
Year Ended June 30, 2009

2009-04, continued

Recommendation – We recommend key accounting functions concerning receipting, disbursing, reconciling and administrative control over the accounting program be divided between employees.

Views of responsible officials and planned corrective actions –

The City has completely revised their procedures with regards to key accounting and internal control functions and separation of duties. A Chief Financial Officer was added to the staff in August 2009. This has allowed duties and supervision to be split and provide the necessary oversight and controls even though we are still somewhat short on staffing. Personnel performing key reconciliations no longer collect receipts or authorize expenditures. Payroll processes and authorizations are reviewed both by the Chief Financial Officer and the City Manager as well.

2009-05 Payroll

Specific requirement – Sick leave, vacation, and compensated time accruals should be computed, reviewed and monitored by someone knowledgeable of Fair Labor Standards rules affecting municipalities.

Condition – Employees completed time sheets. Compensated absences were computed from time sheets and posted by department secretaries into INCODE. Interpretation of the rules surrounding compensated absences varied by secretary. Some accrued compensated time was based on actual time worked, and some accrued was based on hours over 40 whether worked or not. We also noted that employees we considered exempt were accruing and using compensated time.

Context – Payroll.

Effect – Compensated absence records of the City are inaccurate. Numerous employees had negative balances due to errors in posting to INCODE.

Cause – There is no oversight or review of the numerous individuals entering payroll data. There is a lack of understanding of Fair Labor Standards rules concerning exempt employees.

City of McAlester, Oklahoma
Schedule of Findings and Questioned Costs - continued
Year Ended June 30, 2009

2009-05, continued

Recommendation – We recommend an employee obtain training in Fair Labor Standards rules affecting municipalities and employee contract issues. This person should also monitor and review employee time sheets to postings into INCODE and train the data entry personnel or consider changing payroll procedures.

Views of responsible officials and planned corrective actions –

Payroll processes and procedures have been completely adjusted and the City is complying and monitoring issues to be in compliance with FLSA rules and guidance. Further separations of duties, training and oversight has taken place and there is now a consistency between the departments. Exempt employees no longer accrue or use compensation time.

2009-06 Central Garage Inventory

Specific requirement – Parts, tires and fuel should be assigned to specific vehicles as they are consumed. Inventory should be counted annually.

Condition – There is no accountability of parts, tires, and fuel to the specific vehicle or piece of equipment being repaired or fueled. An inventory count is not taken at year end.

Context – Inventory/Maintenance and repair expenditures.

Effect – Inability to track cost by vehicle/equipment and determine these assets are consumed as intended.

Cause – Lack of control procedures concerning access to and consumption of inventory.

Recommendation – We recommend that access to parts, tires and bulk fuel be restricted and that consumption of these items be tracked by vehicle/equipment. We also recommend that inventory be counted at year end.

Views of responsible officials and planned corrective actions –

The City has adjusted processes, record keeping and procedures with regards to vehicle maintenance. Control procedures now take place and expenditures by vehicle are being

City of McAlester, Oklahoma
Schedule of Findings and Questioned Costs - continued
Year Ended June 30, 2009

2009-06, continued

tracked as well as inventory procedures, and safe guarding of the city inventories and assets as well as expenditures for these items. Management has proposed with the FY 10-11 budget that the Fleet Maintenance Department be tracked inside of an internal service fund and appropriate expenditures transferred to the corresponding departments.

2009-07 Receipting

Specific requirement – Opening and posting of mail should be done by someone who does not handle cash.

Condition – Cashier is opening and posting mail receipts.

Context – Cash receipts.

Effect – Lack of internal controls surrounding opening and posting of mail receipts.

Cause – Lack of training and procedure controls.

Recommendation – We recommend that someone other than the cashier open and post mail receipts, or the person opening mail run a control tape of receipts in the mail, give the money to the cashier, and receive back a batch posting equal to the control tape.

Views of responsible officials and planned corrective actions –

The City has reviewed and adjusted their cash receipts processed. Due to a shortage of available staff in the cash collections area, we have enlisted staff from other departments that do not regularly enter receipts in the accounting system to be opening the mail and run a control tape of the receipts before they are posted and then match to the batch postings. In addition, the staff is presently researching the possible use of electronic equipment to use to scan in and capture images of the checks/money orders received in the mail. If utilized, this equipment will also provide electronically captured batch totals and item counts to be available to match with the corresponding postings.

Section III – Federal Award Findings and Questioned Costs

None



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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 City Council
City of McAlester, Oklahoma

We have audited the financial statements of governmental activities, the business-type activities, the fiduciary-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of McAlester, Oklahoma, as of and for the year ended June 30, 2009, which collectively comprise City of McAlester's basic financial statements and have issued our report thereon dated March 17, 2010. Our report was modified to include a reference to 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. Other auditors audited the financial statements of McAlester Regional Health Center Authority, as described in our report on City of McAlester's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of McAlester's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of McAlester's internal control

over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of McAlester's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of McAlester's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as item 2009-01 through 2009-07.

We also noted certain matters that we reported to management of the City of McAlester in a separate letter dated March 17, 2010.

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

This report is intended solely for the information and use of the audit and finance committee, management, City Council, others within the City of McAlester, 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.

Ardmore, Oklahoma
March 17, 2010

Julme Rahhal Henderson, Inc.

City of McAlester, Oklahoma
Prior Year Audit Finding Comments
Year Ended June 30, 2009

- 08-01** The General Fund, Police Equipment Fund, and CDBG Grants Fund had deficit fund balances at June 30, 2009. See current year audit finding 2009-01.
- 08-02** The City paid trustee fees out of the Cemetery Care Fund. This is not a current year audit finding.
- 08-03** CD's purchased by Bank of Oklahoma/Southwest Trust Company could not be confirmed to be in the name of the City of McAlester. See current year audit finding 2009-02.
- 08-04** Certain departments in the General Fund exceeded budget appropriations. See current year audit finding 2009-03.
- 08-05** The City did not have segregation of key accounting duties. See current year audit finding 2009-04.
- 08-06** The oil and gas revenues were not transferred to the Reserve Fund established by Council. This is not a current year audit finding.
- 08-07** Compensated absence records of the City are inaccurate. See current year audit finding 2009-05.
- 08-08** Use of Central Garage inventory is not tracked by vehicle and inventory is not taken annually. See current year audit finding 2009-06.
- 08-09** Ambulance billings are not processed by date of service in a timely manner. This is not a current year audit finding as billing is outsourced.