

THE CITY OF MCALESTER, OKLAHOMA

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

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**

**CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010**

CITY OF MCALESTER, OKLAHOMA

LIST OF PRINCIPAL OFFICIALS

JUNE 30, 2010

City Council

Kevin Priddle, Mayor
Chris Fiedler, Member Ward 1
Steve Harrison, Member Ward 2
John Browne, Vice-Mayor Ward 3
Robert Karr, Member Ward 4
Buddy Garvin, Member Ward 5
Louis Smitherman, Member Ward 6

Administration

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

**CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010**

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RAHHAL HENDERSON JOHNSON, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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, 2010, 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, Oklahoma'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 99.9% 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 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2011, on our consideration of the City of McAlester, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations,

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contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 7 through 15 and 66 through 77 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of McAlester, Oklahoma's financial statements as a whole. The other supplementary information as shown in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information as listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
July 21, 2011

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, 2010. 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, 2010. Total net assets increased by \$1,178,391 and the City's total government-wide assets continued to exceed its total liabilities at June 30, 2010, by \$17,719,360 which represents its total government-wide net assets.
- The City's governmental activities experienced an increase in net assets of \$2,361,971, while business-type activities experienced a current year decrease in net assets of \$1,183,580. 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 \$17,719,360, there is a total of \$57,160,826 invested in capital assets, net of related debt and \$14,721,585 of net assets restricted for various purposes, thus leaving the City with a negative \$54,163,051 of unrestricted net assets, with \$57,691,240 of 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 on behalf of the City's governmental activities including street and drainage improvements. A smaller portion is the result of the MPWA issuing revenue bonded indebtedness for the benefit of entities not included within the City's primary government, primarily school system improvements and economic development activities. The net result of these debt issues by the MPWA for capital items on behalf of others causes the debt to be shown by the MPWA in the business-type activity column. Capital assets for the City that were purchased by these debt issues are found in the governmental activities column, and in the case of the school system improvements and economic development, they are not shown at all in these financial statements, but rather in each of those entities separate financial statements. Most of this debt is expected to be retired from future dedicated sales tax collections. The result of reporting the long-term debt without corresponding capital assets is to report a large negative amount of unrestricted net assets.
 - At June 30, 2010, the City's governmental funds reported combined ending fund balances of \$15,928,297. That net amount is the result of \$14,848,434 in unreserved fund balances reported in special revenue funds, \$972,696 of unreserved fund balance in the General Fund, and reserved fund balance for encumbrances of \$107,167. This is an increase in fund balance in the General Fund of \$2,398,504 and is primarily the result of transfers made from the MPWA. The prior year interfund payable in the amount of \$2,881,826 was paid down to a balance of \$800,000 related to economic development. This interfund payable is resulting from a forensic audit on prior period use of restricted bond proceeds. In the current year, the City paid back \$2,081,826 of this liability.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The governmental-wide financial statements present the complete financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt).

Reporting the City as a Whole

The Statement of Net Assets and Statement of Activities

This discussion and analysis is intended to serve as an introduction to the City of McAlester's basic financial statements. The Statement of Net Assets and the Statement of Activities (on pages 17 & 18, respectively) report information about the City as a whole and about its activities in a way that helps answer questions. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in net assets from the prior year. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial condition, or position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving, deteriorating, or remaining steady. However, you must consider other non-financial factors, such as changes in the City's tax base, the condition of the City's roads and other infrastructure, and the quality of services to assess the overall health of the City.

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

- Governmental activities -- Most of the City's basic services are reported here, including the police, fire, general administration, streets, and parks. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities.
- Business-type activities -- The City's activities that charge a fee to customers to help cover all or most of the cost of certain services it provides. The City's water, sewer, and solid waste collections utilities, along with its airport activities, are reported here.
- Discretely-presented component units -- These account for activities of the City's reporting entity that do not meet the criteria for blending, and include the Regional Health Center Authority and the Parking Authority.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

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

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

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

For the year ended June 30, 2010, net assets for the governmental activities and business-type activities increased \$1,178,391. 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	\$ 46,663,109	\$ (30,122,140)	\$ 16,540,969
Increase/(Decrease)	2,361,971	(1,183,580)	1,178,391
Ending net assets	\$ 49,025,080	\$ (31,305,720)	\$ 17,719,360

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	
	2010	(Restated) 2009	2010	(Restated) 2009	2010	(Restated) 2009
Assets:						
Current and other assets	\$ 18,240,722	\$ 14,988,320	\$ 11,801,158	\$ 13,311,549	\$ 30,041,880	\$ 28,299,869
Capital assets	35,171,305	35,796,440	24,022,673	24,401,380	59,193,978	60,197,820
Total assets	53,412,027	50,784,760	35,823,831	37,712,929	89,235,858	88,497,689
Liabilities:						
Long-term liabilities	3,274,175	3,144,661	64,195,742	64,615,559	67,469,917	67,760,220
Other liabilities	1,112,772	976,990	2,933,809	3,219,510	4,046,581	4,196,500
Total liabilities	4,386,947	4,121,651	67,129,551	67,835,069	71,516,498	71,956,720
Net assets:						
Invested in capital assets	34,617,252	35,524,842	22,543,574	23,301,389	57,160,826	58,826,231
Restricted	10,879,639	10,901,873	3,841,946	3,962,096	14,721,585	14,863,969
Unrestricted	3,528,189	236,394	(57,691,240)	(57,385,625)	(54,163,051)	(57,149,231)
Total net assets	\$ 49,025,080	\$ 46,663,109	\$ (31,305,720)	\$ (30,122,140)	\$ 17,719,360	\$ 16,540,969

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 \$57 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, \$14.7 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 \$54.2 million. The majority of this negative balance is the result of the McAlester Public Works Authority (MPWA) issuing revenue bonded indebtedness related to activities and capital improvements on behalf of the City's governmental activities including street and drainage improvements. A smaller portion is the result of the MPWA issuing revenue bonded indebtedness for the benefit of entities not included within the City's primary government, primarily school system improvements and economic development activities. Most of this debt is expected to be retired from future dedicated sales tax collections. However, the result of reporting the long-term debt without corresponding capital assets is to report a large negative amount of unrestricted net assets.

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.

The City of McAlester's Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for Services	\$ 2,507,335	\$ 2,465,723	\$ 8,700,436	\$ 8,858,096	\$ 11,207,771	\$ 11,323,819
Grants & Contributions	999,621	1,022,913	22,493	105,170	1,022,114	1,128,083
Capital Grants & Contributions	136,262	11,895	-	389,438	136,262	401,333
General Revenues:						
Sales & Use Tax	13,701,860	15,629,476	-	-	13,701,860	15,629,476
Other Taxes	1,648,355	2,027,934	-	-	1,648,355	2,027,934
Other General Revenues	747,014	731,953	37,591	52,395	784,605	784,348
Total Revenues	19,740,447	21,889,894	8,760,520	9,405,099	28,500,967	31,294,993
Program Expenses:						
Legislature	126,666	32,311	-	-	126,666	32,311
Administration	2,523,930	3,077,346	-	-	2,523,930	3,077,346
Public safety	7,375,334	7,348,140	-	-	7,375,334	7,348,140
Community services	2,018,764	2,111,274	-	-	2,018,764	2,111,274
Administration services	881,082	910,172	-	-	881,082	910,172
Health and welfare	229,776	257,350	-	-	229,776	257,350
Public works	3,160,982	3,536,482	-	-	3,160,982	3,536,482
Economic development	287,955	214,845	-	-	287,955	214,845
Payment to health center authority	-	362,398	-	-	-	362,398
Interest on long-term debt	25,826	16,574	-	-	25,826	16,574
Water	-	-	2,693,090	2,702,777	2,693,090	2,702,777
Sewer	-	-	1,478,020	1,497,767	1,478,020	1,497,767
Sanitation	-	-	2,525,570	1,875,151	2,525,570	1,875,151
Airport	-	-	353,265	346,238	353,265	346,238
Governmental interest & amortization expense	-	-	3,642,316	3,587,968	3,642,316	3,587,968
Total Expenses	16,630,315	17,866,892	10,692,261	10,009,901	27,322,576	27,876,793
Excess/(Deficiency)	3,110,132	4,023,002	(1,931,741)	(604,802)	1,178,391	3,418,200
Net Transfers	(748,161)	(2,637,696)	748,161	2,637,696	-	-
Increase/(Decrease) Net Assets	\$ 2,361,971	\$ 1,385,306	\$ (1,183,580)	\$ 2,032,894	\$ 1,178,391	\$ 3,418,200

For the year ended June 30, 2010, on a government-wide basis, the City experienced an improvement in its financial condition resulting in an increase in total net assets of \$1,178,391. The increase in net assets can be attributable to tighter controls over expenditures, since sales tax dropped significantly in the current year.

The City's governmental activities increase in net assets of \$2,361,971 in 2010 represents a significant change from the increase in net assets experienced in the prior year. Again, the increase in net assets can be attributable to tighter controls over expenditures.

The business-type activities current year decrease in net assets of \$1,183,580 indicates that current year revenues and net transfers were not sufficient to cover current year expense. This is largely due to a decrease in net transfers from the prior year.

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

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2010 fiscal year, the governmental funds reported a combined fund balance of \$15,928,297. However, that net amount is the result of \$14,848,434 of unreserved fund balances reported in special revenue funds, \$972,696 of unreserved fund balance in the General Fund, and \$107,167 of fund balance reserved for encumbrances.

For the reasons discussed previously in regards to business-type activities, the enterprise funds reported combined net assets of a negative \$31.3 million.

The only reservations of fund balances of the governmental funds at year end related to encumbrances; in addition, proprietary fund net asset restrictions are listed below:

Net Asset Restrictions:	
Restricted for debt service	\$ 3,032,006
Restricted for street improvements	140,921
Restricted for economic development	669,019
Total Enterprise Fund Net Asset Restrictions	<u>\$ 3,841,946</u>

The General Fund's total fund balance increased by \$2,398,504, or 170.8% 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 a decrease in net assets, after transfers and capital contributions of \$1,068,829 for the year.

General Fund Budgetary Highlights

For the year ended June 30, 2010, the General Fund reported actual budgetary basis revenues below final estimates by \$598,853 or a 3.7% negative variance. General Fund actual expenditures were under final appropriations by \$1,012,467 or a 6.6% positive variance.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the City had approximately \$59.2 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 \$1,003,842 from last year.

Below are details regarding the City's capital assets for the years ended June 30, 2010 and 2009.¹

The City of McAlester's Capital Assets

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	(Restated)		2010	2009
			2010	2009		
Land	\$ 675,209	\$ 675,209	\$ 212,571	\$ 212,571	\$ 887,780	\$ 887,780
Buildings and Improvements	6,995,177	6,949,556	5,807,296	5,794,566	12,802,473	12,744,122
Machinery and Equipment	8,861,080	7,893,754	2,699,767	2,020,474	11,560,847	9,914,228
Infrastructure	62,000,263	61,924,842	-	-	62,000,263	61,924,842
Utility Property	-	-	39,505,096	39,455,517	39,505,096	39,455,517
Water rights contracts	-	-	719,075	719,075	719,075	719,075
Construction-in-progress	756,348	150,685	44,316	3,400	800,664	154,085
Totals	<u>79,288,077</u>	<u>77,594,046</u>	<u>48,988,121</u>	<u>48,205,603</u>	<u>128,276,198</u>	<u>125,799,649</u>
Less Depreciation	<u>(44,116,772)</u>	<u>(41,797,606)</u>	<u>(24,965,448)</u>	<u>(23,804,223)</u>	<u>(69,082,220)</u>	<u>(65,601,829)</u>
Totals, Net	<u>\$ 35,171,305</u>	<u>\$ 35,796,440</u>	<u>\$ 24,022,673</u>	<u>\$ 24,401,380</u>	<u>\$ 59,193,978</u>	<u>\$ 60,197,820</u>

This year's more significant capital asset additions include \$119,955 for base radio project for police department, \$285,000 for a 2006 Caterpillar for landfill department, \$170,000 for a 2000 Trash Compactor for the landfill department, \$98,796 for a 2008 Ford E450 Ambulance, and \$277,913 for 10 police cars.

Debt Administration

At year-end, the City had \$68.2 million in long-term debt outstanding, which represents a \$336,061 decrease from the prior year.²

The City of McAlester's Long-term Debt

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Capital leases payable	\$ 554,053	\$ 271,598	-	-	\$ 554,053	\$ 271,598
Claims liability	77,832	185,357	226,281	151,678	304,113	337,035
Accrued compensation	2,280,882	2,315,475	306,240	356,457	2,587,122	2,671,932
Notes Payable	-	-	1,201,574	798,420	1,201,574	798,420
Revenue Bonds Payable	-	-	60,037,888	61,057,126	60,037,888	61,057,126
Landfill Closure and Post-Closure	-	-	2,289,171	2,035,056	2,289,171	2,035,056
Net pension benefit obligation	361,408	372,231	109,346	115,730	470,754	487,961
Settlement obligation	-	-	125,001	263,714	125,001	263,714
Water contract obligations	-	-	277,525	301,571	277,525	301,571
Deposits subject to refund	-	-	385,434	344,283	385,434	344,283
Totals	<u>\$ 3,274,175</u>	<u>\$ 3,144,661</u>	<u>\$ 64,958,460</u>	<u>\$ 65,424,035</u>	<u>\$ 68,232,635</u>	<u>\$ 68,568,696</u>

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 National economy continues to impact the City's growth. The City has seen stabilization in the oil and gas industry. The City's solid institutional base including the Ammunition Plant and Penal Institutions 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 and business development center.

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, 2010**

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

Government-Wide Statement of Net Assets– June 30, 2010

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$11,786,685	\$6,859,790	\$18,646,475	\$8,574,791
Investments	1,886,121	-	1,886,121	2,478,653
Interest receivable	451	39	490	-
Accounts receivable, net of allowance	-	1,398,602	1,398,602	11,384,249
Franchise tax receivable	80,059	-	80,059	-
Ambulance receivable, net of allowance	71,087	-	71,087	-
Court fines receivable, net of allowance	1,124,915	-	1,124,915	-
Due from other governments	2,053,878	4,722	2,058,600	-
Prepaid expenses	-	-	-	1,367,647
Other receivables	73,521	-	73,521	585,000
Inventory	-	-	-	2,026,377
Investment in joint venture	-	1,603,798	1,603,798	3,692,944
Restitution receivable:				
Due within one year	5,541	-	5,541	-
Due in more than one year	97,964	-	97,964	-
Notes receivable:				
Due within one year	174,000	-	174,000	-
Due in more than one year	886,500	-	886,500	-
Capital assets:				
Land and other non-depreciable assets	1,431,557	975,962	2,407,519	2,969,934
Other capital assets, net of depreciation	33,739,748	23,046,711	56,786,459	26,567,538
Intangible asset, net of amortization	-	-	-	-
Unamortized bond issuance costs	-	1,934,207	1,934,207	-
Total assets	53,412,027	35,823,831	89,235,858	59,647,133
LIABILITIES:				
Accounts payable	546,693	464,696	1,011,389	1,726,117
Accrued payroll liabilities	450,218	121,781	571,999	3,396,229
Accrued interest payable	6,450	1,334,316	1,340,766	-
Due to other governments	17,169	-	17,169	-
Escrow deposit liabilities	52,908	908,473	961,381	-
Deferred revenue	39,334	104,543	143,877	-
Long-term liabilities:				
Due within one year	404,243	3,089,205	3,493,448	2,613,323
Due in more than one year	2,869,932	61,106,537	63,976,469	3,867,631
Total liabilities	4,386,947	67,129,551	71,516,498	11,603,300
NET ASSETS:				
Invested in capital assets, net of related debt	34,617,252	22,543,574	57,160,826	22,997,808
Restricted for:				
Debt service	2,822,044	3,032,006	5,854,050	-
Street improvements	-	140,921	140,921	-
Economic development	2,544,035	669,019	3,213,054	-
Education	792,739	-	792,739	-
Public safety	712,534	-	712,534	-
Cemetery improvements	385,965	-	385,965	-
Tourism	520,526	-	520,526	-
Donor specified projects	30,552	-	30,552	-
Capital acquisitions and debt service	3,071,244	-	3,071,244	433,786
Specific operating activities	-	-	-	25,000
Unrestricted	3,528,189	(57,691,240)	(54,163,051)	24,587,239
Total net assets	\$49,025,080	(\$31,305,720)	\$17,719,360	\$48,043,833

See accompanying notes to the basic financial statements.

CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

Government-Wide Statement of Activities –Year Ended June 30, 2010

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	\$126,666	-	-	-	(\$126,666)	-	(\$126,666)	-
Administration	2,523,930	\$338,951	\$13,280	-	(2,171,699)	-	(2,171,699)	-
Public safety	7,375,334	1,771,953	\$713,854	\$38,508	(4,851,019)	-	(4,851,019)	-
Community services	2,018,764	105,014	-	53,754	(1,859,996)	-	(1,859,996)	-
Administration services	881,082	287,636	-	-	(593,446)	-	(593,446)	-
Health and welfare	229,776	-	47,399	44,000	(138,377)	-	(138,377)	-
Public works	3,160,982	3,781	215,459	-	(2,941,742)	-	(2,941,742)	-
Economic development	287,955	-	9,629	-	(278,326)	-	(278,326)	-
Interest on long-term debt	25,826	-	-	-	(25,826)	-	(25,826)	-
Total governmental activities	16,630,315	2,507,335	999,621	136,262	(12,987,097)	-	(12,987,097)	-
Business-type activities:								
Water	2,693,090	4,067,745	10,212	-	-	\$1,384,867	1,384,867	-
Sewer	1,478,020	1,475,284	4,454	-	-	1,718	1,718	-
Sanitation	2,525,570	3,046,992	7,827	-	-	529,249	529,249	-
Airport	353,265	110,415	-	-	-	(242,850)	(242,850)	-
Governmental interest & amort expense	3,642,316	-	-	-	-	(3,642,316)	(3,642,316)	-
Total business-type activities	10,692,261	8,700,436	22,493	-	-	(1,969,332)	(1,969,332)	-
Total primary government	\$27,322,576	\$11,207,771	\$1,022,114	\$136,262	(12,987,097)	(1,969,332)	(14,956,429)	-
Component Units:								
Parking	\$1,570	\$7,760	-	-	-	-	-	\$6,190
Health and welfare	81,260,734	73,023,589	-	-	-	-	-	(8,237,145)
Total Component Units	\$81,262,304	\$73,031,349	-	-	-	-	-	(8,230,955)
General revenues:								
Taxes:								
Sales and use taxes					13,701,860	-	13,701,860	-
Franchise and public service taxes					567,852	-	567,852	-
Hotel/motel taxes					426,662	-	426,662	-
E-911 taxes					653,841	-	653,841	-
Intergovernmental revenue not restricted to specific programs					302,480	-	302,480	-
Investment income					186,899	2,185	189,084	262,020
Miscellaneous					257,635	35,406	293,041	-
Transfers - Internal activity					(748,161)	748,161	-	-
Total general revenues and transfers					15,349,068	785,752	16,134,820	262,020
Change in net assets					2,361,971	(1,183,580)	1,178,391	(7,968,935)
Net assets - beginning, (restated)					46,663,109	(30,122,140)	16,540,969	56,012,768
Net assets - ending					\$49,025,080	(\$31,305,720)	\$17,719,360	\$48,043,833

See accompanying notes to the basic financial statements.

**CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010**

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

Governmental Funds Balance Sheet - June 30, 2010

	<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	\$1,163,767	\$2,409,541	\$2,298,945	\$2,687,204	\$3,227,228	\$11,786,685
Investments	-	315,304	-	847,272	723,545	1,886,121
Receivables:						
Accrued interest receivable	-	-	-	-	451	451
Due from other funds	38,715	800,000	-	-	1,598	840,313
Due from other governments	1,185,515	-	524,599	-	343,764	2,053,878
Franchise tax receivable	80,059	-	-	-	-	80,059
Court fines receivable, net of allowance	1,124,915	-	-	-	-	1,124,915
Ambulance receivable, net of allowance	71,087	-	-	-	-	71,087
Notes receivable	-	-	-	-	1,060,500	1,060,500
Other receivables	10,448	-	-	-	63,073	73,521
 Total assets	<u>\$3,674,506</u>	<u>\$3,524,845</u>	<u>\$2,823,544</u>	<u>\$3,534,476</u>	<u>\$5,420,159</u>	<u>\$18,977,530</u>
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable	\$269,319	\$34,920	\$1,500	-	\$240,954	\$546,693
Accrued payroll liabilities	421,329	-	-	-	28,889	450,218
Due to other funds	801,598	-	-	-	38,715	840,313
Due to other governments	17,169	-	-	-	-	17,169
Amounts held in escrow	52,908	-	-	-	-	52,908
Deferred revenue	1,117,687	-	-	-	24,245	1,141,932
 Total liabilities	<u>2,680,010</u>	<u>34,920</u>	<u>1,500</u>	<u>-</u>	<u>332,803</u>	<u>3,049,233</u>
Fund Balances:						
Reserved for encumbrances	21,800	85,367	-	-	-	107,167
Unreserved, reported in:						
General Fund	972,696	-	-	-	-	972,696
Special revenue funds	-	3,404,558	2,822,044	\$3,534,476	5,087,356	14,848,434
 Total fund balances	<u>994,496</u>	<u>3,489,925</u>	<u>2,822,044</u>	<u>3,534,476</u>	<u>5,087,356</u>	<u>15,928,297</u>
 Total liabilities and fund balances	<u>\$3,674,506</u>	<u>\$3,524,845</u>	<u>\$2,823,544</u>	<u>\$3,534,476</u>	<u>\$5,420,159</u>	<u>\$18,977,530</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, 2010

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

	<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	\$8,689,540	-	\$3,720,112	-	\$2,940,563	\$15,350,215
Intergovernmental	1,224,121	-	-	-	92,152	1,316,273
Charges for services	1,219,952	-	-	-	178,684	1,398,636
Fines and forfeitures	845,289	-	-	-	-	845,289
Licenses and permits	101,359	-	-	-	-	101,359
Investment income	66,166	\$5,033	31,041	\$48,271	36,388	186,899
Miscellaneous	264,525	-	-	3,694	73,047	341,266
Total Revenues	<u>12,410,952</u>	<u>5,033</u>	<u>3,751,153</u>	<u>51,965</u>	<u>3,320,834</u>	<u>19,539,937</u>
Expenditures:						
Current:						
Legislature	125,066	-	-	-	-	125,066
Administration	2,581,643	-	4,500	-	13,280	2,599,423
Public safety	6,560,559	-	-	-	463,937	7,024,496
Community services	1,586,171	-	-	-	183,654	1,769,825
Administration services	414,793	-	-	-	464,605	879,398
Health and welfare	-	-	-	-	227,694	227,694
Public works	1,545,718	-	-	-	-	1,545,718
Economic development	-	-	-	-	287,955	287,955
Capital outlay	631,568	118,190	-	-	939,967	1,689,725
Debt service:						
Principal retirement	79,360	-	-	-	82,926	162,286
Interest and fiscal charges	15,845	-	-	-	10,893	26,738
Total Expenditures	<u>13,540,723</u>	<u>118,190</u>	<u>4,500</u>	<u>-</u>	<u>2,674,911</u>	<u>16,338,324</u>
Excess (deficiency) of revenues over expenditures	(1,129,771)	(113,157)	3,746,653	51,965	645,923	3,201,613
Other Financing Sources (Uses):						
Transfers in	3,887,946	418,681	-	25,073	791,222	5,122,922
Transfers out	(804,412)	(90,630)	(3,322,630)	-	(1,592,406)	(5,810,078)
Loan proceeds	444,741	-	-	-	-	444,741
Total Other Financing Sources (Uses)	<u>3,528,275</u>	<u>328,051</u>	<u>(3,322,630)</u>	<u>25,073</u>	<u>(801,184)</u>	<u>(242,415)</u>
Net change in fund balances	2,398,504	214,894	424,023	77,038	(155,261)	2,959,198
Fund balances - beginning	(1,404,008)	3,275,031	2,398,021	3,457,438	5,242,617	12,969,099
Fund balances - ending	<u>\$994,496</u>	<u>\$3,489,925</u>	<u>\$2,822,044</u>	<u>\$3,534,476</u>	<u>\$5,087,356</u>	<u>\$15,928,297</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, 2010**

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	\$15,928,297
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 \$44,116,772	<u>35,171,305</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 \$1,374,895	1,087,390
Ambulance receivable, net of allowance for doubtful accounts of \$219,399	<u>15,208</u>
	<u>1,102,598</u>
Certain long-term assets are not available to pay for current fund liabilities and, therefore, are not reported in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets:	
Restitution receivable	<u>103,505</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	(6,450)
Capital lease obligations payable	(554,053)
Accrued compensated absences	(2,280,882)
Claims liability	(77,832)
Net pension benefit obligation	<u>(361,408)</u>
	<u>(3,280,625)</u>
Net assets of governmental activities	<u><u>\$49,025,080</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, 2010**

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 \$2,959,198

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	1,650,031
Capital assets contributed	44,000
Depreciation expense	(2,319,166)
	(625,135)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Restitution revenue	(5,541)
Deferred revenue	162,051
	156,510

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	
Capital lease proceeds	(444,741)
Capital lease obligation principal payments	162,286
	(282,455)

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	912
Accrued compensated absences expenses	34,593
Accrued claims liability	107,525
Accrued net pension benefit obligation	10,823
	153,853

Change in net assets of governmental activities \$2,361,971

See accompanying notes to the basic financial statements.

**CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010**

BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

Proprietary Funds Statement of Net Assets - June 30, 2010

	Enterprise Funds		Total
	McAlester Public Works Authority	McAlester Airport Authority	
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$301,465	\$88,869	\$390,334
Restricted cash and cash equivalents	4,909,721	-	4,909,721
Restricted interest receivable	39	-	39
Accounts receivable, net of allowance	1,390,194	8,408	1,398,602
Due from other governments	4,722	-	4,722
Total current assets	6,606,141	97,277	6,703,418
Noncurrent Assets:			
Restricted Assets:			
Cash and cash equivalents	1,559,735	-	1,559,735
Investment in joint venture	1,603,798	-	1,603,798
Capital assets:			
Land and other non-depreciable assets	933,598	42,364	975,962
Other capital assets, net of depreciation	19,909,367	3,137,344	23,046,711
Unamortized bond issuance costs	1,934,207	-	1,934,207
Total noncurrent assets	25,940,705	3,179,708	29,120,413
Total Assets	32,546,846	3,276,985	35,823,831
LIABILITIES:			
Current Liabilities:			
Accounts payable	463,468	1,228	464,696
Accrued payroll liabilities	116,896	4,885	121,781
Escrow deposit liability	908,473	-	908,473
Interest payable	1,333,642	674	1,334,316
Deferred revenue	104,543	-	104,543
Landfill closure and postclosure liability	254,115	-	254,115
Due to depositors	77,087	-	77,087
Settlement obligation	125,001	-	125,001
Notes payable	167,224	15,514	182,738
Water rights contract obligation	24,640	-	24,640
Revenue bonds payable	2,395,000	-	2,395,000
Accrued compensated absences	28,230	2,394	30,624
Total current liabilities	5,998,319	24,695	6,023,014
Noncurrent Liabilities:			
Claims liability	226,281	-	226,281
Landfill closure and post-closure liability	2,035,056	-	2,035,056
Due to depositors	308,347	-	308,347
Net pension benefit obligation	105,663	3,683	109,346
Notes payable	683,710	335,126	1,018,836
Water rights contract obligation	252,885	-	252,885
Revenue bonds payable, net	56,880,170	-	56,880,170
Accrued compensated absences	254,074	21,542	275,616
Total noncurrent liabilities	60,746,186	360,351	61,106,537
Total liabilities	66,744,505	385,046	67,129,551
NET ASSETS:			
Invested in capital assets, net of related debt	19,714,506	2,829,068	22,543,574
Restricted for debt service	3,032,006	-	3,032,006
Restricted for street improvements	140,921	-	140,921
Restricted for economic development	669,019	-	669,019
Unrestricted	(57,754,111)	62,871	(57,691,240)
Total net assets	(\$34,197,659)	\$2,891,939	(\$31,305,720)

See accompanying notes to the basic financial statements.

CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Assets - Year Ended June 30, 2010

	Enterprise Funds		
	McAlester Public Works Authority	McAlester Airport Authority	Total
Operating Revenues:			
Charges for services:			
Water	\$3,210,167	-	\$3,210,167
Sewer	1,399,380	-	1,399,380
Sanitation	2,456,775	-	2,456,775
Water taps	20,275	-	20,275
Sewer taps	12,531	-	12,531
Water districts	667,030	-	667,030
Service charges	121,586	-	121,586
Landfill	159,172	-	159,172
Penalties	177,102	-	177,102
Use fee	21,380	-	21,380
Raw water sales	24,962	-	24,962
Subtitle "D" fees	319,661	-	319,661
Airport rents and fees	-	\$110,415	110,415
Total operating revenues	8,590,021	110,415	8,700,436
Operating Expenses:			
Utility office	356,816	-	356,816
Interdepartmental	958,977	-	958,977
Sanitation	599,481	-	599,481
Engineering	341,602	-	341,602
Sewer	660,093	-	660,093
Water	806,799	-	806,799
Utility maintenance	549,976	-	549,976
Fleet maintenance	637,007	-	637,007
Landfill	737,622	-	737,622
Utilities Administration	139,968	-	139,968
Airport	-	187,647	187,647
Depreciation expense	1,011,575	149,650	1,161,225
Amortization expense	109,041	-	109,041
Total operating expenses	6,908,957	337,297	7,246,254
Operating income (loss)	1,681,064	(226,882)	1,454,182
Non-Operating Revenues (Expenses):			
Investment income	2,185	-	2,185
Interest expense and fiscal charges	(3,563,943)	(15,968)	(3,579,911)
Grant revenue - operating	22,493	-	22,493
Miscellaneous revenue	32,761	2,645	35,406
Gain on joint venture	133,904	-	133,904
Total non-operating revenues (expenses)	(3,372,600)	(13,323)	(3,385,923)
Net income (loss) before contributions and transfers	(1,691,536)	(240,205)	(1,931,741)
Capital contributions	61,005	-	61,005
Transfers in	4,428,420	125,454	4,553,874
Transfer out	(3,866,718)	-	(3,866,718)
Change in net assets	(1,068,829)	(114,751)	(1,183,580)
Total net assets - beginning, restated	(33,128,830)	3,006,690	(30,122,140)
Total net assets - ending	(\$34,197,659)	\$2,891,939	(\$31,305,720)

See accompanying notes to the basic financial statements.

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Proprietary Funds Statement of Cash Flows - Year Ended June 30, 2010

	Enterprise Funds		
	McAlester Public Works Authority	McAlester Airport Authority	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$8,426,245	105,057	\$8,531,302
Payments to suppliers	(2,416,672)	(58,893)	(2,475,565)
Payments to employees	(3,299,917)	(127,496)	(3,427,413)
Receipts of customer meter deposits	129,595	-	129,595
Refund of customer meter deposits	(88,444)	-	(88,444)
Other receipts (payments)	184,436	2,645	187,081
Net Cash Provided by (Used in) Operating Activities	<u>2,935,243</u>	<u>(78,687)</u>	<u>2,856,556</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	4,428,420	125,454	4,553,874
Transfers to other funds	(3,866,718)	-	(3,866,718)
Net Cash Provided by Noncapital Financing Activities	<u>561,702</u>	<u>125,454</u>	<u>687,156</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(706,718)	(14,795)	(721,513)
Proceeds from capital debt	539,100	-	539,100
Principal payment of capital debt	(2,493,880)	(14,825)	(2,508,705)
Interest and fiscal charges paid on capital debt	(2,593,210)	(15,294)	(2,608,504)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(5,254,708)</u>	<u>(44,914)</u>	<u>(5,299,622)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	2,549	-	2,549
Net Cash Provided by Investing Activities	<u>2,549</u>	<u>-</u>	<u>2,549</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,755,214)	1,853	(1,753,361)
Balances - beginning of the year	<u>8,526,135</u>	<u>87,016</u>	<u>8,613,151</u>
Balances - end of the year	<u>\$6,770,921</u>	<u>\$88,869</u>	<u>\$6,859,790</u>

See accompanying notes to the basic financial statements.

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Proprietary Funds Statement of Cash Flows - Year Ended June 30, 2010, (Continued)

Reconciliation of operating income (loss) to net cash provided			
by (used in) operating activities:			
Operating income (loss)	\$1,681,064	(\$226,882)	\$1,454,182
Adjustments to reconcile operating income to net cash provided			
(used) by operating activities:			
Depreciation expense	1,011,575	149,650	1,161,225
Amortization expense	109,041	-	109,041
Operating grant	22,493	-	22,493
Other non-operating revenues (expenses)	166,665	2,645	169,310
Change in assets and liabilities:			
Receivables, net	25,186	(5,358)	19,828
Due from other governments	(4,722)	-	(4,722)
Investment in joint venture	(367,481)	-	(367,481)
Accounts payable	153,715	(338)	153,377
Accrued payroll liabilities	15,075	(78)	14,997
Escrow deposit liability	(196,387)	-	(196,387)
Claims liability	74,603	-	74,603
Deferred revenue	7,425	-	7,425
Due to depositors	41,151	-	41,151
Landfill closure liability	254,115	-	254,115
Pension benefit obligation	(6,138)	(246)	(6,384)
Accrued compensated absences	(52,137)	1,920	(50,217)
	<u>\$2,935,243</u>	<u>(\$78,687)</u>	<u>\$2,856,556</u>
Net Cash Provided by (Used in) Operating Activities			
Noncash capital and related financing activities:			
Capital assets contributed from governmental funds	<u>\$61,005</u>	<u>-</u>	<u>\$61,005</u>
Accretion of capital appreciation bonds	<u>(\$1,190,762)</u>	<u>-</u>	<u>(\$1,190,762)</u>

See accompanying notes to the basic financial statements.

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FIDUCIARY FUND

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Statement of Fiduciary Net Assets – Pension Trust Fund - June 30, 2010

	Defined Benefit Retirement Plan and Trust Fund
ASSETS:	
Cash and cash equivalents	\$723,854
Investments:	
International bonds	62,573
Corporate bonds	1,318,942
Mortgage and asset backed securities	200,833
Government bonds	960,873
Mutual funds	324,579
Preferred stocks	41,660
Common stocks	4,678,513
Interest receivable	26,038
Total assets	8,337,865
LIABILITIES:	
Accounts payable	488
NET ASSETS:	
Held in trust for employee pension benefits	\$8,337,377

Statement of Changes in Fiduciary Net Assets – Pension Trust Fund - Year Ended June 30, 2010

	Defined Benefit Retirement Plan and Trust Fund
ADDITIONS:	
Contribution from employer	\$559,653
Investment income	29
Realized and unrealized gain on investments	637,162
Total additions	1,196,844
DEDUCTIONS:	
Benefits paid to participants or beneficiaries	525,790
Administrative expenses	26,476
Total deductions	552,266
Change in net assets held in trust for employees' pension benefits	644,578
Net assets - beginning	7,692,799
Net assets - ending	\$8,337,377

See accompanying notes to the basic financial statements.

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DISCRETELY PRESENTED COMPONENT UNITS

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Discretely Presented Component Units Combining Statement of Net Assets - June 30, 2010

	Component Units		
	Public Trusts		
	McAlester Regional Health Center Authority	McAlester Parking Authority	Total Component Units
ASSETS:			
Cash and cash equivalents	\$8,548,859	\$25,932	\$8,574,791
Investments	2,478,653	-	2,478,653
Accounts receivable, net	11,383,529	720	11,384,249
Other receivables	585,000	-	585,000
Inventory	2,026,377	-	2,026,377
Investment in joint venture	3,692,944	-	3,692,944
Prepaid expenses	1,367,647	-	1,367,647
Capital assets:			
Land and construction in progress	2,969,934	-	2,969,934
Other capital assets, net of depreciation	26,567,538	-	26,567,538
Total assets	<u>59,620,481</u>	<u>26,652</u>	<u>59,647,133</u>
LIABILITIES:			
Current Liabilities:			
Accounts payable	1,726,000	117	1,726,117
Accrued payroll payable	3,396,229	-	3,396,229
Long-term liabilities:			
Due within one year	2,613,323	-	2,613,323
Due in more than one year	3,867,631	-	3,867,631
Total liabilities	<u>11,603,183</u>	<u>117</u>	<u>11,603,300</u>
NET ASSETS:			
Invested in capital assets, net of related debt	22,997,808	-	22,997,808
Restricted for capital acquisitions and debt service	433,786	-	433,786
Restricted for specific operating activities	25,000	-	25,000
Unrestricted	24,560,704	26,535	24,587,239
Total net assets	<u>\$48,017,298</u>	<u>\$26,535</u>	<u>\$48,043,833</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, 2010

	Component Units		
	Public Trusts		
	McAlester Regional Health Center Authority	McAlester Parking Authority	Total Component Units
Operating Revenues:			
Charges for services	-	\$7,760	\$7,760
Net patient service revenue	\$68,431,063	-	68,431,063
Miscellaneous	3,604,984	-	3,604,984
Total Operating Revenues	72,036,047	7,760	72,043,807
Operating Expenses:			
Parking	-	1,570	1,570
Health and welfare	80,886,357	-	80,886,357
Total Operating Expenses	80,886,357	1,570	80,887,927
Net Operating Income (Loss)	(8,850,310)	6,190	(8,844,120)
Non-Operating Revenues (Expenses):			
Investment income	262,020	-	262,020
Income from joint ventures	987,542	-	987,542
Interest expense and fiscal agent fees	(374,377)	-	(374,377)
Net Non-Operating Revenues (Expenses)	875,185	-	875,185
Changes in net assets	(7,975,125)	6,190	(7,968,935)
Total net assets - beginning	55,992,423	20,345	56,012,768
Total net assets - ending	\$48,017,298	\$26,535	\$48,043,833

See accompanying notes to the basic financial statements.

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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

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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 two discretely presented component units as noted below.

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

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

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

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

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

Component Units:

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

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

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

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

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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 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.

Organization Previously Included as a Component Unit:

The MPower Economic Development Corporation (MPower, formerly known as 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 MPower and may be obtained from their administrative offices. MPower has previously been reported as a discretely presented component unit, but because of recent bylaw changes (Articles of Incorporation were changed June 18, 2010), it has now been removed from the City's reporting entity.

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.

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

- Administration – oil and gas leases, rent, and hotel/motel charges for services
- Public safety – Fire and Police – fines and forfeitures, fire run charges, ambulance revenue, and capital and operating grants
- Community services – cemetery openings and closings, swimming pool revenues, complex concessions and rentals
- Administration services – abatements and licenses and permits
- Health and welfare – nutrition operating grant
- Airport – rental fees and fuel sales
- Public works – gas excise and vehicle tax shared by the State and street cuts
- Economic development – operating contribution

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

Governmental Funds:

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

Major Funds:

- General Fund – accounts for general operations of the City including: public safety, parks, public facilities, and street maintenance.
- 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.
- Fire Improvement Grant Fund – accounts for revenues and expenditures related to various fire improvement grants.
- 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.

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- 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.
- 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.
- Gifts & Contributions Fund – accounts for revenues and expenditures of donor restricted monies.

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

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and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

Fiduciary Fund:

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

C. Cash, Cash Equivalents, and Investments

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

D. Inventories

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

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

E. Capital Assets and Depreciation

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

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

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

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

F. Long-Term Debt

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

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

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

G. Compensated Absences

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

H. Fund Balances and Net Assets

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, 2010, the governmental fund balance reserves were all related to encumbrances.

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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, 2010, 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	\$ 4,610	\$ 4,610	\$ -	\$ -	\$ -	\$ -
Demand deposits	13,466,316	13,466,316	-	-	-	-
Demand deposits - pension trust funds	53,435	53,435	-	-	-	-
Time deposits	1,886,121	-	1,692,121	194,000	-	-
	<u>15,410,482</u>	<u>13,524,361</u>	<u>1,692,121</u>	<u>194,000</u>	<u>-</u>	<u>-</u>
	Credit Rating					
Investments:						
Bond Trustee Accounts:						
Federated Treasury Obligations Fund IS #68	Aaa	\$ 3,394,199	\$ 3,394,199	\$ -	\$ -	\$ -
Nestle Commercial Paper	A-1+	1,156,000	1,156,000	-	-	-
Morgan Stanley Cap Serv Inc - D.S. Fund Agree	AAA	1	1	-	-	-
Goldman Fst Treasury Obligations Instl #468	Aaa	625,349	625,349	-	-	-
Pension Trust Funds:						
Western Asset Institutional MM Fund Class A	AAAm	368,001	368,001	-	-	-
Dreyfus Liquid Assets Inc Class 2	Aaa	259,800	259,800	-	-	-
Citibank NA South Dakota Bank Deposit Program	A+	42,618	42,618	-	-	-
Fixed Income Shares FD Series C	A-1	159,665	159,665	-	-	-
Fixed Income Shares FD Series M	A-1	164,914	164,914	-	-	-
International Bonds	A-	48,237	-	-	31,450	16,787
International Bonds	BBB+	14,336	-	-	-	14,336
Corporate Bonds	AA-	47,425	-	-	15,082	16,172
Corporate Bonds	A+	47,823	-	-	-	31,053
Corporate Bonds	AA	47,914	-	-	15,444	-
Corporate Bonds	AA+	29,474	-	-	20,895	8,579
Corporate Bonds	A	95,629	-	-	48,535	47,094
Corporate Bonds	A-	33,900	-	-	-	33,900
Corporate Bonds	BBB+	64,656	-	-	-	15,061
Corporate Bonds	BBB	167,558	-	-	142,011	25,547
Corporate Bonds	BBB-	244,708	-	-	103,132	77,409
Corporate Bonds	BB	60,600	-	-	60,600	-
Corporate Bonds	BB+	200,250	-	-	100,000	100,250
Corporate Bonds	BB-	162,909	-	-	162,909	-
Corporate Bonds	B+	77,096	-	-	77,096	-
Corporate Bonds	CCC+	39,000	-	-	-	39,000
Governmental Bonds	N/A	960,873	-	127,578	483,655	244,617
Mortgage and asset backed securities	N/A	200,833	-	-	-	200,833
Preferred Stocks	BBB	17,950	17,950	-	-	-
Preferred Stocks	BBB+	23,710	23,710	-	-	-
Common Stocks	N/A	4,678,513	4,678,513	-	-	-
		<u>13,433,941</u>	<u>10,890,720</u>	<u>127,578</u>	<u>1,260,809</u>	<u>630,805</u>
Total Deposits and Investments		<u>\$ 28,844,423</u>	<u>\$ 24,415,081</u>	<u>\$ 1,819,699</u>	<u>\$ 1,454,809</u>	<u>\$ 630,805</u>
Reconciliation to Statement of Net Assets:						
Cash and cash equivalents		\$ 18,646,475				
Investments		1,886,121				
Add: Fiduciary Fund cash and cash equivalents		723,854				
Add: Fiduciary Fund investments		7,587,973				
		<u>\$ 28,844,423</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.

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

At June 30, 2010, 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 counterpart to an investment will not fulfill its obligations. The City has no formal policy limiting investments based on credit rating, but discloses any such credit risk associated with their investments by reporting the credit quality ratings of investments in debt securities as determined by nationally recognized statistical rating organizations—rating agencies—as of the year end in the schedule above. Unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Retirement Plan Investments:

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

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

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

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

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

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

	Current Cash and cash Equivalents	Non-current Cash and cash Equivalents	Current Interest Receivable
Utility Deposits	\$ 385,434	-	-
Lowe's Escrow Account	908,473	-	-
Trustee Accounts (MPWA):			
1999A Sinking Fund	758,537	-	-
1999B Sinking Fund	227,041	-	-
2002 Sinking Fund	403,244	-	-
2002 Construction Fund	140,921	-	-
2003A Bond Fund	678,603	-	-
2003A Bond Reserve Fund	-	\$ 649,097	-
2003B Bond Fund	494,545	-	-
2003B Bond Reserve Fund	-	640,638	-
2003B Project Fund	557,574	-	-
2004 Sinking Fund	243,904	-	-
2004 Reserve Fund	-	270,000	-
2004 Construction Fund	111,445	-	-
Interest Receivable	-	-	\$ 39
Total Restricted Assets	<u>\$ 4,909,721</u>	<u>\$ 1,559,735</u>	<u>\$ 39</u>

Component Units Deposits and Investments:

McAlester Regional Health Center Authority

Deposits

At June 30, 2010, approximately \$1,982,000 of the Authority’s bank balances were uninsured with collateral held by pledging financial institution.

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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, 2010, the "Investment in joint venture" balance changed as follows:

Beginning Investment in Joint Venture	\$ 1,236,317
Current Year Contributions	233,577
Gain from Joint Venture	133,904
Ending Investment in Joint Venture	<u><u>\$ 1,603,798</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, 2010, is as follows:

	General Fund		MPWA	Airport	Total
	Ambulance	Court			
Accounts receivable	\$290,486	\$2,499,810	\$2,856,004	\$8,708	\$5,655,008
Allowance for doubtful accounts	(219,399)	(1,374,895)	(1,465,810)	(300)	(\$3,060,404)
Accounts receivable, net	\$71,087	\$1,124,915	\$1,390,194	\$8,408	\$2,594,604

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Component Units:

McAlester Regional Health Center Authority

Patient receivable balances at June 30, 2010 were as follows:

	<u>MRHCA</u>
Medicare	\$3,464,394
Medicaid	1,361,080
Other third-party payers	10,935,393
Patients	7,678,662
Allowance for doubtful accounts	<u>(12,056,000)</u>
Accounts receivable, net	<u><u>\$11,383,529</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, 2009	Additions	Deductions	Balance June 30, 2010
Note Receivable				
McAlester Foundation	<u>\$1,238,643</u>	<u>\$ -</u>	<u>\$178,143</u>	<u>\$1,060,500</u>

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5. Capital Assets and Depreciation

For the year ended June 30, 2010, capital assets balances changed as follows:

	(Restated) Balance at June 30, 2009	Additions	Disposals	Balance at June 30, 2010
Governmental activities:				
Non-depreciable:				
Land	\$ 675,209	\$ -	\$ -	\$ 675,209
Construction-in-progress	150,685	688,255	(82,592)	756,348
Total non-depreciable assets at historical cost	<u>825,894</u>	<u>688,255</u>	<u>(82,592)</u>	<u>1,431,557</u>
Depreciable:				
Buildings	5,350,398	-	-	5,350,398
Other improvements	1,599,158	45,621	-	1,644,779
Machinery and equipment	7,893,754	967,326	-	8,861,080
Infrastructure	61,924,842	75,421	-	62,000,263
Total depreciable assets at historical cost	<u>76,768,152</u>	<u>1,088,368</u>	<u>-</u>	<u>77,856,520</u>
Less accumulated depreciation				
Buildings	(2,488,420)	(156,653)	-	(2,645,073)
Other improvements	(859,133)	(54,037)	-	(913,170)
Machinery and equipment	(6,012,692)	(587,437)	-	(6,600,129)
Infrastructure	(32,437,361)	(1,521,039)	-	(33,958,400)
Total accumulated depreciation	<u>(41,797,606)</u>	<u>(2,319,166)</u>	<u>-</u>	<u>(44,116,772)</u>
Net depreciable assets	<u>34,970,546</u>	<u>(1,230,798)</u>	<u>-</u>	<u>33,739,748</u>
Governmental activities capital assets, net	<u>\$ 35,796,440</u>	<u>\$ (542,543)</u>	<u>\$ (82,592)</u>	<u>\$ 35,171,305</u>
Business-type activities				
Non-depreciable:				
Land	\$ 212,571	\$ -	\$ -	\$ 212,571
Water rights contracts	719,075	-	-	719,075
Construction-in-progress	3,400	40,916	-	44,316
Total non-depreciable assets at historical cost	<u>935,046</u>	<u>40,916</u>	<u>-</u>	<u>975,962</u>
Depreciable:				
Buildings	2,756,061	-	-	2,756,061
Other improvements	3,038,505	12,730	-	3,051,235
Machinery and equipment	2,020,474	679,293	-	2,699,767
Utility property	39,455,517	49,579	-	39,505,096
Total depreciable assets at historical cost	<u>47,270,557</u>	<u>741,602</u>	<u>-</u>	<u>48,012,159</u>
Less accumulated depreciation				
Buildings	(1,173,679)	(69,618)	-	(1,243,297)
Other improvements	(1,254,483)	(125,566)	-	(1,380,049)
Machinery and equipment	(1,216,020)	(202,626)	-	(1,418,646)
Utility property	(20,160,041)	(763,415)	-	(20,923,456)
Total accumulated depreciation	<u>(23,804,223)</u>	<u>(1,161,225)</u>	<u>-</u>	<u>(24,965,448)</u>
Net depreciable assets	<u>23,466,334</u>	<u>(419,623)</u>	<u>-</u>	<u>23,046,711</u>
Business-type capital assets, net	<u>\$ 24,401,380</u>	<u>\$ (378,707)</u>	<u>\$ -</u>	<u>\$ 24,022,673</u>

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	(Restated) Balance at June 30, 2009	Additions	Reclassified Amounts	Disposals	Balance at June 30, 2010
Component Units:					
Non-depreciable:					
Land	\$ 907,824	\$ 127,483	\$ -	\$ -	\$ 1,035,307
Construction-in-progress	573,097	1,703,362	-	(341,832)	1,934,627
Total non-depreciable assets at historical cost	<u>1,480,921</u>	<u>1,830,845</u>	<u>-</u>	<u>(341,832)</u>	<u>2,969,934</u>
Depreciable:					
Land improvements	564,750	-	-	-	564,750
Buildings and improvements	32,741,514	1,094,526	-	-	33,836,040
Machinery and equipment	33,022,990	3,065,052	-	(2,186,894)	33,901,148
Total depreciable assets at historical cost	<u>66,329,254</u>	<u>4,159,578</u>	<u>-</u>	<u>(2,186,894)</u>	<u>68,301,938</u>
Less accumulated depreciation					
Land improvements	(564,750)	-	-	-	(564,750)
Buildings and improvements	(18,379,652)	(1,129,191)	-	-	(19,508,843)
Machinery and equipment	(20,254,523)	(3,381,195)	-	1,974,911	(21,660,807)
Total accumulated depreciation	<u>(39,198,925)</u>	<u>(4,510,386)</u>	<u>-</u>	<u>1,974,911</u>	<u>(41,734,400)</u>
Net depreciable assets	<u>27,130,329</u>	<u>(350,808)</u>	<u>-</u>	<u>(211,983)</u>	<u>26,567,538</u>
Component Unit capital assets, net	<u>\$ 28,611,250</u>	<u>\$ 1,480,037</u>	<u>\$ -</u>	<u>\$ (553,815)</u>	<u>\$ 29,537,472</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	52,880
Public safety	395,350
Community services	255,940
Public works	1,613,586

Total governmental activities depreciation expense \$ 2,319,166

Depreciation expense charged to business-type activities:

Water	\$ 597,069
Sewer	258,925
Sanitation	155,581
Airport	149,650

Total business-type activities depreciation expense \$ 1,161,225

6. Economic Development Liabilities

Economic Development Agreement – Lowe's

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

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The agreement states that the City will reimburse Lowe's Home Centers, Inc. for the public infrastructure improvements (estimated at an amount up to \$800,000) and the initial economic development incentive payment of \$200,000 on the opening date. The City made a payment to Lowe's Home Centers, Inc. during fiscal year 07-08 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 \$908,473, which includes interest earned on the deposit. This amount is considered a current liability of the MPWA.

7. Long-Term Debt and Debt Service Requirements

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

	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010	Amounts Due Within One Year
Governmental Activities:					
Capital Lease Obligations	\$ 271,598	\$ 444,741	\$ 162,286	\$ 554,053	\$ 176,155
Accrued Compensated Absences	2,315,475	-	34,593	2,280,882	228,088
Claims Liability	185,357	118,884	226,409	77,832	-
Net Pension Benefit Obligation	372,231	-	10,823	361,408	-
Total Governmental Long-Term Debt	\$ 3,144,661	\$ 563,625	\$ 434,111	\$ 3,274,175	\$ 404,243
Business-type Activities:					
Claims Liability	\$ 151,678	\$ 252,865	\$ 178,262	\$ 226,281	\$ -
Landfill Closure and Post-closure Liability	2,035,056	254,115	-	2,289,171	254,115
Due to Depositors	344,283	129,595	88,444	385,434	77,087
Net Pension Benefit Obligation	115,730	-	6,384	109,346	-
Settlement Obligation	263,714	-	138,713	125,001	125,001
Notes Payable	798,420	539,100	135,946	1,201,574	182,738
Water Contract Obligations	301,571	-	24,046	277,525	24,640
Revenue Bonds Payable	61,057,126	1,190,762	2,210,000	60,037,888	2,395,000
Accrued Compensated Absences	356,457	-	50,217	306,240	30,624
Total Business-type Long-Term Debt	\$ 65,424,035	\$ 2,366,437	\$ 2,832,012	\$ 64,958,460	\$ 3,089,205
			Less: Unamortized Loss on Refunding	(1,171,854)	
			Less: Unamortized Discount	(265,184)	
			Add: Unamortized Premium	674,320	
				\$ 64,195,742	

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:

\$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

\$176,446

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\$98,796 capital lease with First National Bank for an ambulance, payable in annual installments of \$22,664, final payment due June 5, 2014, with interest at 4.75%, paid from the General Fund	80,825
\$277,913 capital lease with First National Bank for 10 police vehicles, payable in monthly installments of \$5,185, final payment due July 25, 2014, with interest at 4.55%, paid from the General Fund	231,389
\$25,662 capital lease with First National Bank for pickup truck, payable in monthly installments of \$479, final payment due February 25, 2015, with interest at 4.55%, paid from the General Fund	24,121
\$42,370 capital lease with First National Bank for brush rig, payable in monthly installments of \$1,262, final payment due May 13, 2013, with interest at 4.55%, paid from the General Fund	<u>41,272</u>
Total Capital Lease Obligation	<u>\$554,053</u>
Capital Lease Obligations:	
Current portion	\$ 176,155
Noncurrent portion	<u>377,898</u>
Total Capital Lease Obligations	<u>\$554,053</u>
Accrued Compensated Absences:	
Current portion	\$ 228,088
Noncurrent portion	<u>2,052,794</u>
Total Accrued Compensated Absences	<u>\$2,280,882</u>
Claims Liability:	
Current portion	\$ -
Non-current portion	<u>77,832</u>
Total Claims Liability	<u>\$ 77,832</u>
Net Pension Obligation:	
Current portion	\$ -
Non-current portion	<u>361,408</u>
Total Pension Obligation	<u>\$ 361,408</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.	\$156,979
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.	56,500
PWA Note Payable for 2 trash trucks with First National Bank dated March 2, 2009, original amount of \$257,565 with an annual interest rate of 4.3%, due in annual installments of \$56,139, final installment April 1, 2013.	154,897

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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.	350,640
PWA Note Payable for a backhoe with Welch State Bank dated April 15, 2009, original amount of \$84,100 with an annual interest rate of 3.949%, due in annual installments of \$18,865, final installment March 31, 2014.	68,438
PWA Note Payable for caterpillar & trash compactor with First National Bank dated December 14, 2009, original amount of \$455,000 with an annual interest rate of 4.7%, due in monthly installments of \$8,524, final installment December 14, 2014.	<u>414,120</u>
Total Notes Payable	<u>\$1,201,574</u>
Current portion	\$182,738
Non-current portion	<u>1,018,836</u>
Total Notes Payable	<u>\$1,201,574</u>
 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>\$277,525</u>
Current portion	\$ 24,640
Non-current portion	<u>252,885</u>
Total Water Rights Contract	<u>\$277,525</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.	\$16,825,000
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>(14,183,869)</u>
Principal outstanding at year end	<u>11,439,751</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.	510,000

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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. 14,360,000

Capital appreciation bonds in the face amount of \$3,037,176 dated July 1, 2003, issued by McAlester Public Works Authority, secured by utility revenue and pledged sales tax, principal maturing at the accreted value of \$17,560,000, interest rate at 4.30%, final maturity February 1, 2034. Interest is accreted (or added to the principal balance) until maturity, at which time, the entire principal balance of \$17,560,000 will be due and payable. 17,560,000

Less: Unaccreted portion (12,846,863)

Principal outstanding at year end 4,713,137

2003A Series Sales Tax Revenue Bonds:

Term Bonds in the amount of \$7,000,000 dated July 1, 2003, issued by McAlester Public Works Authority, secured by pledged sales tax, total principal due at maturity, initial interest rate at 2.10% increasing to 5.50%, final maturity September 1, 2018. 4,955,000

2003B Series Sales Tax Revenue Bonds:

Term Bonds in the amount of \$6,220,000 dated July 1, 2003, issued by McAlester Public Works Authority, secured by pledged sales tax, total principal due at maturity, initial interest rate of 4.00% increasing to 7.10%, final maturity September 1, 2018. 4,535,000

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	<u>\$60,037,888</u>
Current portion	\$ 2,395,000
Noncurrent portion	<u>57,642,888</u>
Total Revenue Bonds Payable	<u>\$60,037,888</u>
Unamortized loss on refunding	(1,171,854)
Unamortized bond premium/discount	<u>409,136</u>
Total Revenue Bonds Payable, net	<u>\$59,275,170</u>

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	125,001
Noncurrent portion	-
Total Settlement Obligations	<u>\$ 125,001</u>

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Landfill Closure and Post-Closure Liability:

A \$2,289,171 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 69.56% of the estimated capacity of the landfill. It is estimated that an additional \$1,001,960 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 68 months.

Current portion	\$ 254,115
Noncurrent portion	<u>2,035,056</u>
Total Landfill Closure and Postclosure Liability	<u>\$2,289,171</u>

Accrued Compensated Absences:

Current portion	\$ 30,624
Noncurrent portion	<u>275,616</u>
Total Accrued Compensated Absences	<u>\$ 306,240</u>

Deposits Subject to Refund:

Current portion	\$ 77,087
Noncurrent portion	<u>308,347</u>
Total Deposits Subject to Refund	<u>\$ 385,434</u>

Claims Liability:

Current portion	\$ -
Non-current portion	<u>226,281</u>
Total Claims Liability	<u>\$ 226,281</u>

Net Pension Obligation:

Current portion	\$ -
Non-current portion	<u>109,346</u>
Total Net Pension Obligation	<u>\$ 109,346</u>

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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>		
2011	\$176,155	\$23,432		
2012	184,237	15,574		
2013	97,216	7,292		
2014	87,559	3,072		
2015	<u>8,886</u>	<u>130</u>		
Total	<u>\$554,053</u>	<u>\$49,500</u>		
Year Ended June 30,	<u>Business-Type Activity Debt</u>			
	<u>Settlement Obligation</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$125,001	-	\$182,738	\$41,818
2012	-	-	509,190	21,476
2013	-	-	181,586	13,320
2014	-	-	132,691	5,606
2015	-	-	67,590	696
2016-2020	-	-	85,700	-
2021-2025	-	-	36,429	-
2026-2029	<u>-</u>	<u>-</u>	<u>5,650</u>	<u>-</u>
Total	<u>\$125,001</u>	<u>-</u>	<u>\$1,201,574</u>	<u>\$82,916</u>
Year Ended June 30,	<u>Water Rights Contract Obligation</u>		<u>Revenue Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$24,640	\$7,279	\$2,395,000	\$2,432,276
2012	25,286	6,633	2,625,000	2,298,981
2013	25,949	5,970	2,895,000	2,156,444
2014	26,629	5,289	3,090,000	1,993,766
2015	27,328	4,591	5,075,000	1,818,051
2016-2020	147,693	11,900	18,480,000	5,438,569
2021-2025	-	-	7,292,355	11,180,398
2026-2030	-	-	7,961,477	11,349,339
2031-2034	<u>-</u>	<u>-</u>	<u>3,037,176</u>	<u>14,522,824</u>
Total	<u>\$277,525</u>	<u>\$41,662</u>	\$52,851,008	\$53,190,648
Accreted Portion of Debt			<u>7,186,880</u>	<u>(7,186,880)</u>
			<u>\$60,037,888</u>	<u>\$46,003,768</u>

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Component Units have the following long-term debt at June 30, 2010:

	(Restated) Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010	Amounts Due Within One Year
Component Unit Activities:					
Capital Lease Obligations	\$ 4,749,138	\$ 903,769	\$ 1,615,026	\$ 4,037,881	\$ 1,691,718
Notes Payable	2,635,893	654,187	847,007	2,443,073	921,605
Total Component Unit Debt	<u>\$ 7,385,031</u>	<u>\$ 1,557,956</u>	<u>\$ 2,462,033</u>	<u>\$ 6,480,954</u>	<u>\$ 2,613,323</u>

McAlester Regional Health Center Authority Component Unit

Notes Payable:

The notes payable to banks are due between August 2011 and December 2022, payable monthly, including interest at rates of 3.25% to 5.50%. The notes are secured by real estate and certain capital assets. The debt service requirements as of June 30, 2010, are as follows:

Year Ended June 30,	<u>Discretely Presented Component Unit Debt</u>	
	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$921,605	\$91,638
2012	385,267	61,184
2013	236,495	49,119
2014	182,993	38,876
2015	483,581	21,837
2016-2020	152,223	41,424
2021-2023	<u>80,909</u>	<u>5,431</u>
Total	<u><u>\$2,443,073</u></u>	<u><u>\$309,509</u></u>

Capital Lease Obligations:

The Authority is obligated under leases for equipment that are accounted for as capital leases. The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates of 3.89% to 9.45% together with the present value of the future minimum lease payments as of June 30, 2010:

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Year Ended June 30,	<u>Capital Lease Obligations Payable</u>
2011	\$1,904,300
2012	1,605,243
2013	695,698
2014	<u>183,704</u>
Total minimum lease payments	4,388,945
Less amount representing interest	<u>351,064</u>
Present value of future minimum lease payments	<u><u>\$4,037,881</u></u>

8. Net Assets and Fund Balances

Net assets restricted for debt service in the MPWA as of June 30, 2010, consisted of the following:

Enterprise Funds:	
1999A Revenue Bond Trust Accounts	\$758,537
1999B Revenue Bond Trust Accounts	227,041
2002 Revenue Bond Trust Accounts	403,244
2003A Revenue Bond Trust Accounts	1,327,700
2003B Revenue Bond Trust Accounts	1,135,183
2004 Revenue Bond Trust Accounts	<u>513,904</u>
Restricted per bond indenture	\$4,365,609
Add: Accrued interest receivable	39
Less: Accrued interest payable	<u>(1,333,642)</u>
Total Restricted for Debt Service	<u><u>\$3,032,006</u></u>

Reclassification of Assets

Beginning net assets of enterprise funds, governmental activities and business-type activities were restated as of June 30, 2010, as follows:

	<u>Fund Level</u>	<u>Government-Wide</u>	
	<u>MPWA</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Beginning fund balance/net assets, as previously reported	(\$32,929,289)	\$46,554,063	(\$29,922,599)
Overstatement of capital assets	(199,541)	-	(199,541)
Understatement of restitution receivable	-	109,046	-
Beginning fund balance/net assets, restated	<u><u>(\$33,128,830)</u></u>	<u><u>\$46,663,109</u></u>	<u><u>(\$30,122,140)</u></u>

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9. Dedicated Tax Revenues and Pledges of Future Revenues

Sales and Use Tax

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

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

Pledge of Future Revenues

Sales Tax and Utility Net Revenues Pledge - The City has pledged one and one-half cents (or 42.86%) of future sales tax revenues to repay \$60,037,888 of Series 1999, 2002, 2003, and 2004 Sales Tax and Utility System Bonds. Proceeds from the bonds provided financing for capital assets, economic development, and school related capital contributions. The 2003A, 2003B and 2004 bonds are payable solely from pledged sales tax revenues. The 1999 and 2002 bonds and the 1999 loan are payable from pledged sales tax revenues and further secured by net water, wastewater, and sanitation revenues. The bonds are payable anywhere from 2011 through 2034. The total principal and interest payable for the remainder of the life of these bonds is \$106,041,656, which includes \$43,183,620 of accreted bonds. Pledged sales taxes transferred in the current year were \$4,425,030 and the net utility revenues were \$2,801,680. Debt service payments of \$4,786,975, excluding accreted interest, for the current fiscal year were 108.2% of the pledged and transferred sales taxes and 66.2% of both pledged and transferred sales taxes and utility revenues.

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10. Internal and Interfund Balances and Transfers

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2010, were as follows:

Transfer From	Transfer To	Amount	Nature of Transfer
General Fund	Police Equipment Fund	\$390	Matching grant monies
General Fund	Nutrition Fund	191,050	Operating transfer
General Fund	Fire Improvement Grant Fund	172	Operating transfer
General Fund	McAlester Airport Authority	125,454	Operating transfer
General Fund	Cemetery Perpetual Care Fund	4,994	12.5% required transfer
General Fund	Gifts & Contributions Fund	38,598	Balance of donations segregated
General Fund	Capital Improvement Plan Fund	418,681	Transfer for capital improvements
General Fund	Reserve Fund	25,073	Council designated oil & gas royalty revenue
Dedicated Sales Tax Fund	MPWA - Bond Trustee Acct	2,907,840	Debt payments to trustee bank
Dedicated Sales Tax Fund	Economic Development Fund	414,790	Reimburse for construction project
Juvenile Fine Fund	Gifts & Contributions Fund	50,000	Skate park improvements
Sales Tax - Schools Fund	MPWA - Bond Trustee Acct	644,187	Debt payments to trustee bank
Economic Development Fund	MPWA - Bond Trustee Acct	873,003	Debt payments to trustee bank
Economic Development Fund	MPWA	3,390	Trustee bank fiscal agent fees
Economic Development Fund	General Fund	21,826	Reimburse for Industrial Park cleanup
Capital Improvement Plan Fund	CDBG Grants Fund	90,630	Matching grant monies
MPWA	General Fund	3,866,120	Operating transfer
MPWA	Gifts & Contributions Fund	598	Balance of donations segregated
		<u>\$9,676,796</u>	
	Transfers	Transfers	Net Transfers/ Internal Activity
	<u>In</u>	<u>Out</u>	
Reconciliation to Fund			
Financial Statements:			
Governmental Funds	\$5,122,922	(\$5,810,078)	(\$687,156)
Enterprise Funds	4,553,874	(3,866,718)	687,156
Total Transfers	<u>\$9,676,796</u>	<u>(\$9,676,796)</u>	<u>-</u>
Reconciliation to statement of activities:		Governmental	Business-Type
Net transfers		(\$687,156)	\$687,156
Reclassification of capital asset purchases between activities		(\$61,005)	\$61,005
Total Transfers - Internal Activity		<u>(\$748,161)</u>	<u>\$748,161</u>

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Balances:

Interfund receivables and payables at June 30, 2010, were as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Interfund Balance</u>
General Fund	Cemetery Perpetual Care Fund	\$1,598	12.5% required transfer
General Fund	Capital Improvement Plan Fund	800,000	Bond related issues
Police Equipment Fund	General Fund	38,715	Negative share of pooled cash
		<u>\$840,313</u>	
		<u>\$840,313</u>	
<u>Due From Other Fund</u>	<u>Due To Other Funds</u>	<u>Net Activity/ Internal Balances</u>	
Reconciliation to Fund			
Financial Statements:			
Governmental Funds	\$840,313	(\$840,313)	-
Enterprise Funds	-	-	-
Total Interfund Balances	<u>\$840,313</u>	<u>(\$840,313)</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 \$800,000.

11. Risk Management

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

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

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

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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, 2010 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, July 1, 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
Claims incurred	118,884	252,865
Claims paid	(226,409)	(178,262)
Claims liability, June 30, 2010	<u>\$77,832</u>	<u>\$226,281</u>

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 2010, the City's involvement in federal and state award programs was not significant. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements. Any liability for reimbursement which may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

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

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

DEQ Consent Order:

The City of McAlester is currently under three Consent Orders from the Oklahoma Department of Environmental Quality, Case 02-101A, Case No. 07-233, and Case 09-241 related to the water treatment plant. Case 02-101A relates to turbidity. Construction to upgrade the water plant filters and associated work for this Consent Order 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. Engineering design and construction is expected in FY 2011-2012 and is estimated at \$876,000.

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.

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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	15.6% of Payroll (\$674,662 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, 2010
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level Dollar
Amortization period	30 years remaining
Actuarial asset valuation method	5-year weighted average market value, recognizing gains and losses at the rate of 20% per year.
Investment rate of return	7.2%
Projected salary increases	Varies from 3.10% to 10.30%

B. Summary of Significant Accounting Policies and Plan Asset Matters

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

Method Used to Value Investments - Values of System assets are reported at fair value which approximates market. As of June 30, 2010, 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, 2010 was as follows:

	<u>2010</u>
Annual pension cost	\$657,455
Contributions made	<u>(674,663)</u>
Increase (decrease) in net pension obligation	(17,208)
Net pension obligation beginning of year	<u>487,961</u>
Net pension obligation end of year	<u>\$470,753</u>

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D. Trend Information

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

Funded Status and Funding Progress

As of July 1, 2010, the funded status of the McAlester Employees' Retirement System defined benefit plan is as follows:

Actuarial accrued liability (AAL)	\$14,807,371
Actuarial value of plan assets	<u>9,990,470</u>
Overfunded (Unfunded) actuarial accrued liability (UAAL)	<u>\$ (4,816,901)</u>
Funded ratio (actuarial value of plan assets/AAL)	67.5%
Annual covered payroll (active plan members)	\$4,274,311
UAAL as a percentage of covered payroll	112.7%

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

Firefighter Pension System:

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

The State made on-behalf payments to the Oklahoma Firefighter's Pension and Retirement System of \$476,549 (or 21.8% 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.

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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 \$198,963 (or 8.8% 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
2008	\$ 268,784	100%	2008	\$ 298,714	100%
2009	312,728	100%	2009	299,518	100%
2010	281,276	100%	2010	296,068	100%

Other Post-Employment Benefits

For the year ended June 30, 2010, 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 performed an actuarial evaluation as of July 1, 2010 to determine these amounts. The net OPEB obligation as of July 1, 2010 is \$0.

14. Noncompliance with Finance-Related Legal or Contractual Requirements

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 funds with negative fund balances:

Nutrition Fund	(\$3,474)
Police Equipment Fund	(24,245)

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REQUIRED SUPPLEMENTARY INFORMATION

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Budgetary Comparison Schedules (Budgetary Basis) – Year Ended June 30, 2010

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance, Restated:	\$244,062	\$244,062	\$802,152	\$558,090
Resources (Inflows):				
TAXES:				
Sales tax	\$8,773,000	\$8,773,000	7,354,187	(1,418,813)
Use tax	560,000	560,000	681,427	121,427
Franchise tax	640,000	640,000	576,099	(63,901)
Total Taxes	<u>9,973,000</u>	<u>9,973,000</u>	<u>8,611,713</u>	<u>(1,361,287)</u>
INTERGOVERNMENTAL:				
Alcoholic beverage tax	110,000	110,000	111,698	1,698
Tobacco/cigarette tax	206,000	206,000	178,539	(27,461)
Gas excise tax	40,000	40,000	34,833	(5,167)
Vehicle tax	126,000	126,000	126,900	900
Grant revenue	24,000	30,000	84,371	54,371
Payment in lieu of tax	-	-	8,175	8,175
Total Intergovernmental	<u>506,000</u>	<u>512,000</u>	<u>544,516</u>	<u>32,516</u>
CHARGES FOR SERVICES:				
Court costs	178,000	178,000	386,594	208,594
Cemetery opening/closing	39,600	39,600	36,541	(3,059)
Cemetery fees	-	-	4,900	4,900
Dog pound fees	200	200	35	(165)
Swimming pool revenue	32,000	32,000	28,035	(3,965)
Ambulance revenue	382,000	382,000	309,517	(72,483)
False alarms	-	-	3,135	3,135
Street cuts	300	300	3,781	3,481
Recreation fees	5,000	5,000	6,033	1,033
Administrative reimbursement	-	-	17,100	17,100
Oil and gas leases	200,000	200,000	303,951	103,951
Abatements	32,000	32,000	28,474	(3,526)
Rental property	12,000	12,000	11,200	(800)
Rental rooms	5,000	5,000	6,700	1,700
Burgular alarms	2,415	2,415	10,730	8,315
Complex concessions	13,817	13,817	12,246	(1,571)
Complex rental	14,000	14,000	14,950	950
Total Charges for Services	<u>916,332</u>	<u>916,332</u>	<u>1,183,922</u>	<u>267,590</u>
FINES AND FORFEITURES	<u>856,500</u>	<u>856,500</u>	<u>807,364</u>	<u>(49,136)</u>
LICENSES AND PERMITS	<u>108,290</u>	<u>112,790</u>	<u>101,359</u>	<u>(11,431)</u>
INVESTMENT INCOME	<u>42,000</u>	<u>42,000</u>	<u>66,166</u>	<u>24,166</u>
MISCELLANEOUS:				
Auctions	5,000	5,000	1,335	(3,665)
Hay sales	1,500	1,500	-	(1,500)
Vendors	500	500	983	483
Cemetery lots	22,500	22,500	19,575	(2,925)
Demolitions	10,000	10,000	3,404	(6,596)
Donations	20,000	24,850	9,893	(14,957)
Court admin fee	-	-	5,363	5,363
Miscellaneous	60,000	60,000	45,414	(14,586)
Credit card payment fees	-	-	3,857	3,857
Restitution reimbursements	-	-	1,847	1,847
Reimbursements	81,000	192,920	166,238	(26,682)
Total Miscellaneous	<u>200,500</u>	<u>317,270</u>	<u>257,909</u>	<u>(59,361)</u>
OTHER FINANCING SOURCES:				
Transfers from other funds	1,721,766	3,887,946	3,887,946	-
Total Other Financing Sources	<u>1,721,766</u>	<u>3,887,946</u>	<u>3,887,946</u>	<u>-</u>
Amounts available for appropriation	<u>14,568,450</u>	<u>16,861,900</u>	<u>16,263,047</u>	<u>(598,853)</u>

(Continued)

CITY OF MCALESTER, OKLAHOMA
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As of and for the Year Ended June 30, 2010

(Continued)

GENERAL FUND				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Original		
Charges to Appropriations (Outflows):				
LEGISLATURE:				
Mayor and Council:				
Personal services	4,845	4,845	4,845	-
Materials and supplies	750	750	393	357
Other services and charges	139,000	128,109	119,896	8,213
Capital outlay	-	2,500	190	2,310
TOTAL LEGISLATURE	144,595	136,204	125,324	10,880
ADMINISTRATION:				
City Manager:				
Personal services	190,040	126,041	125,438	603
Materials and supplies	5,000	5,000	4,832	168
Other services and charges	28,700	52,700	42,580	10,120
Capital outlay	-	1,515	-	1,515
Total City Manager	223,740	185,256	172,850	12,406
Finance:				
Personal services	214,336	211,478	191,691	19,787
Materials and supplies	5,200	5,300	5,266	34
Other services and charges	10,300	23,195	19,234	3,961
Capital outlay	1,500	18,526	2,328	16,198
Total Finance	231,336	258,499	218,519	39,980
City Clerk:				
Personal services	62,828	65,603	65,599	4
Materials and supplies	3,000	1,700	1,583	117
Other services and charges	7,850	6,372	4,829	1,543
Total City Clerk	73,678	73,675	72,011	1,664
City Attorney:				
Personal services	34,590	34,593	34,590	3
Materials and supplies	200	200	-	200
Other services and charges	111,200	107,397	64,726	42,671
Total City Attorney	145,990	142,190	99,316	42,874
Court:				
Personal services	125,856	132,561	131,200	1,361
Materials and supplies	11,000	6,770	6,768	2
Other services and charges	150,350	34,381	33,963	418
Total Court	287,206	173,712	171,931	1,781
Interdepartmental:				
Personal services	325,000	325,000	226,409	98,591
Materials and supplies	3,300	3,300	2,776	524
Other services and charges	877,564	863,837	780,738	83,099
Capital outlay	32,500	-	-	-
Debt service	82,438	76,153	60,212	15,941
Total Interdepartmental	1,320,802	1,268,290	1,070,135	198,155
Information Services:				
Personal services	62,173	64,285	63,851	434
Materials and supplies	3,000	1,000	735	265
Other services and charges	36,700	36,210	36,188	22
Capital outlay	45,000	24,790	24,497	293
Total Information Services	146,873	126,285	125,271	1,014

(Continued)

CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

(Continued)

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Original		
ADMINISTRATION, (Continued):				
CID:				
Personal services	846,916	817,363	746,962	70,401
Materials and supplies	12,700	12,700	8,528	4,172
Other services and charges	5,200	4,800	1,879	2,921
Total CID	<u>864,816</u>	<u>834,863</u>	<u>757,369</u>	<u>77,494</u>
TOTAL ADMINISTRATION	<u>3,294,441</u>	<u>3,062,770</u>	<u>2,687,402</u>	<u>375,368</u>
PUBLIC SAFETY:				
Patrol:				
Personal services	2,556,989	2,546,255	2,499,362	46,893
Materials and supplies	42,700	42,700	32,340	10,360
Other services and charges	70,900	55,032	35,947	19,085
Capital outlay	9,000	16,978	16,974	4
Total Patrol	<u>2,679,589</u>	<u>2,660,965</u>	<u>2,584,623</u>	<u>76,342</u>
Animal Control:				
Personal services	88,946	92,964	92,888	76
Materials and supplies	4,000	2,140	1,440	700
Other services and charges	4,800	2,300	1,025	1,275
Total Animal Control	<u>97,746</u>	<u>97,404</u>	<u>95,353</u>	<u>2,051</u>
Communications:				
Personal services	171,145	175,583	159,365	16,218
Materials and supplies	2,000	1,910	1,189	721
Other services and charges	500	500	140	360
Total Communications	<u>173,645</u>	<u>177,993</u>	<u>160,694</u>	<u>17,299</u>
Fire:				
Personal services	3,150,805	3,004,431	2,963,636	40,795
Materials and supplies	75,400	52,793	48,307	4,486
Other services and charges	54,420	43,020	38,976	4,044
Capital outlay	25,000	34,483	34,466	17
Debt service	22,500	22,665	22,664	1
Total Fire	<u>3,328,125</u>	<u>3,157,392</u>	<u>3,108,049</u>	<u>49,343</u>
EMS:				
Materials and supplies	-	14,890	14,875	15
Other services and charges	-	31,090	30,168	922
Total EMS	<u>-</u>	<u>45,980</u>	<u>45,043</u>	<u>937</u>
TOTAL PUBLIC SAFETY	<u>6,279,105</u>	<u>6,139,734</u>	<u>5,993,762</u>	<u>145,972</u>
COMMUNITY SERVICES:				
Parks:				
Personal services	707,169	713,595	640,880	72,715
Materials and supplies	120,850	95,550	80,333	15,217
Other services and charges	54,600	47,618	43,119	4,499
Capital outlay	32,400	39,692	39,677	15
Total Parks	<u>915,019</u>	<u>896,455</u>	<u>804,009</u>	<u>92,446</u>
Swimming Pools:				
Personal services	88,811	89,549	72,232	17,317
Materials and supplies	43,000	29,403	23,822	5,581
Other services and charges	12,000	6,987	6,588	399
Total Swimming Pools	<u>143,811</u>	<u>125,939</u>	<u>102,642</u>	<u>23,297</u>
Recreation:				
Personal services	200,191	203,492	164,599	38,893
Materials and supplies	11,500	15,900	14,405	1,495
Other services and charges	17,550	15,150	14,935	215
Capital outlay	2,800	2,800	2,800	-
Total Recreation	<u>232,041</u>	<u>237,342</u>	<u>196,739</u>	<u>40,603</u>

(Continued)

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(Continued)

	GENERAL FUND			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Original		
COMMUNITY SERVICES, (Continued):				
Cemetery:				
Personal services	295,014	303,783	275,907	27,876
Materials and supplies	17,250	16,698	12,570	4,128
Other services and charges	5,600	652	627	25
Total Cemetery	<u>317,864</u>	<u>321,133</u>	<u>289,104</u>	<u>32,029</u>
Facility Maintenance:				
Personal services	170,324	177,607	173,909	3,698
Materials and supplies	56,000	54,730	46,281	8,449
Other services and charges	19,000	29,970	25,067	4,903
Capital outlay	-	36,851	27,420	9,431
Total Facility Maintenance	<u>245,324</u>	<u>299,158</u>	<u>272,677</u>	<u>26,481</u>
TOTAL COMMUNITY SERVICES	<u>1,854,059</u>	<u>1,880,027</u>	<u>1,665,171</u>	<u>214,856</u>
ADMINISTRATIVE SERVICES:				
Planning & Community Development:				
Personal services	258,387	275,422	261,425	13,997
Materials and supplies	6,148	3,231	3,191	40
Other services and charges	91,596	74,896	18,991	55,905
Capital outlay	1,200	1,500	1,500	-
Total Planning & Community Development	<u>357,331</u>	<u>355,049</u>	<u>285,107</u>	<u>69,942</u>
Human Resources/Risk Management:				
Personal services	108,103	111,537	109,987	1,550
Materials and supplies	16,250	17,700	16,841	859
Other services and charges	14,500	13,050	9,607	3,443
Total Human Resources/Risk Management	<u>138,853</u>	<u>142,287</u>	<u>136,435</u>	<u>5,852</u>
TOTAL ADMINISTRATIVE SERVICES	<u>496,184</u>	<u>497,336</u>	<u>421,542</u>	<u>75,794</u>
PUBLIC WORKS:				
Fleet Maintenance:				
Personal services	193,720	199,639	169,747	29,892
Materials and supplies	492,250	474,050	416,103	57,947
Other services and charges	750	750	52	698
Total Fleet Maintenance	<u>686,720</u>	<u>674,439</u>	<u>585,902</u>	<u>88,537</u>
Traffic Control:				
Personal services	172,972	193,607	191,932	1,675
Materials and supplies	43,750	37,256	22,036	15,220
Other services and charges	500	500	-	500
Total Traffic Control	<u>217,222</u>	<u>231,363</u>	<u>213,968</u>	<u>17,395</u>
Streets:				
Personal services	624,548	599,504	553,291	46,213
Materials and supplies	208,750	228,723	205,080	23,643
Other services and charges	1,500	850	449	401
Capital outlay	-	62,772	58,775	3,997
Debt service	12,367	12,367	12,329	38
Total Streets	<u>847,165</u>	<u>904,216</u>	<u>829,924</u>	<u>74,292</u>
TOTAL PUBLIC WORKS	<u>1,751,107</u>	<u>1,810,018</u>	<u>1,629,794</u>	<u>180,224</u>
OTHER FINANCING USES:				
Transfers to other funds	552,062	2,895,611	2,886,238	9,373
Total Charges to Appropriations	<u>14,371,553</u>	<u>16,421,700</u>	<u>15,409,233</u>	<u>1,012,467</u>
Ending Budgetary Fund Balance	<u>\$196,897</u>	<u>\$440,200</u>	<u>\$853,814</u>	<u>413,614</u>

**CITY OF MCALESTER, OKLAHOMA
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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	\$284,321	\$384,321	\$393,205	\$8,884
Resources (Inflows):				
Investment income	5,000	5,000	5,033	33
Transfer in	-	975,545	2,500,507	1,524,962
Amounts available for appropriation	<u>289,321</u>	<u>1,364,866</u>	<u>2,898,745</u>	<u>1,533,879</u>
Charges to appropriations (outflows):				
Capital outlay	-	1,279,879	203,557	1,076,322
Transfer out	-	90,630	90,630	-
Total Charges to Appropriations	<u>-</u>	<u>1,370,509</u>	<u>294,187</u>	<u>1,076,322</u>
Ending Budgetary Fund Balance	<u>\$289,321</u>	<u>(\$5,643)</u>	<u>\$2,604,558</u>	<u>\$2,610,201</u>

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$1,760,531	\$1,727,289	\$1,916,441	\$189,152
Resources (Inflows):				
Taxes	4,386,500	4,386,500	3,677,093	(709,407)
Investment income	13,000	13,000	31,041	18,041
Amounts available for appropriation	<u>6,160,031</u>	<u>6,126,789</u>	<u>5,624,575</u>	<u>(502,214)</u>
Charges to appropriations (outflows):				
Administration	2,223,000	4,500	4,500	-
Transfers out	3,226,250	3,322,640	3,322,630	10
Total Charges to Appropriations	<u>5,449,250</u>	<u>3,327,140</u>	<u>3,327,130</u>	<u>10</u>
Ending Budgetary Fund Balance	<u>\$710,781</u>	<u>\$2,799,649</u>	<u>\$2,297,445</u>	<u>(\$502,204)</u>

SPECIAL REVENUE - RESERVE FUND (Budgetary Basis)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$3,375,281	\$3,375,281	\$3,457,438	\$82,157
Resources (Inflows):				
Investment income	20,000	20,000	48,271	28,271
Miscellaneous	5,541	5,541	3,694	(1,847)
Transfers in	200,000	200,000	25,073	(174,927)
Amounts available for appropriation	<u>3,600,822</u>	<u>3,600,822</u>	<u>3,534,476</u>	<u>(66,346)</u>
Charges to appropriations (outflows):				
Transfers out	-	-	-	-
Total Charges to Appropriations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending Budgetary Fund Balance	<u>\$3,600,822</u>	<u>\$3,600,822</u>	<u>\$3,534,476</u>	<u>(\$66,346)</u>

See accompanying notes to budgetary comparison schedules

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Footnotes to Budgetary Comparison Schedules:

1. The City prepares its budgets for all funds on the cash basis of accounting for all revenues except for those that are billed by the City (i.e., misc receivables and utility receivables). The modified accrual basis of accounting is used for budgeting of expenditures with the exception of the net effect of certain year-end payroll accruals and outstanding encumbrances related to capital items. The City utilizes encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation. Encumbrances outstanding and their related appropriations, other than those outstanding items related to capital, are lapsed at year end and are re-appropriated and re-encumbered in the subsequent fiscal year.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require the approval of the City Manager, subject to a dollar limitation of \$25,000. All transfers of appropriation above this limitation and all supplemental appropriations require the approval of the City Council. Supplemental appropriations must be filed with the Office of the State Auditor and Inspector.
3. The budgetary basis differs from the modified accrual basis as shown in the schedule below:

	<u>General Fund</u>
Sources/Inflows of resources	
Actual amounts (budgetary basis) “available appropriation” from the budgetary comparison schedule	\$16,263,047
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.	(802,152)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(3,887,946)
The City reports on-behalf payments made by state in the General Fund in the fund financial statements, but are not budgeted.	675,512
The City budgets for revenues on the modified cash basis of accounting, rather than on the modified accrual basis.	<u>162,491</u>
 Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	 <u><u>\$12,410,952</u></u>

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Uses/Outflows of resources

Actual amounts (budgetary basis) “total charges to appropriations” from the budgetary comparison schedule	\$15,409,233
Differences – budget to GAAP:	
The City budgets for encumbrances outstanding at year end related to capital items.	(21,800)
The City budgets for payroll and miscellaneous accrued liabilities on the modified cash basis, rather than on the modified accrual basis.	(80,725)
The City reports on-behalf payments made by state in the General Fund in the fund financials statements, but are not budgeted.	675,512
The City reports capital outlay purchased directly by financial lending Institutions in the fund financial statements, but are not budgeted	444,741
Transfers to other funds and component units are outflows of budgetary resources but are not expenditures for financial reporting purposes.	<u>(2,886,238)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$13,540,723</u>

**Capital
Improvement
Plan Fund**

Sources/Inflows of resources

Actual amounts (budgetary basis) “available appropriation” from the budgetary comparison schedule	\$2,898,745
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.	(393,205)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	<u>(2,500,507)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$ 5,033</u>

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Uses/Outflows of resources

Actual amounts (budgetary basis) “total charges to appropriations” from the budgetary comparison schedule	\$294,187
Differences – budget to GAAP:	
The City budgets for encumbrances outstanding at year end related to capital items.	(85,367)
Transfers to other funds and component units are outflows of budgetary resources but are not expenditures for financial reporting purposes.	<u>(90,630)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$118,190</u>

**Dedicated
Sales Tax
Fund**

Sources/Inflows of resources

Actual amounts (budgetary basis) “available appropriation” from the budgetary comparison schedule	\$5,624,575
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.	(1,916,441)
The City budgets for revenues on the modified cash basis of accounting, rather than on the modified accrual basis.	<u>43,019</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$3,751,153</u>

Uses/Outflows of resources

Actual amounts (budgetary basis) “total charges to appropriations” from the budgetary comparison schedule	\$3,327,130
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>(3,322,630)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$ 4,500</u>

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Sources/Inflows of resources	<u>Reserve Fund</u>
Actual amounts (budgetary basis) “available appropriation” from the budgetary comparison schedule	\$3,534,476
Differences – budget to GAAP: Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(25,073)
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>(3,457,438)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$51,965</u>

4. For the year ended June 30, 2010, the City complied, in all material respects, with the applicable budget laws.

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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%
7/1/2010	9,990,470	14,807,371	4,816,901	67.5%	4,274,311	112.7%

Trend Schedule of Employer Contributions

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

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SUPPLEMENTARY INFORMATION

**CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010**

Combining Balance Sheet, Nonmajor Governmental Funds – June 30, 2010

	SPECIAL REVENUE FUNDS				
	NUTRITION FUND	FIRE IMPROVEMENT GRANT FUND	JUVENILE FINE FUND	POLICE EQUIPMENT FUND	POLICE REVOLVING EVIDENCE FUND
<u>ASSETS</u>					
Cash and cash equivalents	\$5,443	-	\$13,821	-	\$38,800
Investments	-	-	-	-	-
Receivables:					
Accrued interest receivable	-	-	-	-	-
Due from other funds	-	-	-	-	-
Due from other governments	-	-	-	\$39,654	-
Notes receivable	-	-	-	-	-
Other receivable	-	-	-	-	-
 Total Assets	<u>\$5,443</u>	<u>-</u>	<u>\$13,821</u>	<u>\$39,654</u>	<u>\$38,800</u>
<u>LIABILITIES</u>					
Accounts payable and accrued liabilities	\$521	-	-	\$939	-
Accrued payroll liabilities	8,396	-	\$389	-	-
Due to other funds	-	-	-	38,715	-
Deferred revenue	-	-	-	24,245	-
 Total Liabilities	<u>8,917</u>	<u>-</u>	<u>389</u>	<u>63,899</u>	<u>-</u>
<u>FUND BALANCES</u>					
Unreserved, reported in:					
Special revenue funds	<u>(3,474)</u>	<u>-</u>	<u>13,432</u>	<u>(24,245)</u>	<u>\$38,800</u>
 Total fund balances	<u>(3,474)</u>	<u>-</u>	<u>13,432</u>	<u>(24,245)</u>	<u>38,800</u>
 Total Liabilities and Fund Balances	<u>\$5,443</u>	<u>-</u>	<u>\$13,821</u>	<u>\$39,654</u>	<u>\$38,800</u>

(Continued)

CITY OF MCALESTER, OKLAHOMA
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As of and for the Year Ended June 30, 2010

Combining Balance Sheet, Nonmajor Governmental Funds – June 30, 2010, 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	\$516,901	\$740,601	\$189,916	\$96,386	\$762,263
Investments	-	-	194,000	-	-
Receivables:					
Accrued interest receivable	-	-	451	-	-
Due from other funds	-	-	1,598	-	-
Due from other governments	41,808	-	-	-	131,151
Notes receivable	-	-	-	-	-
Other receivable	-	63,073	-	-	-
Total Assets	<u>\$558,709</u>	<u>\$803,674</u>	<u>\$385,965</u>	<u>\$96,386</u>	<u>\$893,414</u>
<u>LIABILITIES</u>					
Accounts payable and accrued liabilities	\$28,058	\$109,148	-	-	\$100,675
Accrued payroll liabilities	10,125	9,979	-	-	-
Due to other funds	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Total Liabilities	<u>38,183</u>	<u>119,127</u>	<u>-</u>	<u>-</u>	<u>100,675</u>
<u>FUND BALANCES</u>					
Unreserved, reported in:					
Special revenue funds	<u>520,526</u>	<u>684,547</u>	<u>\$385,965</u>	<u>\$96,386</u>	<u>792,739</u>
Total fund balances	<u>520,526</u>	<u>684,547</u>	<u>385,965</u>	<u>96,386</u>	<u>792,739</u>
Total Liabilities and Fund Balances	<u>\$558,709</u>	<u>\$803,674</u>	<u>\$385,965</u>	<u>\$96,386</u>	<u>\$893,414</u>

(Continued)

CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

Combining Balance Sheet, Nonmajor Governmental Funds – June 30, 2010, Continued

	<u>SPECIAL REVENUE FUNDS</u>			<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
	<u>ECONOMIC DEVELOPMENT FUND</u>	<u>FEDERAL FORFEITURE FUND</u>	<u>GIFTS & CONTRIBUTIONS FUND</u>	
<u>ASSETS</u>				
Cash and cash equivalents	\$824,208	\$8,093	\$30,796	\$3,227,228
Investments	529,545	-	-	723,545
Receivables:				
Accrued interest receivable	-	-	-	451
Due from other funds	-	-	-	1,598
Due from other governments	131,151	-	-	343,764
Notes receivable	1,060,500	-	-	1,060,500
Other receivable	-	-	-	63,073
 Total Assets	<u>\$2,545,404</u>	<u>\$8,093</u>	<u>\$30,796</u>	<u>\$5,420,159</u>
<u>LIABILITIES</u>				
Accounts payable and accrued liabilities	\$1,369	-	\$244	\$240,954
Accrued payroll liabilities	-	-	-	28,889
Due to other funds	-	-	-	38,715
Deferred revenue	-	-	-	24,245
 Total Liabilities	<u>1,369</u>	<u>-</u>	<u>244</u>	<u>332,803</u>
<u>FUND BALANCES</u>				
Unreserved, reported in:				
Special revenue funds	<u>2,544,035</u>	<u>\$8,093</u>	<u>30,552</u>	<u>5,087,356</u>
 Total fund balances	<u>2,544,035</u>	<u>8,093</u>	<u>30,552</u>	<u>5,087,356</u>
 Total Liabilities and Fund Balances	<u>\$2,545,404</u>	<u>\$8,093</u>	<u>\$30,796</u>	<u>\$5,420,159</u>

**CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010**

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

	SPECIAL REVENUE FUNDS				
	NUTRITION FUND	FIRE IMPROVEMENT GRANT FUND	JUVENILE FINE FUND	POLICE EQUIPMENT FUND	POLICE REVOLVING EVIDENCE FUND
Revenues:					
Taxes	-	-	-	-	-
Intergovernmental	\$47,297	\$22,000	-	\$15,408	-
Charges for services	-	-	\$20,010	-	-
Investment income	-	-	-	-	\$553
Miscellaneous	102	-	-	-	-
Total Revenues	47,399	22,000	20,010	15,408	553
Expenditures:					
Current:					
Administration	-	-	-	-	-
Public safety	-	-	4,326	-	3,571
Community services	-	-	-	-	-
Health and welfare	227,694	-	-	-	-
Administrative services	-	-	-	-	-
Economic development	-	-	-	-	-
Capital outlay	14,229	22,172	-	40,043	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total Expenditures	241,923	22,172	4,326	40,043	3,571
Excess (deficiency) of revenues over expenditures	(194,524)	(172)	15,684	(24,635)	(3,018)
Other Financing Sources (Uses):					
Transfers in	191,050	172	-	390	-
Transfers out	-	-	(50,000)	-	-
Total Other Financing Sources (Uses)	191,050	172	(50,000)	390	-
Net change in fund balances	(3,474)	-	(34,316)	(24,245)	(3,018)
Fund balances (deficits) - beginning	-	-	47,748	-	41,818
Fund balances - ending	(\$3,474)	-	\$13,432	(\$24,245)	\$38,800

(Continued)

**CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010**

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Nonmajor
Governmental Funds – Year Ended June 30, 2010 (Continued)**

	SPECIAL REVENUE FUNDS				
	HOTEL/MOTEL TAX FUND	E-911 FUND	CEMETERY PERPETUAL CARE FUND	CDBG GRANTS FUND	SALES TAX - SCHOOLS FUND
Revenues:					
Taxes	\$426,662	\$653,841	-	-	\$930,030
Intergovernmental	-	-	-	-	-
Charges for services	156,365	-	\$2,309	-	-
Investment income	-	-	9,022	-	8,597
Miscellaneous	-	225	-	-	-
Total Revenues	583,027	654,066	11,331	-	938,627
Expenditures:					
Current:					
Administration	-	-	-	-	-
Public safety	-	448,529	-	-	-
Community services	-	-	4,159	-	179,495
Health and welfare	-	-	-	-	-
Administrative services	464,605	-	-	-	-
Economic development	-	-	-	-	-
Capital outlay	39,845	321,962	-	-	-
Debt service:					
Principal retirement	82,926	-	-	-	-
Interest and fiscal charges	10,893	-	-	-	-
Total Expenditures	598,269	770,491	4,159	-	179,495
Excess (deficiency) of revenues over expenditures	(15,242)	(116,425)	7,172	-	759,132
Other Financing Sources (Uses):					
Transfers in	-	-	4,994	\$90,630	-
Transfers out	-	-	-	-	(644,187)
Total Other Financing Sources (Uses)	-	-	4,994	90,630	(644,187)
Net change in fund balances	(15,242)	(116,425)	12,166	90,630	114,945
Fund balances (deficits) - beginning	535,768	800,972	373,799	5,756	677,794
Fund balances - ending	<u>\$520,526</u>	<u>\$684,547</u>	<u>\$385,965</u>	<u>\$96,386</u>	<u>\$792,739</u>

(Continued)

CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Nonmajor Governmental Funds – Year Ended June 30, 2010 (Continued)

	SPECIAL REVENUE FUNDS			TOTAL NONMAJOR GOVERNMENTAL FUNDS
	ECONOMIC DEVELOPMENT FUND	FEDERAL FORFEITURE FUND	GIFTS & CONTRIBUTIONS FUND	
Revenues:				
Taxes	\$930,030	-	-	\$2,940,563
Intergovernmental	-	\$7,447	-	92,152
Charges for services	-	-	-	178,684
Investment income	18,099	117	-	36,388
Miscellaneous	9,629	-	\$63,091	73,047
Total Revenues	957,758	7,564	63,091	3,320,834
Expenditures:				
Current:				
Administration	-	-	13,280	13,280
Public safety	-	7,511	-	463,937
Community services	-	-	-	183,654
Health and welfare	-	-	-	227,694
Administrative services	-	-	-	464,605
Economic development	287,955	-	-	287,955
Capital outlay	393,261	-	108,455	939,967
Debt service:				
Principal retirement	-	-	-	82,926
Interest and fiscal charges	-	-	-	10,893
Total Expenditures	681,216	7,511	121,735	2,674,911
Excess (deficiency) of revenues over expenditures	276,542	53	(58,644)	645,923
Other Financing Sources (Uses):				
Transfers in	414,790	-	89,196	791,222
Transfers out	(898,219)	-	-	(1,592,406)
Total Other Financing Sources (Uses)	(483,429)	-	89,196	(801,184)
Net change in fund balances	(206,887)	53	30,552	(155,261)
Fund balances (deficits) - beginning	2,750,922	8,040	-	5,242,617
Fund balances - ending	\$2,544,035	\$8,093	\$30,552	\$5,087,356

CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

Combining Schedule of Net Assets, MPWA Accounts – June 30, 2010

	Enterprise Fund - MPWA			Total
	McAlester Public Works Authority	Landfill Reserve Account	Bond Trustee Account	
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$103,131	\$198,334	-	\$301,465
Restricted cash and cash equivalents	1,293,907	-	\$3,615,814	4,909,721
Restricted interest receivable	-	-	39	39
Accounts receivable, net of allowance	1,339,223	50,971	-	1,390,194
Due from other governments	4,722	-	-	4,722
Total current assets	2,740,983	249,305	3,615,853	6,606,141
Noncurrent Assets:				
Restricted Assets:				
Cash and cash equivalents	-	-	1,559,735	1,559,735
Investment in joint venture	1,603,798	-	-	1,603,798
Capital assets:				
Land and other non-depreciable assets	933,598	-	-	933,598
Other capital assets, net of depreciation	19,909,367	-	-	19,909,367
Unamortized bond issuance costs	1,934,207	-	-	1,934,207
Total noncurrent assets	24,380,970	-	1,559,735	25,940,705
Total Assets	27,121,953	249,305	5,175,588	32,546,846
LIABILITIES:				
Current Liabilities:				
Accounts payable	192,795	270,673	-	463,468
Accrued payroll liabilities	116,896	-	-	116,896
Escrow deposit liability	908,473	-	-	908,473
Interest payable	1,333,642	-	-	1,333,642
Deferred revenue	104,543	-	-	104,543
Landfill closure and postclosure liability	254,115	-	-	254,115
Due to depositors	77,087	-	-	77,087
Settlement obligation	125,001	-	-	125,001
Notes payable	167,224	-	-	167,224
Water rights contract obligation	24,640	-	-	24,640
Revenue bonds payable, net	2,395,000	-	-	2,395,000
Accrued compensated absences	28,230	-	-	28,230
Total current liabilities	5,727,646	270,673	-	5,998,319
Noncurrent Liabilities:				
Claims liability	226,281	-	-	226,281
Landfill closure and post-closure liability	2,035,056	-	-	2,035,056
Due to depositors	308,347	-	-	308,347
Net pension benefit obligation	105,663	-	-	105,663
Notes payable	683,710	-	-	683,710
Water rights contract obligation	252,885	-	-	252,885
Revenue bonds payable, net	56,880,170	-	-	56,880,170
Accrued compensated absences	254,074	-	-	254,074
Total noncurrent liabilities	60,746,186	-	-	60,746,186
Total liabilities	66,473,832	270,673	-	66,744,505
NET ASSETS:				
Invested in capital assets, net of related debt	19,714,506	-	-	19,714,506
Restricted for debt service	(1,333,642)	-	4,365,648	3,032,006
Restricted for street improvements	-	-	140,921	140,921
Restricted for economic development	-	-	669,019	669,019
Unrestricted	(57,732,743)	(21,368)	-	(57,754,111)
Total net assets	(\$39,351,879)	(\$21,368)	\$5,175,588	(\$34,197,659)

CITY OF MCALESTER, OKLAHOMA
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As of and for the Year Ended June 30, 2010

Combining Schedule of Revenues, Expenses, and Changes in Net Assets, MPWA Accounts – Year Ended June 30, 2010

	Enterprise Fund - MPWA			Total
	McAlester Public Works Authority	Landfill Reserve Account	Bond Trustee Account	
Operating Revenues:				
Charges for services:				
Water	\$3,210,167	-	-	\$3,210,167
Sewer	1,399,380	-	-	1,399,380
Sanitation	2,456,775	-	-	2,456,775
Water taps	20,275	-	-	20,275
Sewer taps	12,531	-	-	12,531
Water districts	667,030	-	-	667,030
Service charges	121,586	-	-	121,586
Landfill	159,172	-	-	159,172
Penalties	171,026	\$6,076	-	177,102
Use fee	21,380	-	-	21,380
Raw water sales	24,962	-	-	24,962
Subtitle "D" fees	-	319,661	-	319,661
Total operating revenues	8,264,284	325,737	-	8,590,021
Operating Expenses:				
Utility office	356,816	-	-	356,816
Interdepartmental	958,977	-	-	958,977
Sanitation	599,481	-	-	599,481
Engineering	341,602	-	-	341,602
Sewer	660,093	-	-	660,093
Water	806,799	-	-	806,799
Utility maintenance	549,976	-	-	549,976
Fleet maintenance	637,007	-	-	637,007
Landfill	563,914	173,708	-	737,622
Utilities Administration	139,968	-	-	139,968
Depreciation expense	1,011,575	-	-	1,011,575
Amortization expense	109,041	-	-	109,041
Total operating expenses	6,735,249	173,708	-	6,908,957
Operating income (loss)	1,529,035	152,029	-	1,681,064
Non-Operating Revenues (Expenses):				
Investment income	1,000	-	\$1,185	2,185
Interest expense and fiscal charges	(3,563,943)	-	-	(3,563,943)
Grant revenue - operating	22,493	-	-	22,493
Miscellaneous revenue	32,761	-	-	32,761
Gain on joint venture	133,904	-	-	133,904
Total non-operating revenues (expenses)	(3,373,785)	-	1,185	(3,372,600)
Net income (loss) before contributions and transfers	(1,844,750)	152,029	1,185	(1,691,536)
Contributed capital revenue	61,005	-	-	61,005
Interaccount transfers	5,045,729	(233,577)	(4,812,152)	-
Transfers in	3,390	-	4,425,030	4,428,420
Transfer out	(3,866,718)	-	-	(3,866,718)
Change in net assets	(601,344)	(81,548)	(385,937)	(1,068,829)
Total net assets - beginning, restated	(38,750,535)	60,180	5,561,525	(33,128,830)
Total net assets - ending	(\$39,351,879)	(\$21,368)	\$5,175,588	(\$34,197,659)

CITY OF MCALESTER, OKLAHOMA
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As of and for the Year Ended June 30, 2010

Combining Schedule of Net Assets, MAA Accounts – June 30, 2010

	McAlester Airport Authority			Total
	McAlester Airport Authority	Airport Grant Account	Airport Hangar Account	
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$50,146	\$1,963	\$36,760	\$88,869
Accounts receivable, net of allowance	8,408	-	-	8,408
Total current assets	<u>58,554</u>	<u>1,963</u>	<u>36,760</u>	<u>97,277</u>
Noncurrent Assets:				
Capital assets:				
Land and other non-depreciable assets	42,364	-	-	42,364
Other capital assets, net of depreciation	3,137,344	-	-	3,137,344
Total noncurrent assets	<u>3,179,708</u>	<u>-</u>	<u>-</u>	<u>3,179,708</u>
Total Assets	<u>3,238,262</u>	<u>1,963</u>	<u>36,760</u>	<u>3,276,985</u>
LIABILITIES:				
Current Liabilities:				
Accounts payable	1,228	-	-	1,228
Accrued payroll liabilities	4,885	-	-	4,885
Interest payable	674	-	-	674
Notes payable	15,514	-	-	15,514
Accrued compensated absences	2,394	-	-	2,394
Total current liabilities	<u>24,695</u>	<u>-</u>	<u>-</u>	<u>24,695</u>
Noncurrent Liabilities:				
Net pension benefit obligation	3,683	-	-	3,683
Notes payable	335,126	-	-	335,126
Accrued compensated absences	21,542	-	-	21,542
Total noncurrent liabilities	<u>360,351</u>	<u>-</u>	<u>-</u>	<u>360,351</u>
Total liabilities	<u>385,046</u>	<u>-</u>	<u>-</u>	<u>385,046</u>
NET ASSETS:				
Invested in capital assets, net of related debt	2,829,068	-	-	2,829,068
Unrestricted	24,148	1,963	36,760	62,871
Total net assets	<u>\$2,853,216</u>	<u>\$1,963</u>	<u>\$36,760</u>	<u>\$2,891,939</u>

**CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010**

Combining Schedule of Revenues, Expenses, and Changes in Net Assets, MAA Accounts – Year Ended June 30, 2010

	McAlester Airport Authority			Total
	McAlester Airport Authority	Airport Grant Account	Airport Hangar Account	
Operating Revenues:				
Rents and fees	\$110,415	-	-	\$110,415
Total operating revenues	<u>110,415</u>	<u>-</u>	<u>-</u>	<u>110,415</u>
Operating Expenses:				
Airport	187,647	-	-	187,647
Depreciation expense	149,650	-	-	149,650
Total operating expenses	<u>337,297</u>	<u>-</u>	<u>-</u>	<u>337,297</u>
Net income (loss) before contributions and transfers	(226,882)	-	-	(226,882)
Interest expense	(15,968)	-	-	(15,968)
Miscellaneous	2,645	-	-	2,645
Transfers in	125,454	-	-	125,454
Change in net assets	(114,751)	-	-	(114,751)
Total net assets - beginning	2,967,967	\$1,963	\$36,760	3,006,690
Total net assets - ending	<u>\$2,853,216</u>	<u>\$1,963</u>	<u>\$36,760</u>	<u>\$2,891,939</u>

**CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010**

Schedule of Expenditures of Federal Awards – Year Ended June 30, 2010

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 Office of Justice Programs:	16.607	N/A	\$13,250	\$390
2009 Recovery Act Justice Assistance Grant (ARRA)	16.804	2009-SB-B9-2947	40,595	39,263
Total U.S. Department of Justice			53,845	39,653
<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	47,297	47,297
Total U.S. Department of Health and Human Services			47,297	47,297
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>				
Passed through Oklahoma Highway Safety Office: State and Community Highway Safety	20.600	PT-09-03-36-01	30,000	8,430
State and Community Highway Safety	20.600	PT-10-03-23-02	30,000	22,239
Total U.S. Department of Transportation			60,000	30,669
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>				
Passed through Oklahoma Office of Homeland Security: Disaster Grant - Public Assistance (Flooding)	97.036	FEMA-1678-DR-OK	29,990	22,493
Total U.S. Department of Homeland Security			29,990	22,493
TOTAL FEDERAL AWARDS			\$191,132	\$140,112

Notes to Schedule of Expenditures of Federal Awards

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

**CITY OF MCALESTER, OKLAHOMA
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Schedule of Revenue Bond Coverage – Year Ended June 30, 2010

	<u>Series 1999, 2002 Bonds & 1999 Loan</u>
Gross Revenue Available for Debt Service:	
Charges for services	\$8,590,021
Sales tax pledged and transferred	<u>2,907,840</u>
Total Gross Revenues Available	<u>11,497,861</u>
Operating Expenses:	
Water, Sewer and Sanitation	<u>5,788,341</u>
Total Operating Expenses	<u>5,788,341</u>
Net Revenues Available for Debt Service	<u><u>\$5,709,520</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
1999 CDBG Loan	<u>13,750</u>
Total average annual debt service	<u><u>\$3,968,564</u></u>
Computed Coverage	<u><u>144%</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, 2010**

INTERNAL CONTROL AND COMPLIANCE INFORMATION

**CITY OF MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010**

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RAHHAL HENDERSON JOHNSON, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

**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, 2010, which collectively comprise City of McAlester, Oklahoma's basic financial statements and have issued our report thereon dated August 9, 2011. 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, Oklahoma'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, Oklahoma'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, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of McAlester, Oklahoma'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 was not designed to identify all deficiencies in internal

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control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in 2010-1 and 2010-2 described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of McAlester, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and responses as item 2010-1 through 2010-2.

The City of McAlester, Oklahoma'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, Oklahoma'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 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.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
July 21, 2011

City of McAlester, Oklahoma
Schedule of Findings and Responses
June 30, 2010

2010-1 Expenditures

Condition – Three of twenty-five expenditures tested for compliance found the invoice dates preceded the purchase order date.

Criteria – Oklahoma Statutes Title 62, Section 310-1 through 310.9 and the city purchasing ordinance requires approval of purchases prior to obtaining goods or services.

Effect – Noncompliance with procedures and Oklahoma law.

Cause - Procedures not followed when obtaining goods or services.

Recommendation – We recommend purchase orders be obtained prior to obtaining goods or services.

Views of responsible officials – The City has notified all staff involved in purchasing that there has been an issue with discrepancy on the dates of the invoices being prior to the date of the purchase order. Some have been notified that purchase orders must be obtained prior to the actual purchase. Occasionally emergency expenditures must be made prior to the issuance of a purchase order, and staff if including information regarding said emergencies with the subsequent requisitions. Along with this same issue, the City Management is in the process of amending their “Administrative Policy No. 1 & No. 2” and will bring these requested changes to the City Council for their approval.

2010-2 Deficit Fund Balances

Condition – Two non-major funds had deficit fund balances at year end.

Criteria –Oklahoma statutes Title 11, Section 17-211 prohibits deficit fund balances.

Effect – Noncompliance with Oklahoma law.

Cause – Year end accruals changed fund balance resulting in deficit.

Recommendation – We recommend funds be monitored and allowances for accruals made to prevent deficits from occurring.

Views of responsible officials - The City has adjusted year end practices to insure that the negative fund balances will no longer take place. The two funds included are the Nutrition Fund, and due to accruals of expenditures in the current year audited, this caused a deficit fund balance of \$3,474. Grant revenue for the Nutrition fund was also less than expected. Now the Nutrition Fund has a small working fund balance.

With the implementation of the new Governmental Auditing Standard named GASB 54 which takes effect with the City’s 2010-2011 fiscal year, the Nutrition Fund will be combined with the General Fund for the major reporting segments. GASB 54 contains changes to fund balance

City of McAlester, Oklahoma
Schedule of Findings and Responses
June 30, 2010

classifications for governmental funds as well as definitions for each of the governmental fund types.

The Police Equipment Fund also had a deficit fund balance due to the City not receiving the required Grant revenue within the qualified time frame. Staff had been reporting grant revenue on two different federal web-sites and did not realize that an additional agency needed to be utilized to request the draw-down. All funds have since been received.