

**THE CITY OF MCALESTER, OKLAHOMA**

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

**AS OF AND FOR THE FISCAL YEAR ENDED  
JUNE 30, 2012**

**CITY OF MCALESTER, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2012**

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**CITY OF MCALESTER, OKLAHOMA**

**LIST OF PRINCIPAL OFFICIALS**

**JUNE 30, 2012**

**City Council**

Steve Harrison, Mayor  
Weldon Smith, Member Ward 1  
John Titsworth, Member Ward 2  
Travis Read, Member Ward 3  
Robert Karr, Member Ward 4  
Buddy Garvin, Member Ward 5  
Sam Mason, Vice-Mayor, Ward 6

**Administration**

Peter J. Stasiak	City Manager
Cora Middleton	City Clerk
Toni Ervin	Chief Financial Officer

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of McAlester, Oklahoma (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the McAlester Regional Health Center Authority (the "Authority"), which represents 99.9% of the total assets, net assets and revenues, respectively, of the aggregate discretely presented component units. Those financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Authority, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of McAlester, Oklahoma, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of McAlester, Oklahoma's financial statements as a whole. The supplementary information, including the schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, as shown in the table of contents are presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information as listed in the table of contents is the responsibility of management and was 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 supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
February 28, 2013

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, 2012. We encourage readers to use this information in conjunction with the City's financial statements, which follow this section.

### ***FINANCIAL HIGHLIGHTS***

- The City's overall financial position improved during the year ended June 30, 2012. Total net assets increased by \$2,234,736 and the City's total government-wide assets continued to exceed its total liabilities at June 30, 2012, by \$21,864,322 which represents its total government-wide net assets.
- The City's governmental activities experienced a decrease in net assets of \$939,965, while business-type activities experienced a current year increase in net assets of \$3,174,701. 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 \$21,864,322, there is a total of \$56,944,785 invested in capital assets, net of related debt and \$12,714,667 of net assets restricted for various purposes, thus leaving the City with a negative \$47,795,130 of unrestricted net assets, with \$51,414,376 of negative unrestricted net assets located in the City's business-type activities and a positive \$3,619,246 of unrestricted net assets in the City's governmental activities. The majority of this negative balance is the result of the McAlester Public Works Authority (MPWA) issuing revenue bonded indebtedness related to activities and capital improvements on behalf of the City's governmental activities including street and drainage improvements. A smaller portion is the result of the MPWA issuing revenue bonded indebtedness for the benefit of entities not included within the City's primary government, primarily school system improvements and economic development activities. The net result of these debt issues by the MPWA for capital items on behalf of others causes the debt to be shown by the MPWA in the business-type activity column. Capital assets for the City that were purchased by these debt issues are found in the governmental activities column, and in the case of the school system improvements and economic development, they are not shown at all in these financial statements, but rather in each of those entities separate financial statements. Most of this debt is expected to be retired from future dedicated sales tax collections. The result of reporting the long-term debt without corresponding capital assets is to report a large negative amount of unrestricted net assets.
  - At June 30, 2012, the City's governmental funds reported combined ending fund balances of \$17,427,790. That net amount is the result of \$12,528,800 in restricted fund balance, \$3,026,575 of assigned fund balance, and \$1,872,415 in unassigned fund balance.

## ***OVERVIEW OF THE FINANCIAL STATEMENTS***

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

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

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

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

### **Reporting the City as a Whole**

#### ***The Statement of Net Assets and Statement of Activities***

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

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

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

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

## **Reporting the City's Most Significant Funds**

### ***Fund Financial Statements***

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

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

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

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

**A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

For the year ended June 30, 2012, net assets for the governmental activities and business-type activities increased \$2,234,736. The results indicate the City, as a whole, improved its financial condition from the prior year.

**The City of McAlester’s Change in Net Assets**

	Governmental Activities	Business-type Activities	Total
Beginning net assets	\$ 49,520,871	\$ (29,891,285)	\$ 19,629,586
Increase in net assets	(939,965)	3,174,701	2,234,736
<b>Ending net assets</b>	<b>\$ 48,580,906</b>	<b>\$ (26,716,584)</b>	<b>\$ 21,864,322</b>

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	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	\$ 19,841,759	\$ 19,899,374	\$ 10,097,830	\$ 11,586,587	\$ 29,939,589	\$ 31,485,961
Capital assets	32,714,977	33,615,497	25,550,077	23,408,132	58,265,054	57,023,629
<b>Total assets</b>	52,556,736	53,514,871	35,647,907	34,994,719	88,204,643	88,509,590
Liabilities:						
Long-term liabilities	3,160,252	2,905,022	60,121,684	62,488,799	63,281,936	65,393,821
Other liabilities	815,578	1,088,978	2,242,807	2,397,205	3,058,385	3,486,183
<b>Total liabilities</b>	3,975,830	3,994,000	62,364,491	64,886,004	66,340,321	68,880,004
Net assets:						
Invested in capital assets	32,432,860	33,224,076	24,511,925	22,155,024	56,944,785	55,379,100
Restricted	12,528,800	15,583,329	185,867	669,133	12,714,667	16,252,462
Unrestricted	3,619,246	713,466	(51,414,376)	(52,715,442)	(47,795,130)	(52,001,976)
<b>Total net assets</b>	<b>\$ 48,580,906</b>	<b>\$ 49,520,871</b>	<b>\$ (26,716,584)</b>	<b>\$ (29,891,285)</b>	<b>\$ 21,864,322</b>	<b>\$ 19,629,586</b>

The significant decrease in governmental activity restricted net assets and increase in unrestricted net assets are primarily the result of the Capital Improvement Plan Fund starting the year with restricted net assets of \$3,344,679 and ending the year with assigned net assets of \$2,106,826. The change was due to the City expending all monies set aside by City Council for repayment of unsupported bond activity. The City transferred excess monies in the current year to this fund to be spent on capital projects not related to the unsupported bond activity. The General Fund still owes \$800,000 to the Capital Improvement Fund related to economic development activities of unsupported bond activity.

**MANAGEMENT'S DISCUSSION & ANALYSIS  
CITY OF MCALESTER, OKLAHOMA  
JUNE 30, 2012**

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, \$12.7 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 \$48 million. The majority of this negative balance is the result of the McAlester Public Works Authority (MPWA) issuing revenue bonded indebtedness related to activities and capital improvements on behalf of the City's governmental activities including street and drainage improvements. A smaller portion is the result of the MPWA issuing revenue bonded indebtedness for the benefit of entities not included within the City's primary government, primarily school system improvements and economic development activities. Most of this debt is expected to be retired from future dedicated sales tax collections. However, the result of reporting the long-term debt without corresponding capital assets is to report a large negative amount of unrestricted net assets.

**The City of McAlester's Statement of Activities**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues:</b>						
Program revenues:						
Charges for Services	\$ 2,846,516	\$ 2,696,929	\$ 10,316,966	\$ 9,692,631	\$ 13,163,482	\$ 12,389,560
Grants & Contributions	1,130,423	1,029,048	1,874	5,624	1,132,297	1,034,672
Capital Grants & Contributions	143,137	429,725	364,662	22,231	507,799	451,956
General Revenues:						
Sales & Use Tax	15,256,164	14,342,476	-	-	15,256,164	14,342,476
Other Taxes	1,783,761	1,873,286	-	-	1,783,761	1,873,286
Other General Revenues	669,863	672,268	37,512	37,615	707,375	709,883
<b>Total Revenues</b>	<b>21,829,864</b>	<b>21,043,732</b>	<b>10,721,014</b>	<b>9,758,101</b>	<b>32,550,878</b>	<b>30,801,833</b>
<b>Program Expenses:</b>						
Legislature	119,262	97,162	-	-	119,262	97,162
Administration	2,605,293	2,652,254	-	-	2,605,293	2,652,254
Public safety	8,346,194	8,001,693	-	-	8,346,194	8,001,693
Community services	2,965,005	2,190,693	-	-	2,965,005	2,190,693
Administration services	1,057,394	1,073,608	-	-	1,057,394	1,073,608
Health and welfare	290,065	285,502	-	-	290,065	285,502
Public works	2,635,362	2,616,066	-	-	2,635,362	2,616,066
Economic development	257,449	250,974	-	-	257,449	250,974
Interest on long-term debt	16,019	23,099	-	-	16,019	23,099
Water	-	-	2,826,263	2,586,210	2,826,263	2,586,210
Sewer	-	-	1,574,716	1,501,178	1,574,716	1,501,178
Sanitation	-	-	4,132,892	3,727,028	4,132,892	3,727,028
Airport	-	-	336,310	335,902	336,310	335,902
Governmental interest & amortization expense	-	-	3,153,918	3,550,238	3,153,918	3,550,238
<b>Total Expenses</b>	<b>18,292,043</b>	<b>17,191,051</b>	<b>12,024,099</b>	<b>11,700,556</b>	<b>30,316,142</b>	<b>28,891,607</b>
Excess/(Deficiency)	3,537,821	3,852,681	(1,303,085)	(1,942,455)	2,234,736	1,910,226
Net Transfers	(4,477,786)	(3,356,890)	4,477,786	3,356,890	-	-
<b>Increase/(Decrease) Net Assets</b>	<b>\$ (939,965)</b>	<b>\$ 495,791</b>	<b>\$ 3,174,701</b>	<b>\$ 1,414,435</b>	<b>\$ 2,234,736</b>	<b>\$ 1,910,226</b>

For the year ended June 30, 2012, on a government-wide basis, the City experienced an improvement in its financial condition resulting in an increase in total net assets of \$2,234,736. The increase in net assets can be attributable to an increase in sales tax and utility revenues in the current year.

The City's governmental activities decrease in net assets of \$939,965 in 2012 represents a significant change from the increase in net assets experienced in the prior year. This year's decrease in the change in net assets from the prior year change can be attributable to an increase in expenses in the current year of approximately \$1.1 million and an increase in net transfers of approximately \$1.1 million related to the purchase of capital assets from governmental funds for business-type activities.

The business-type activities current year increase in net assets of \$3,174,701 is also due to the purchase of capital assets from governmental funds for business-type activities.

In reviewing the activity net (expense)/revenue, all business-type functions, with the exception of sanitation, (water, sewer and airport) charges for services more than covered all related expenses. Sanitation services were outsourced in the prior year accounting for the exception noted above. Governmental interest and amortization expense on business-type reported debt of \$3.2 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 2012 fiscal year, the governmental funds reported a combined fund balance of \$17,427,790. However, that net amount is the result of \$12,528,800 in restricted fund balance, \$3,026,575 of assigned fund balance, and \$1,872,415 in unassigned fund balance.

For the reasons discussed previously in regards to business-type activities, the enterprise funds reported combined net assets of a negative \$26.7 million.

Proprietary fund net asset restrictions are listed below:

**Enterprise Funds:**

Restricted For Economic Development	\$ 185,867
Total Enterprise Fund Restrictions	<u>\$ 185,867</u>

The General Fund's total fund balance increased by \$720,712, or 59.4% in large part due to an increase in current year sales tax, a decrease in expenses, and offset by a decrease in net transfers.

The McAlester Public Works Authority enterprise fund reported an increase in net assets, after transfers and capital contributions of \$2,973,665 for the year. This change is due mainly to an increase in capital contributions from governmental activities.

**General Fund Budgetary Highlights**

For the year ended June 30, 2012, the General Fund reported actual budgetary basis revenues above final estimates by \$1,293,349 or an 8.3% positive variance. General Fund actual expenditures were under final appropriations by \$682,136 or a 4.4% positive variance.

***CAPITAL ASSETS & DEBT ADMINISTRATION***

**Capital Assets**

At June 30, 2012, the City had approximately \$58.3 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 increase of \$1,241,425 from last year.

Below are details regarding the City's capital assets for the years ended June 30, 2012 and 2011.<sup>1</sup>

**The City of McAlester's Capital Assets**

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 675,209	\$ 675,209	\$ 212,571	\$ 212,571	\$ 887,780	\$ 887,780
Buildings and Improvements	7,243,526	7,133,654	5,923,049	5,888,361	13,166,575	13,022,015
Machinery and Equipment	10,589,103	9,290,915	3,476,918	2,913,532	14,066,021	12,204,447
Infrastructure	62,830,794	62,070,765	-	-	62,830,794	62,070,765
Utility Property	-	-	41,627,606	39,758,148	41,627,606	39,758,148
Water rights contracts	-	-	719,075	719,075	719,075	719,075
Construction-in-progress	60,525	735,669	987,740	78,497	1,048,265	814,166
Totals	81,399,157	79,906,212	52,946,959	49,570,184	134,346,116	129,476,396
Less Depreciation	(48,684,180)	(46,290,715)	(27,396,882)	(26,162,052)	(76,081,062)	(72,452,767)
<b>Totals, Net</b>	<b>\$ 32,714,977</b>	<b>\$ 33,615,497</b>	<b>\$ 25,550,077</b>	<b>\$ 23,408,132</b>	<b>\$ 58,265,054</b>	<b>\$ 57,023,629</b>

This year's more significant capital asset additions include \$348,853 for Water Tower Project, \$432,624 for WTB Filter Clearwell Improvements, \$141,519 for a 12" Water Main Project, \$238,777 for 2009 CDBG Water & Sewer Improvements, \$371,095 for a Utility Extension Project, \$910,733 for Highway 69 Utility Relocate, \$291,172 for Airport Runway Improvements, \$573,880 for Elks Road Project, \$130,698 for a 2012 Ford Ambulance, \$313,629 for a 3100 XL Gradall, \$129,985 for a portable Asphalt Zipper, and \$312,500 for a 2013 Jet Vacuum Sewer Cleaner.

<sup>1</sup> For more detailed information on capital asset activity please refer to page 48-49, Note 5. Capital Assets and Depreciation

<sup>2</sup> For more detailed information on long-term debt activity please refer to page 50-57, Note 7. Long-Term Debt and Debt Service Requirements

**Debt Administration**

At year-end, the City had \$64.2 million in long-term debt outstanding, which represents a \$1,861,529 decrease from the prior year.<sup>2</sup>

**The City of McAlester's Long-term Debt**

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Capital leases payable	\$ 282,117	\$ 391,421	\$ -	\$ -	\$ 282,117	\$ 391,421
Claims liability	409,499	319,759	-	-	409,499	319,759
Accrued compensation	2,119,295	1,837,385	300,264	292,099	2,419,559	2,129,484
Notes Payable	-	-	810,602	1,000,251	810,602	1,000,251
Revenue Bonds Payable	-	-	55,895,942	58,586,519	55,895,942	58,586,519
Landfill Closure and Post-Closure	-	-	3,312,793	2,550,000	3,312,793	2,550,000
Net pension benefit obligation	349,341	356,457	103,878	106,844	453,219	463,301
Water contract obligations	-	-	227,550	252,857	227,550	252,857
Deposits subject to refund	-	-	429,429	408,647	429,429	408,647
<b>Totals</b>	<b>\$ 3,160,252</b>	<b>\$ 2,905,022</b>	<b>\$ 61,080,458</b>	<b>\$ 63,197,217</b>	<b>\$ 64,240,710</b>	<b>\$ 66,102,239</b>

The MPWA issued \$5,490,000 of Series 2011 Taxable Sales Tax Revenue Refunding Bonds in the current year to refund the 2003B and 2004 Series Revenue Bonds.

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

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

***ECONOMIC OUTLOOK***

Despite the seemingly volatile National economy, the City of McAlester's economic outlook remains cautiously optimistic. Our local economy, based on our revenue performance in fiscal year 2011-2012, has demonstrated stability and steady growth. Our Sales tax revenues out performed expectations and our Oil/Gas revenues were over budget. The hotel/motel tax revenue increased 10% from the previous year. Therefore, the overall local economy reflected both resiliency and growth and was not negatively affected by national economic conditions as of June 30, 2012.

The City's took a measured fiscal approach to the local economy. First, the accomplishment and pursuit of refinancing our existing bonds to a lower interest rate establishes a long term strategy to improve the City's financial position for the future. Second, the City maintains this long term strategy by continuing to prioritize Capital. Using budget revenues, the City was able to fund much needed capital projects and equipment. Third, the City is constantly seeking cost savings and more efficient use of ongoing expenditures. Our fiscal strategic plan will continue to focus on seeking efficiencies that will result in improved financial health for the generations to come.

## **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 1<sup>st</sup> 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, 2012**

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**BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE**

**CITY OF MCALESTER, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Year Ended June 30, 2012**

**Government-Wide Statement of Net Assets– June 30, 2012**

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 13,770,297	\$ 5,490,135	\$ 19,260,432	\$ 11,202,913
Investments	1,721,416	-	1,721,416	3,181,157
Interest receivable	-	13	13	-
Accounts receivable, net of allowance	-	1,333,407	1,333,407	13,819,495
Franchise tax receivable	60,858	-	60,858	-
Ambulance receivable, net of allowance	79,276	-	79,276	-
Court fines receivable, net of allowance	1,074,557	-	1,074,557	-
Due from other governments	2,027,919	39,399	2,067,318	-
Prepaid expenses	11,445	-	11,445	1,231,334
Other receivables	74,341	-	74,341	1,035,000
Internal balances	203,655	(203,655)	-	-
Inventory	-	-	-	2,358,206
Investment in joint venture	-	1,775,410	1,775,410	3,874,987
Restitution receivable:				
Due within one year	5,937	-	5,937	-
Due in more than one year	85,014	-	85,014	-
Notes receivable:				
Due within one year	174,000	-	174,000	27,525
Due in more than one year	553,044	-	553,044	253,165
Capital assets:				
Land and other non-depreciable assets	735,734	1,919,386	2,655,120	1,361,562
Other capital assets, net of depreciation	31,979,243	23,630,691	55,609,934	22,439,863
Unamortized bond issuance costs	-	1,663,121	1,663,121	-
<b>Total assets</b>	<b>52,556,736</b>	<b>35,647,907</b>	<b>88,204,643</b>	<b>60,785,207</b>
<b>LIABILITIES:</b>				
Accounts payable	442,018	437,877	879,895	3,056,388
Accrued payroll liabilities	353,769	46,156	399,925	3,455,044
Accrued interest payable	244	1,149,038	1,149,282	-
Escrow deposit liabilities	4,132	510,449	514,581	-
Deferred revenue	15,415	99,287	114,702	-
Long-term liabilities:				
Due within one year	326,375	3,697,080	4,023,455	1,108,928
Due in more than one year	2,833,877	56,424,604	59,258,481	1,472,131
<b>Total liabilities</b>	<b>3,975,830</b>	<b>62,364,491</b>	<b>66,340,321</b>	<b>9,092,491</b>
<b>NET ASSETS:</b>				
Invested in capital assets, net of related debt	32,432,860	24,511,925	56,944,785	21,204,246
Restricted	12,528,800	185,867	12,714,667	720,426
Unrestricted	3,619,246	(51,414,376)	(47,795,130)	29,768,044
<b>Total net assets</b>	<b>\$ 48,580,906</b>	<b>\$ (26,716,584)</b>	<b>\$ 21,864,322</b>	<b>\$ 51,692,716</b>

See accompanying notes to the basic financial statements.

**Government-Wide Statement of Activities –Year Ended June 30, 2012**

**CITY OF MCALESTER, OKLAHOMA  
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Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
<b>Primary Government:</b>								
Governmental activities:								
Legislature	\$ 119,262	\$ -	\$ -	\$ -	\$ (119,262)	\$ -	\$ (119,262)	\$ -
Administration	2,605,293	1,130,512	100,430	-	(1,374,351)	-	(1,374,351)	-
Public safety	8,346,194	1,305,145	806,373	123,162	(6,111,514)	-	(6,111,514)	-
Community services	2,965,005	121,072	-	19,975	(2,823,958)	-	(2,823,958)	-
Administration services	1,057,394	285,993	-	-	(771,401)	-	(771,401)	-
Health and welfare	290,065	-	63,786	-	(226,279)	-	(226,279)	-
Public works	2,635,362	3,794	159,834	-	(2,471,734)	-	(2,471,734)	-
Economic development	257,449	-	-	-	(257,449)	-	(257,449)	-
Interest on long-term debt	16,019	-	-	-	(16,019)	-	(16,019)	-
<b>Total governmental activities</b>	<b>18,292,043</b>	<b>2,846,516</b>	<b>1,130,423</b>	<b>143,137</b>	<b>(14,171,967)</b>	<b>-</b>	<b>(14,171,967)</b>	<b>-</b>
Business-type activities:								
Water	2,826,263	5,171,920	1,874	45,315	-	2,392,846	2,392,846	-
Sewer	1,574,716	1,748,119	-	45,315	-	218,718	218,718	-
Sanitation	4,132,892	3,285,025	-	-	-	(847,867)	(847,867)	-
Airport	336,310	111,902	-	274,032	-	49,624	49,624	-
Governmental interest & amort expense	3,153,918	-	-	-	-	(3,153,918)	(3,153,918)	-
<b>Total business-type activities</b>	<b>12,024,099</b>	<b>10,316,966</b>	<b>1,874</b>	<b>364,662</b>	<b>-</b>	<b>(1,340,597)</b>	<b>(1,340,597)</b>	<b>-</b>
<b>Total primary government</b>	<b>\$30,316,142</b>	<b>\$13,163,482</b>	<b>\$1,132,297</b>	<b>\$507,799</b>	<b>(14,171,967)</b>	<b>(1,340,597)</b>	<b>(15,512,564)</b>	<b>-</b>
<b>Component Units:</b>								
Parking	\$ 1,423	\$ 9,679	\$ -	\$ -				8,256
Health and welfare	76,444,848	82,354,743	-	9,004				5,918,899
<b>Total Component Units</b>	<b>\$ 76,446,271</b>	<b>\$82,364,422</b>	<b>\$ -</b>	<b>\$ 9,004</b>				<b>5,927,155</b>
General revenues:								
Taxes:								
Sales and use taxes					15,256,164	-	15,256,164	-
Franchise and public service taxes					584,264	-	584,264	-
Hotel/motel taxes					549,088	-	549,088	-
E-911 taxes					650,409	-	650,409	-
Intergovernmental revenue not restricted to specific programs					332,365	-	332,365	-
Investment income					139,075	11,717	150,792	179,410
Miscellaneous					198,423	25,795	224,218	-
Transfers - Internal activity					(4,477,786)	4,477,786	-	-
<b>Total general revenues and transfers</b>					<b>13,232,002</b>	<b>4,515,298</b>	<b>17,747,300</b>	<b>179,410</b>
Change in net assets					(939,965)	3,174,701	2,234,736	6,106,565
Net assets - beginning					49,520,871	(29,891,285)	19,629,586	45,586,151
Net assets - ending					<b>\$ 48,580,906</b>	<b>\$ (26,716,584)</b>	<b>#####</b>	<b>\$ 51,692,716</b>

See accompanying notes to the basic financial statements.

**CITY OF MCALESTER, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2012**

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**BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS**

**CITY OF MCALESTER, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Year Ended June 30, 2012**

**Governmental Funds Balance Sheet - June 30, 2012**

	<u>General Fund</u>	<u>Special Revenue Reserve Fund</u>	<u>Capital Project Capital Improvement Plan Fund</u>	<u>Debt Service Dedicated Sales Tax - MPWA</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>						
Cash and cash equivalents	\$ 2,150,775	\$ 2,744,376	\$ 1,067,765	\$ 3,770,586	\$ 4,017,914	\$ 13,751,416
Investments	-	862,661	319,592	-	539,163	1,721,416
Receivables:						
Due from other funds	2,256	-	800,000	-	25,000	827,256
Due from other governments	1,184,570	-	-	531,916	311,433	2,027,919
Franchise tax receivable	60,858	-	-	-	-	60,858
Court fines receivable, net of allowance	1,074,557	-	-	-	-	1,074,557
Ambulance receivable, net of allowance	79,276	-	-	-	-	79,276
Prepaid expenses	11,445	-	-	-	-	11,445
Notes receivable	-	-	-	-	727,044	727,044
Other receivables	13,432	-	-	-	60,909	74,341
Total assets	<u>\$ 4,577,169</u>	<u>\$ 3,607,037</u>	<u>\$ 2,187,357</u>	<u>\$ 4,302,502</u>	<u>\$ 5,681,463</u>	<u>\$ 20,355,528</u>
<b>LIABILITIES AND FUND BALANCES:</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 177,742	\$ -	\$ 80,531	\$ -	\$ 164,148	\$ 422,421
Accrued payroll liabilities	336,040	-	-	-	12,402	348,442
Due to other funds	1,042,545	-	-	-	27,256	1,069,801
Amounts held in escrow	4,132	-	-	-	-	4,132
Deferred revenue	1,082,942	-	-	-	-	1,082,942
Total liabilities	<u>2,643,401</u>	<u>-</u>	<u>80,531</u>	<u>-</u>	<u>203,806</u>	<u>2,927,738</u>
<b>Fund Balances:</b>						
Restricted	-	3,607,037	-	4,302,363	4,619,400	12,528,800
Assigned	61,353	-	2,106,826	139	858,257	3,026,575
Unassigned	1,872,415	-	-	-	-	1,872,415
Total fund balances	<u>1,933,768</u>	<u>3,607,037</u>	<u>2,106,826</u>	<u>4,302,502</u>	<u>5,477,657</u>	<u>17,427,790</u>
Total liabilities and fund balances	<u>\$ 4,577,169</u>	<u>\$ 3,607,037</u>	<u>\$ 2,187,357</u>	<u>\$ 4,302,502</u>	<u>\$ 5,681,463</u>	<u>\$ 20,355,528</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, 2012**

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

	<u>General Fund</u>	<u>Special Revenue Reserve Fund</u>	<u>Capital Project Capital Improvement Plan Fund</u>	<u>Debt Service Dedicated Sales Tax - MPWA</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>						
Taxes	\$ 9,559,668	\$ -	\$ -	\$ 4,187,172	\$ 3,293,085	\$ 17,039,925
Intergovernmental	1,559,506	-	-	-	117,074	1,676,580
Charges for services	1,947,362	-	-	-	203,416	2,150,778
Fines and forfeitures	634,183	-	-	-	-	634,183
Licenses and permits	92,307	-	-	-	-	92,307
Investment income	46,163	29,576	1,598	30,109	31,629	139,075
Miscellaneous	257,327	-	-	-	15,600	272,927
<b>Total Revenues</b>	<b>14,096,516</b>	<b>29,576</b>	<b>1,598</b>	<b>4,217,281</b>	<b>3,660,804</b>	<b>22,005,775</b>
<b>Expenditures:</b>						
Current:						
Legislature	118,071	-	-	-	-	118,071
Administration	2,359,521	-	-	3,000	16,146	2,378,667
Public safety	7,168,673	-	-	-	429,495	7,598,168
Community services	1,984,767	-	-	-	702,942	2,687,709
Administration services	505,034	-	-	-	536,259	1,041,293
Health and welfare	293,906	-	-	-	-	293,906
Public works	1,136,893	-	-	-	-	1,136,893
Economic development	-	-	-	-	257,449	257,449
Capital outlay	210,600	-	3,203,780	-	1,075,411	4,489,791
Debt service:						
Principal retirement	74,926	-	34,378	-	-	109,304
Interest and fiscal charges	9,958	-	6,168	-	-	16,126
<b>Total Expenditures</b>	<b>13,862,349</b>	<b>-</b>	<b>3,244,326</b>	<b>3,000</b>	<b>3,017,702</b>	<b>20,127,377</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>234,167</b>	<b>29,576</b>	<b>(3,242,728)</b>	<b>4,214,281</b>	<b>643,102</b>	<b>1,878,398</b>
<b>Other Financing Sources (Uses):</b>						
Transfers in	2,349,668	-	2,113,093	-	663,059	5,125,820
Transfers out	(1,863,123)	-	(108,218)	(3,368,108)	(1,506,551)	(6,846,000)
<b>Total Other Financing Sources (Uses)</b>	<b>486,545</b>	<b>-</b>	<b>2,004,875</b>	<b>(3,368,108)</b>	<b>(843,492)</b>	<b>(1,720,180)</b>
<b>Net change in fund balances</b>	<b>720,712</b>	<b>29,576</b>	<b>(1,237,853)</b>	<b>846,173</b>	<b>(200,390)</b>	<b>158,218</b>
<b>Fund balances - beginning</b>	<b>1,213,056</b>	<b>3,577,461</b>	<b>3,344,679</b>	<b>3,456,329</b>	<b>5,678,047</b>	<b>17,269,572</b>
<b>Fund balances - ending</b>	<b>\$ 1,933,768</b>	<b>\$ 3,607,037</b>	<b>\$ 2,106,826</b>	<b>\$ 4,302,502</b>	<b>\$ 5,477,657</b>	<b>\$ 17,427,790</b>

See accompanying notes to the basic financial statements.

**CITY OF MCALESTER, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
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**Reconciliation of Governmental Funds and Government-Wide Financial Statements:**

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

<b>Total fund balances - governmental funds</b>	\$	17,427,790
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 \$48,684,180		32,714,977
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 \$1,313,348		1,016,536
Ambulance receivable, net of allowance for doubtful accounts of \$996,930		50,991
		1,067,527
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		90,951
		90,951
Certain long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:		
Accrued interest payable		(244)
Capital lease obligations payable		(282,117)
Accrued compensated absences		(2,088,637)
Net pension benefit obligation		(349,341)
		(2,720,339)
<b>Net assets of governmental activities</b>	<b>\$</b>	<b>48,580,906</b>

See accompanying notes to the basic financial statements.

**CITY OF MCALESTER, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
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**Reconciliation of the Statement of Changes in Fund Balances of Governmental Funds to the Statement of Activities:**

<b>Net change in fund balances - total governmental funds</b>	\$	158,218
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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:</p>		
Capital asset purchases capitalized		1,510,742
Capital assets contributed		4,375
Book value on capital assets disposed		(11,086)
Depreciation expense		(2,404,551)
		(900,520)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:</p>		
Restitution revenue		(5,937)
Deferred revenue		(30,752)
		(36,689)
<p>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:</p>		
Capital lease obligation principal payments		109,304
		109,304
<p>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:</p>		
Accrued interest expense		107
Accrued compensated absences expenses		(277,248)
Accrued net pension benefit obligation		6,863
		(270,278)
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>(939,965)</b>

See accompanying notes to the basic financial statements.

**CITY OF MCALESTER, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
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**BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS**

**CITY OF MCALESTER, OKLAHOMA**  
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**Proprietary Funds Statement of Net Assets - June 30, 2012**

	Enterprise Funds			Internal Service Funds
	McAlester Public Works Authority	McAlester Airport Authority	Total	
<b>ASSETS:</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 1,446,982	\$ 126,098	\$ 1,573,080	\$ 18,881
Restricted cash and cash equivalents	3,267,957	-	3,267,957	-
Restricted interest receivable	13	-	13	-
Due from other funds	-	-	-	446,200
Accounts receivable, net of allowance	1,319,930	13,477	1,333,407	-
Due from other governments	-	39,399	39,399	-
<b>Total current assets</b>	<u>6,034,882</u>	<u>178,974</u>	<u>6,213,856</u>	<u>465,081</u>
<b>Noncurrent Assets:</b>				
Restricted Assets:				
Cash and cash equivalents	649,098	-	649,098	-
Investment in joint venture	1,775,410	-	1,775,410	-
Capital assets:				
Land and other non-depreciable assets	1,585,850	333,536	1,919,386	-
Other capital assets, net of depreciation	20,750,072	2,880,619	23,630,691	-
Unamortized bond issuance costs	1,663,121	-	1,663,121	-
<b>Total noncurrent assets</b>	<u>26,423,551</u>	<u>3,214,155</u>	<u>29,637,706</u>	<u>-</u>
<b>Total Assets</b>	<u>32,458,433</u>	<u>3,393,129</u>	<u>35,851,562</u>	<u>465,081</u>
<b>LIABILITIES:</b>				
<b>Current Liabilities:</b>				
Accounts payable	410,210	27,667	437,877	19,597
Accrued payroll liabilities	43,852	2,304	46,156	5,327
Due to other funds	203,655	-	203,655	-
Escrow deposit liability	510,449	-	510,449	-
Interest payable	1,148,515	523	1,149,038	-
Deferred revenue	99,287	-	99,287	-
Landfill closure and postclosure liability	331,279	-	331,279	-
Due to depositors	85,886	-	85,886	-
Notes payable	162,160	16,779	178,939	-
Water rights contract obligation	25,949	-	25,949	-
Revenue bonds payable	3,045,000	-	3,045,000	-
Accrued compensated absences	27,255	2,772	30,027	3,066
<b>Total current liabilities</b>	<u>6,093,497</u>	<u>50,045</u>	<u>6,143,542</u>	<u>27,990</u>
<b>Noncurrent Liabilities:</b>				
Claims liability	-	-	-	409,499
Landfill closure and post-closure liability	2,981,514	-	2,981,514	-
Due to depositors	343,543	-	343,543	-
Net pension benefit obligation	100,468	3,410	103,878	-
Notes payable	327,802	303,861	631,663	-
Water rights contract obligation	201,601	-	201,601	-
Revenue bonds payable, net	51,892,168	-	51,892,168	-
Accrued compensated absences	245,291	24,946	270,237	27,592
<b>Total noncurrent liabilities</b>	<u>56,092,387</u>	<u>332,217</u>	<u>56,424,604</u>	<u>437,091</u>
<b>Total liabilities</b>	<u>62,185,884</u>	<u>382,262</u>	<u>62,568,146</u>	<u>465,081</u>
<b>NET ASSETS:</b>				
Invested in capital assets, net of related debt	21,618,410	2,893,515	24,511,925	-
Restricted for economic development	185,867	-	185,867	-
Unrestricted (deficit)	(51,531,728)	117,352	(51,414,376)	-
<b>Total net assets (deficit)</b>	<u>\$ (29,727,451)</u>	<u>\$3,010,867</u>	<u>\$(26,716,584)</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

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**Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Assets - Year Ended June 30, 2012**

	Enterprise Funds			Internal Service Funds
	McAlester Public Works Authority	McAlester Airport Authority	Total	
<b>Operating Revenues:</b>				
Charges for services:				
Water	\$ 3,813,669	\$ -	\$ 3,813,669	\$ -
Sewer	1,677,088	-	1,677,088	-
Sanitation	2,645,867	-	2,645,867	-
Water taps	11,980	-	11,980	-
Sewer taps	7,400	-	7,400	-
Water districts	1,201,565	-	1,201,565	-
Service charges	92,465	-	92,465	-
Landfill	8,106	-	8,106	-
Roll-off garbage	182,221	-	182,221	-
Penalties	182,536	-	182,536	-
Recycle fees	33,737	-	33,737	-
Subtitle "D" fees	348,430	-	348,430	-
Airport rents and fees	-	111,902	111,902	-
Self insurance charges	-	-	-	1,206,073
Miscellaneous	-	-	-	2,924
<b>Total operating revenues</b>	<u>10,205,064</u>	<u>111,902</u>	<u>10,316,966</u>	<u>1,208,997</u>
<b>Operating Expenses:</b>				
Utility office	503,173	-	503,173	-
Interdepartmental	673,453	-	673,453	-
Sanitation	2,000,632	-	2,000,632	-
Engineering	379,847	-	379,847	-
Sewer	774,113	-	774,113	-
Water	997,613	-	997,613	-
Utility maintenance	989,164	-	989,164	-
Landfill	1,064,362	-	1,064,362	-
Utilities Administration	151,218	-	151,218	-
Airport	-	179,481	179,481	-
Fleet maintenance	-	-	-	733,436
Claims expense	-	-	-	475,561
Depreciation expense	1,091,879	142,951	1,234,830	-
Amortization expense	105,672	-	105,672	-
<b>Total operating expenses</b>	<u>8,731,126</u>	<u>322,432</u>	<u>9,053,558</u>	<u>1,208,997</u>
<b>Operating income (loss)</b>	1,473,938	(210,530)	1,263,408	-
<b>Non-Operating Revenues (Expenses):</b>				
Investment income	11,717	-	11,717	-
Interest expense and fiscal charges	(3,073,014)	(13,878)	(3,086,892)	-
Grant revenue - operating	1,874	-	1,874	-
Miscellaneous revenue	23,486	2,309	25,795	-
Gain on joint venture	116,351	-	116,351	-
<b>Total non-operating revenues (expenses)</b>	<u>(2,919,586)</u>	<u>(11,569)</u>	<u>(2,931,155)</u>	<u>-</u>
<b>Net income (loss) before contributions and transfers</b>	(1,445,648)	(222,099)	(1,667,747)	-
Capital contributions	2,848,236	274,032	3,122,268	-
Transfers in	4,874,659	149,103	5,023,762	-
Transfer out	(3,303,582)	-	(3,303,582)	-
<b>Change in net assets</b>	2,973,665	201,036	3,174,701	-
<b>Total net assets (deficit) - beginning</b>	(32,701,116)	2,809,831	(29,891,285)	-
<b>Total net assets (deficit) - ending</b>	<u>\$ (29,727,451)</u>	<u>\$ 3,010,867</u>	<u>\$ (26,716,584)</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

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**Proprietary Funds Statement of Cash Flows - Year Ended June 30, 2012**

	<b>Enterprise Funds</b>			<b>Internal Service Funds</b>
	<b>McAlester Public Works Authority</b>	<b>McAlester Airport Authority</b>	<b>Total</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 10,252,274	\$ 112,776	\$10,365,050	\$ -
Payments to suppliers	(4,202,928)	(17,355)	(4,220,283)	(767,260)
Payments to employees	(2,716,621)	(137,888)	(2,854,509)	(345,694)
Receipts of customer meter deposits	118,182	-	118,182	-
Refund of customer meter deposits	(97,400)	-	(97,400)	-
Other receipts (payments)	186,256	2,309	188,565	1,121,567
Net Cash Provided by (Used in) Operating Activities	<u>3,539,763</u>	<u>(40,158)</u>	<u>3,499,605</u>	<u>8,613</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers from other funds	4,874,659	149,103	5,023,762	-
Transfers to other funds	(3,303,582)	-	(3,303,582)	-
Net Cash Provided by Noncapital Financing Activities	<u>1,571,077</u>	<u>149,103</u>	<u>1,720,180</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchases of capital assets	(237,367)	(291,172)	(528,539)	-
Proceeds from capital grant	-	234,633	234,633	-
Proceeds from sale of capital assets	-	-	-	-
Proceeds from issuance of debt	5,490,000	25	5,490,025	-
Payment of bond issuance costs	(63,900)	-	(63,900)	-
Payment to escrow for refunding of debt	(6,598,092)	-	(6,598,092)	-
Principal payment of capital debt	(3,005,270)	(14,711)	(3,019,981)	-
Interest and fiscal charges paid on capital debt	(2,155,149)	(13,949)	(2,169,098)	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(6,569,778)</u>	<u>(85,174)</u>	<u>(6,654,952)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and dividends	11,729	-	11,729	-
Net Cash Provided by Investing Activities	<u>11,729</u>	<u>-</u>	<u>11,729</u>	<u>-</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(1,447,209)</b>	<b>23,771</b>	<b>(1,423,438)</b>	<b>8,613</b>
<b>Balances - beginning of the year</b>	<b>6,811,246</b>	<b>102,327</b>	<b>6,913,573</b>	<b>10,268</b>
<b>Balances - end of the year</b>	<b><u>\$ 5,364,037</u></b>	<b><u>\$ 126,098</u></b>	<b><u>\$ 5,490,135</u></b>	<b><u>\$ 18,881</u></b>

See accompanying notes to the basic financial statements.

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**Proprietary Funds Statement of Cash Flows - Year Ended June 30, 2012, (Continued)**

**Reconciliation of operating income (loss) to net cash provided  
by (used in) operating activities:**

Operating income (loss)	\$ 1,473,938	\$ (210,530)	\$ 1,263,408	\$ -
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	1,091,879	142,951	1,234,830	-
Amortization expense	105,672	-	105,672	-
Operating grant	1,874	-	1,874	-
Other non-operating revenues (expenses)	139,837	2,309	142,146	-
Change in assets and liabilities:				
Receivables, net	46,057	874	46,931	-
Due from other funds	-	-	-	(87,430)
Due from other governments	10,345	-	10,345	-
Investment in joint venture	(129,475)	-	(129,475)	-
Accounts payable	54,735	25,893	80,628	9,329
Accrued payroll liabilities	(76,874)	(4,007)	(80,881)	(7,435)
Due to other funds	34,200	-	34,200	-
Escrow deposit liability	535	-	535	-
Claims liability	-	-	-	89,740
Deferred revenue	618	-	618	-
Due to depositors	20,782	-	20,782	-
Landfill closure liability	762,793	-	762,793	-
Pension benefit obligation	(2,818)	(148)	(2,966)	(253)
Accrued compensated absences	5,665	2,500	8,165	4,662
Net Cash Provided by (Used in) Operating Activities	<u>\$ 3,539,763</u>	<u>\$ (40,158)</u>	<u>\$ 3,499,605</u>	<u>\$ 8,613</u>
<b>Noncash capital and related financing activities:</b>				
Capital assets contributed from governmental funds	<u>\$ 2,848,236</u>	<u>\$ -</u>	<u>\$ 2,848,236</u>	<u>\$ -</u>
Accretion of capital appreciation bonds	<u>\$ (999,423)</u>	<u>\$ -</u>	<u>\$ (999,423)</u>	<u>\$ -</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, 2012**

	<b>Defined Benefit Retirement Plan and Trust Fund</b>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 840,931
Investments:	
Corporate bonds	1,040,227
Mortgage and asset backed securities	229,235
Government bonds	1,090,348
Mutual funds	568,038
Preferred stocks	90,092
Common stocks	6,489,652
Interest receivable	14,158
 Total assets	 10,362,681
<b>LIABILITIES:</b>	
Accounts payable	684
<b>NET ASSETS:</b>	
Held in trust for employee pension benefits	\$ 10,361,997

**Statement of Changes in Fiduciary Net Assets – Pension Trust Fund - Year Ended June 30, 2012**

	<b>Defined Benefit Retirement Plan and Trust Fund</b>
<b>ADDITIONS:</b>	
Contribution from employer	\$ 920,142
Reimbursement from pension trust	672,205
 Total additions	 1,592,347
<b>DEDUCTIONS:</b>	
Benefits paid to participants or beneficiaries	716,338
Administrative expenses	20,193
Realized and unrealized loss on investments	910,172
 Total deductions	 1,646,703
 Change in net assets held in trust for employees' pension benefits	 (54,356)
Net assets - beginning	10,416,353
Net assets - ending	\$ 10,361,997

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, 2012**

	Component Units		
	Public Trusts		
	McAlester Regional Health Center Authority	McAlester Parking Authority	Total Component Units
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 11,160,734	\$ 42,179	\$ 11,202,913
Investments	3,181,157	-	3,181,157
Accounts receivable, net	13,819,255	240	13,819,495
Other receivables	1,035,000	-	1,035,000
Inventory	2,358,206	-	2,358,206
Investment in joint venture	3,874,987	-	3,874,987
Prepaid expenses	1,231,334	-	1,231,334
Notes receivable:			
Due within one year	27,525	-	27,525
Due in more than one year	253,165	-	253,165
Capital assets:			
Land and construction in progress	1,361,562	-	1,361,562
Other capital assets, net of depreciation	22,439,863	-	22,439,863
Total assets	<u>60,742,788</u>	<u>42,419</u>	<u>60,785,207</u>
<b>LIABILITIES:</b>			
Current Liabilities:			
Accounts payable	3,056,279	109	3,056,388
Accrued payroll payable	3,455,044	-	3,455,044
Long-term liabilities:			
Due within one year	1,108,928	-	1,108,928
Due in more than one year	1,472,131	-	1,472,131
Total liabilities	<u>9,092,382</u>	<u>109</u>	<u>9,092,491</u>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	21,204,246	-	21,204,246
Restricted for capital acquisitions and debt service	118,744	-	118,744
Restricted for workers' compensation claims	576,682	-	576,682
Restricted for specific operating activities	25,000	-	25,000
Unrestricted	29,725,734	42,310	29,768,044
Total net assets	<u>\$ 51,650,406</u>	<u>\$ 42,310</u>	<u>\$ 51,692,716</u>

See accompanying notes to the basic financial statements.

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**Discretely Presented Component Units Combining Statement of Revenues, Expenses, and Changes in Net Assets - Year Ended June 30, 2012**

	<b>Component Units</b>		
	<b>Public Trusts</b>		
	<b>McAlester Regional Health Center Authority</b>	<b>McAlester Parking Authority</b>	<b>Total Component Units</b>
Operating Revenues:			
Charges for services	\$ -	\$ 9,679	\$ 9,679
Net patient service revenue	76,534,665	-	76,534,665
Miscellaneous	3,937,758	-	3,937,758
<b>Total Operating Revenues</b>	<b>80,472,423</b>	<b>9,679</b>	<b>80,482,102</b>
Operating Expenses:			
Parking	-	1,423	1,423
Health and welfare	76,221,016	-	76,221,016
<b>Total Operating Expenses</b>	<b>76,221,016</b>	<b>1,423</b>	<b>76,222,439</b>
<b>Net Operating Income (Loss)</b>	<b>4,251,407</b>	<b>8,256</b>	<b>4,259,663</b>
Non-Operating Revenues (Expenses):			
Investment income	179,410	-	179,410
Income from joint ventures	1,882,320	-	1,882,320
Interest expense and fiscal agent fees	(223,832)	-	(223,832)
<b>Net Non-Operating Revenues (Expenses)</b>	<b>1,837,898</b>	<b>-</b>	<b>1,837,898</b>
<b>Net Income (Loss) Before Transfers, Contributions and Extraordinary Items</b>	<b>6,089,305</b>	<b>8,256</b>	<b>6,097,561</b>
Gifts to Purchase Capital Assets and Other Capital Gifts	9,004	-	9,004
<b>Changes in net assets</b>	<b>6,098,309</b>	<b>8,256</b>	<b>6,106,565</b>
<b>Total net assets - beginning</b>	<b>45,552,097</b>	<b>34,054</b>	<b>45,586,151</b>
<b>Total net assets - ending</b>	<b>\$ 51,650,406</b>	<b>\$ 42,310</b>	<b>\$ 51,692,716</b>

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.

**Joint Venture:**

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

**B. Basis of Presentation and Accounting**

*Government-Wide Financial Statements:*

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

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

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

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

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

*Governmental Funds:*

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

**Major Funds:**

- General Fund – accounts for general operations of the City including: public safety, parks, public facilities, and street maintenance.
- Reserve Fund – special revenue fund that accounts for excess revenues mainly from oil and gas royalties restricted by City Charter for emergencies.
- Capital Improvement Plan Fund – capital project fund that accounts for monies set aside by City Council for repayment of unsupported bond activity.
- Dedicated Sales Tax MPWA – debt service fund that accounts for revenue received from sales tax (one-cent) approved by the voters to be used for financing debt related to capital improvements.

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

**Special Revenue Funds:**

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

**Capital Project Funds:**

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

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

**Debt Service Fund:**

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

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

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

*Proprietary Funds:*

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

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

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

The City's internal service funds include the following:

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

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

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

*Fiduciary Fund:*

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

**C. Cash, Cash Equivalents, and Investments**

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

**D. Inventories**

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

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

**E. Capital Assets and Depreciation**

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

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

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

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

#### **F. Long-Term Debt**

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

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

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

#### **G. Compensated Absences**

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

#### **H. Fund Balances and Net Assets**

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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.

*Fund Statements:*

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

- a. *Nonspendable* – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. *Restricted* – consists of fund balance with constraints place on the use of resources either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Committed* – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance. The City currently reports no committed fund balance.
- d. *Assigned* – includes amounts that are constrained by the city’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through the budgetary process.
- e. *Unassigned* – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

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

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

**I. Interfund Activities and Balances**

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

**J. Use of Estimates**

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

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**2. Deposits and Investments**

**Primary Government Deposits and Investments:**

At June 30, 2012, the primary government held the following deposits and investments:

<u>Type of Deposits and Investments - Primary Government</u>	<u>Carrying Value</u>	<u>Maturities in Years</u>				
		<u>On Demand</u>	<u>Less Than One</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
<b>Deposits:</b>						
Petty Cash	\$ 4,610	\$ 4,610	\$ -	\$ -	\$ -	\$ -
Demand deposits	16,278,645	16,278,645	-	-	-	-
Demand deposits - pension trust funds	(153,402)	(153,402)	-	-	-	-
Time deposits	1,721,416	-	1,721,416	-	-	-
	<u>17,851,269</u>	<u>16,129,853</u>	<u>1,721,416</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<b>Credit Rating</b>					
<b>Investments:</b>						
<b>Bond Trustee Accounts:</b>						
Federated Treasury Obligations Fund IS #68	AAAm	2,490,022	2,490,022	-	-	-
Federated Treasury Obligations Ser Class #398	AAAm	487,154	487,154	-	-	-
Morgan Stanley Cap Serv Inc - D.S. Fund Agree	AAA	1	1	-	-	-
<b>Pension Trust Funds:</b>						
Citibank NA South Dakota Bank Deposit Program	N/A	645,040	645,040	-	-	-
MS Liquid Asset Fund - Money Market	N/A	349,293	349,293	-	-	-
Fixed Income Shares FD Series C - Money Marke	N/A	173,499	173,499	-	-	-
Fixed Income Shares FD Series M - Money Marke	N/A	173,380	173,380	-	-	-
Invesco Premier Ptf Instl (IPXX) - Money Marke	N/A	112,507	112,507	-	-	-
Legg Mason WA Inst Liquid Res A -Money Marke	N/A	108,653	108,653	-	-	-
Corporate Bonds	AA-	35,199	-	-	17,834	17,365
Corporate Bonds	A+	66,425	-	-	-	31,730
Corporate Bonds	AA	56,933	-	-	-	56,933
Corporate Bonds	AA+	31,238	-	17,435	13,803	-
Corporate Bonds	A	48,046	-	-	15,513	17,336
Corporate Bonds	A-	116,020	-	-	63,315	52,705
Corporate Bonds	BBB+	72,522	-	13,289	22,255	-
Corporate Bonds	BBB	78,886	-	5,143	16,380	31,733
Corporate Bonds	BBB-	119,962	-	102,699	-	-
Corporate Bonds	BB	172,526	-	-	172,526	-
Corporate Bonds	BB+	101,000	-	101,000	-	-
Corporate Bonds	CCC+	42,375	-	-	-	42,375
Corporate Bonds	A-	99,095	-	-	-	99,095
Governmental Bonds	N/A	1,090,348	-	23,038	687,475	296,058
Mortgage and asset backed securities	N/A	229,234	-	-	31,174	-
Preferred Stocks	A-	16,982	16,982	-	-	-
Preferred Stocks	BB+	73,110	73,110	-	-	-
Common Stocks	N/A	6,489,652	6,489,652	-	-	-
		<u>13,479,102</u>	<u>11,119,293</u>	<u>262,604</u>	<u>1,040,275</u>	<u>546,022</u>
<b>Total Deposits and Investments</b>		<u>\$ 31,330,371</u>	<u>\$ 27,249,146</u>	<u>\$ 1,984,020</u>	<u>\$ 1,040,275</u>	<u>\$ 546,022</u>
<b>Reconciliation to Statement of Net Assets:</b>						
Cash and cash equivalents		\$ 19,260,432				
Investments		1,721,416				
Add: Fiduciary Fund cash and cash equivalents		840,931				
Add: Fiduciary Fund investments		9,507,592				
		<u>\$ 31,330,371</u>				

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**Deposit and Investment Risks**

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

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

At June 30, 2012, the City was not exposed to custodial credit risk as defined above.

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

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

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

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**Retirement Plan Investments:**

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

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

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

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

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

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

	Current Cash and cash Equivalents	Non-current Cash and cash Equivalents	Current Interest Receivable
Utility Deposits	\$ 429,429	\$ -	\$ -
Lowe's Escrow Account	510,449	-	-
Trustee Accounts (MPWA):			
1999A Sinking Fund	946,458	-	-
2002 Sinking Fund	464,510	-	-
2003A Bond Fund	429,957	-	-
2003A Bond Reserve Fund	-	649,098	-
2011 Principal Note Account	252,226	-	-
2011 Interest Note Account	49,061	-	-
2011 Construction Account	185,867	-	-
Interest Receivable	-	-	13
Total Restricted Assets	<u>\$ 3,267,957</u>	<u>\$ 649,098</u>	<u>\$ 13</u>

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**Component Units Deposits and Investments:**

McAlester Regional Health Center Authority

*Deposits*

At June 30, 2012, approximately \$7,412,000 of the Authority's bank balances were uninsured with collateral held by the pledging financial institution and \$2,349,000 of the Authority's bank balances were uninsured and uncollateralized.

**3. Investment in Joint Venture**

As discussed in Note 1A, the City participates (with equity interest) in the Association for Landfill Financial Assurance (ALFA). ALFA has been approved by the ODEQ as an allowable financial assurance mechanism under existing federal and state laws and regulations. As a member of ALFA, the City is required to deposit certain amounts on an annual basis into an escrow fund to be pooled with other ALFA members. The annual amount due from each member is based on the members' total estimated current cost of closure and post-closure care of the landfill, including adjustments due to inflation or resulting from any changes in the closure or the required 30 year post-closure care plan, plus any additional amount for contingencies as determined by ALFA. For the year ended June 30, 2012, the "Investment in joint venture" balance changed as follows:

Beginning Investment in Joint Venture	\$ 1,645,935
Current Year Contributions	13,124
Gain from Joint Venture	116,351
Ending Investment in Joint Venture	<u><u>\$ 1,775,410</u></u>

Separate annual financial statements are issued by ALFA and may be obtained from their administrative offices at 3414 East 85<sup>th</sup> 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, 2012, is as follows:

	General Fund		MPWA	Airport	Total
	Ambulance	Court			
Accounts receivable	\$ 1,076,206	\$ 2,387,905	\$ 3,069,240	\$ 14,677	\$ 6,548,028
Allowance for doubtful accounts	<u>(996,930)</u>	<u>(1,313,348)</u>	<u>(1,749,310)</u>	<u>(1,200)</u>	<u>(\$4,060,788)</u>
Accounts receivable, net	<u><u>\$ 79,276</u></u>	<u><u>\$ 1,074,557</u></u>	<u><u>\$ 1,319,930</u></u>	<u><u>\$ 13,477</u></u>	<u><u>\$ 2,487,240</u></u>

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*Component Units:*

McAlester Regional Health Center Authority

Patient receivable balances at June 30, 2012 were as follows:

	<u>MRHCA</u>
Medicare	\$ 4,346,661
Medicaid	1,653,658
Other third-party payers	11,819,267
Patients	9,583,669
Allowance for doubtful accounts	<u>(13,584,000)</u>
Accounts receivable, net	<u><u>\$ 13,819,255</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:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2012</u>
<b>Note Receivable</b>				
McAlester Foundation	<u>\$ 886,500</u>	<u>\$ -</u>	<u>\$ 159,456</u>	<u>\$ 727,044</u>

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**5. Capital Assets and Depreciation**

For the year ended June 30, 2012, capital assets balances changed as follows:

	Balance at June 30, 2011	Additions	Disposals	Balance at June 30, 2012
<b>Governmental activities:</b>				
Non-depreciable:				
Land	\$ 675,209	\$ -	\$ -	\$ 675,209
Construction-in-progress	735,669	1,470,192	(2,145,336)	60,525
Total non-depreciable assets at historical cost	<u>1,410,878</u>	<u>1,470,192</u>	<u>(2,145,336)</u>	<u>735,734</u>
Depreciable:				
Buildings	5,350,398	-	-	5,350,398
Other improvements	1,783,256	109,872	-	1,893,128
Machinery and equipment	9,290,915	1,320,360	(22,172)	10,589,103
Infrastructure	62,070,765	760,029	-	62,830,794
Total depreciable assets at historical cost	<u>78,495,334</u>	<u>2,190,261</u>	<u>(22,172)</u>	<u>80,663,423</u>
Less accumulated depreciation				
Buildings	(2,798,099)	(152,539)	-	(2,950,638)
Other improvements	(968,354)	(66,590)	-	(1,034,944)
Machinery and equipment	(7,050,779)	(662,673)	11,086	(7,702,366)
Infrastructure	(35,473,483)	(1,522,749)	-	(36,996,232)
Total accumulated depreciation	<u>(46,290,715)</u>	<u>(2,404,551)</u>	<u>11,086</u>	<u>(48,684,180)</u>
Net depreciable assets	<u>32,204,619</u>	<u>(214,290)</u>	<u>(11,086)</u>	<u>31,979,243</u>
Governmental activities capital assets, net	<u>\$ 33,615,497</u>	<u>\$ 1,255,902</u>	<u>\$ (2,156,422)</u>	<u>\$ 32,714,977</u>
<b>Business-type activities</b>				
Non-depreciable:				
Land	\$ 212,571	\$ -	\$ -	\$ 212,571
Water rights contracts	719,075	-	-	719,075
Construction-in-progress	78,497	1,496,873	(587,630)	987,740
Total non-depreciable assets at historical cost	<u>1,010,143</u>	<u>1,496,873</u>	<u>(587,630)</u>	<u>1,919,386</u>
Depreciable:				
Buildings	2,773,061	-	-	2,773,061
Other improvements	3,115,300	34,688	-	3,149,988
Machinery and equipment	2,913,532	563,386	-	3,476,918
Utility property	39,758,148	1,869,458	-	41,627,606
Total depreciable assets at historical cost	<u>48,560,041</u>	<u>2,467,532</u>	<u>-</u>	<u>51,027,573</u>
Less accumulated depreciation				
Buildings	(1,311,040)	(69,045)	-	(1,380,085)
Other improvements	(1,493,303)	(108,574)	-	(1,601,877)
Machinery and equipment	(1,662,804)	(268,377)	-	(1,931,181)
Utility property	(21,694,905)	(788,834)	-	(22,483,739)
Total accumulated depreciation	<u>(26,162,052)</u>	<u>(1,234,830)</u>	<u>-</u>	<u>(27,396,882)</u>
Net depreciable assets	<u>22,397,989</u>	<u>1,232,702</u>	<u>-</u>	<u>23,630,691</u>
Business-type capital assets, net	<u>\$ 23,408,132</u>	<u>\$ 2,729,575</u>	<u>\$ (587,630)</u>	<u>\$ 25,550,077</u>

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	Balance at June 30, 2011	Additions	Transfers	Disposals	Balance at June 30, 2012
Component Units:					
Non-depreciable:					
Land	\$ 909,448	\$ -	\$ -	\$ -	\$ 909,448
Construction-in-progress	479,225	452,114	-	(479,225)	452,114
Total non-depreciable assets at historical cost	<u>1,388,673</u>	<u>452,114</u>	<u>-</u>	<u>(479,225)</u>	<u>1,361,562</u>
Depreciable:					
Land improvements	1,336,741	6,375	-	-	1,343,116
Buildings and improvements	35,398,572	315,369	-	(81,199)	35,632,742
Machinery and equipment	32,963,123	869,808	-	(6,942,347)	26,890,584
Total depreciable assets at historical cost	<u>69,698,436</u>	<u>1,191,552</u>	<u>-</u>	<u>(7,023,546)</u>	<u>63,866,442</u>
Less accumulated depreciation					
Land improvements	(931,662)	(43,103)	-	-	(974,765)
Buildings and improvements	(20,328,981)	(1,330,624)	-	81,199	(21,578,406)
Machinery and equipment	(23,344,341)	(2,323,059)	-	6,793,992	(18,873,408)
Total accumulated depreciation	<u>(44,604,984)</u>	<u>(3,696,786)</u>	<u>-</u>	<u>6,875,191</u>	<u>(41,426,579)</u>
Net depreciable assets	<u>25,093,452</u>	<u>(2,505,234)</u>	<u>-</u>	<u>(148,355)</u>	<u>22,439,863</u>
Component Unit capital assets, net	<u>\$ 26,482,125</u>	<u>\$ (2,053,120)</u>	<u>\$ -</u>	<u>\$ (627,580)</u>	<u>\$ 23,801,425</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	\$ 1,191
Administration	195,898
Public safety	430,845
Community services	280,813
Public works	1,495,804

Total governmental activities depreciation expense \$ 2,404,551

Depreciation expense charged to business-type activities:

Water	\$ 557,534
Sewer	244,380
Sanitation	289,965
Airport	142,951

Total business-type activities depreciation expense \$ 1,234,830

## 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, related to the opening day agreement, in the amount of \$597,651 (due to Lowe's not meeting certain requirements for the full estimate).

No payments were made to Lowe's out of the escrow account during fiscal year 08-09. \$200,000 was paid to Lowe's in March 2010. In addition, \$400,000 was paid to Lowe's in FY 10-11. No payments were made to Lowe's out of the escrow account during fiscal year 11-12. The City has recorded on the financial statements of McAlester Public Works Authority an escrow deposit liability in the amount of \$510,449, 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, 2012, the reporting entity's long-term debt changed as follows:

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Capital Lease Obligations	\$ 391,421	\$ -	\$ 109,304	\$ 282,117	\$ 114,445
Accrued Compensated Absences	1,837,385	386,539	104,629	2,119,295	211,930
Claims Liability	319,759	562,799	473,059	409,499	-
Net Pension Benefit Obligation	356,457	-	7,116	349,341	-
<b>Total Governmental Long-Term Debt</b>	<b>\$ 2,905,022</b>	<b>\$ 949,338</b>	<b>\$ 694,108</b>	<b>\$ 3,160,252</b>	<b>\$ 326,375</b>
<b>Business-type Activities:</b>					
Landfill Closure and Post-closure Liability	\$ 2,550,000	\$ 762,793	\$ -	\$ 3,312,793	\$ 331,279
Due to Depositors	408,647	118,182	97,400	429,429	85,886
Net Pension Benefit Obligation	106,844	-	2,966	103,878	-
Notes Payable	1,000,251	25	189,674	810,602	178,939
Water Contract Obligations	252,857	-	25,307	227,550	25,949
Revenue Bonds Payable	58,586,519	6,489,423	9,180,000	55,895,942	3,045,000
Accrued Compensated Absences	292,099	26,412	18,247	300,264	30,027
<b>Total Business-type Long-Term Debt</b>	<b>\$ 63,197,217</b>	<b>\$ 7,396,835</b>	<b>\$ 9,513,594</b>	<b>\$ 61,080,458</b>	<b>\$ 3,697,080</b>
				Less: Unamortized Loss on Refunding	(1,398,894)
				Less: Unamortized Discount	(165,624)
				Add: Unamortized Premium	605,744
					<b>\$ 60,121,684</b>

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***Governmental activities long-term debt:***

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

Capital Lease Obligations:

\$98,796 capital lease with First National Bank for an ambulance, payable in annual installments of \$22,664, final payment due June 5, 2014, with interest at 4.75%, paid from the General Fund	\$ 42,291
\$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	123,392
\$180,987 capital lease with First National Bank for street dept freightliner, payable in monthly installments of \$3,379, final payment due July 28, 2015, with interest at 4.55%, paid from the Capital Improvement Plan Fund	<u>116,434</u>
Total Capital Lease Obligation	<u>\$ 282,117</u>

Capital Lease Obligations:

Current portion	\$ 114,445
Noncurrent portion	<u>167,672</u>
Total Capital Lease Obligations	<u>\$ 282,117</u>

Accrued Compensated Absences:

Current portion	\$ 211,930
Noncurrent portion	<u>1,907,365</u>
Total Accrued Compensated Absences	<u>\$ 2,119,295</u>

Claims Liability:

Current portion	\$ -
Non-current portion	<u>409,499</u>
Total Claims Liability	<u>\$ 409,499</u>

Net Pension Obligation:

Current portion	\$ -
Non-current portion	<u>349,341</u>
Total Pension Obligation	<u>\$ 349,341</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.	\$ 129,479
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.	49,720

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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.	34,606
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.	320,640
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.	35,332
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>240,825</u>
Total Notes Payable	<u>\$ 810,602</u>
Current portion	\$ 178,939
Non-current portion	<u>631,663</u>
Total Notes Payable	<u>\$ 810,602</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>\$ 227,550</u>
Current portion	\$ 25,949
Non-current portion	<u>201,601</u>
Total Water Rights Contract	<u>\$ 227,550</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.	\$ 14,665,000
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>(12,822,953)</u>
Principal outstanding at year end	<u>12,800,667</u>

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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. 13,680,000

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 (12,264,725)

Principal outstanding at year end 5,295,275

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. 4,145,000

2011 Taxable Series Sales Tax Revenue Refunding Bonds:

Serial Bonds in the amount of \$5,490,000 dated December 1, 2011, issued by McAlester Public Works Authority, secured by pledged sales tax, principal maturing annually ranging from \$180,000 to \$445,000, interest rate at 2.695%, final maturity September 1, 2018 5,310,000

Total Revenue Bonds Payable \$ 55,895,942

Current portion \$ 3,045,000

Noncurrent portion 52,850,942

Total Revenue Bonds Payable \$ 55,895,942

Unamortized loss on refunding (1,398,894)

Unamortized bond premium/discount 440,120

Total Revenue Bonds Payable, **net** \$ 54,937,168

Landfill Closure and Post-Closure Liability:

A \$3,312,793 accrued liability has been recognized in the McAlester Public Works Authority to represent the total estimated amount owed by the Authority for closure and postclosure requirements dictated by the U.S. Environmental Protection Agency and the Oklahoma Department of Environmental Quality regulations and represented the cumulative amount of such costs reported to date based on the use of approximately 74.84% of the estimated capacity of the landfill. It is estimated that an additional \$1,113,800 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 estimated remaining landfill life is 3.8 years.

Current portion \$ 331,279

Noncurrent portion 2,981,514

Total Landfill Closure and Postclosure Liability \$ 3,312,793

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Accrued Compensated Absences:		
Current portion		\$ 30,027
Noncurrent portion		<u>270,237</u>
Total Accrued Compensated Absences		<u>\$ 300,264</u>
Deposits Subject to Refund:		
Current portion		\$ 85,886
Noncurrent portion		<u>343,543</u>
Total Deposits Subject to Refund		<u>\$ 429,429</u>
Net Pension Obligation:		
Current portion		\$ -
Non-current portion		<u>103,878</u>
Total Net Pension Obligation		<u>\$ 103,878</u>

Debt Service Requirements to Maturity

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

Year Ended June 30,	<u>Governmental Activity Debt</u>	
	<u>Capital Lease Obligations Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 114,445	\$ 10,985
2014	119,784	5,646
2015	44,522	1,152
2016	<u>3,366</u>	<u>13</u>
Total	<u>\$ 282,117</u>	<u>\$ 17,796</u>
Year Ended June 30,	<u>Business-Type Activity Debt</u>	
	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 178,939	\$ 25,572
2014	149,978	18,164
2015	85,895	12,511
2016	36,239	11,021
2017	266,052	1,757
2018-2022	77,679	-
2023-2027	<u>15,820</u>	<u>-</u>
Total	<u>\$ 810,602</u>	<u>\$ 69,025</u>

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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>
2013	\$ 25,949	\$ 5,970	\$ 3,045,000	\$ 1,860,571
2014	26,629	5,289	3,220,000	1,718,607
2015	27,328	4,591	3,395,000	1,566,785
2016	28,044	3,874	3,595,000	1,404,677
2017	28,780	3,139	3,800,000	1,231,271
2018-2022	90,820	4,915	14,286,293	6,937,777
2023-2027	-	-	7,503,407	11,303,737
2028-2032	-	-	6,335,560	13,210,970
2033-2034	-	-	1,585,748	8,114,252
<b>Total</b>	<u>\$ 227,550</u>	<u>\$ 27,778</u>	46,766,008	47,348,647
Accreted Portion of Debt			<u>9,129,934</u>	<u>(9,129,934)</u>
			<u>\$ 55,895,942</u>	<u>\$ 38,218,713</u>

**Refunding**

On December 1, 2011, the City issued \$5.49 million Series 2011 Sales Tax Revenue Refunding Bonds with an interest rate of 2.695% to refund \$3,845,000 of outstanding 2003B Series Sales Tax Revenue Bonds and \$2,530,000 of outstanding 2004 Series Sales Tax Revenue Bonds, with an average interest rate of 6.6% and an interest rate of 7.25%, respectively. The net proceeds of \$5,424,472 (after payment of \$63,900 of issuance costs and \$1,628 to an interest account) plus an additional \$800,185 of 2003B Series fund monies and \$373,413 of 2004 Series fund monies were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2003B and 2004 Series bonds. As a result, the 2003B and 2004 Series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets. These bonds were fully redeemed on March 1, 2012.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$376,313. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2019 using the straight line method. The City completed the refunding to reduce its total debt service payments over the next seven years by \$1,182,378 and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of \$899,378.

**Component Units** have the following long-term debt at June 30, 2012:

	Balance June 30, 2011	Additions	Deductions	Transfers	Balance June 30, 2012	Amounts Due Within One Year
<b>Component Unit Activities:</b>						
Capital Lease Obligations	\$ 2,148,135	\$ -	\$ 1,026,833	\$ -	\$ 1,121,302	\$ 624,624
Notes Payable to Vendors	976,294	-	656,710	-	319,584	247,809
Notes Payable to Banks	1,503,502	-	363,329	-	1,140,173	236,495
<b>Total Component Unit Debt</b>	<u>\$ 4,627,931</u>	<u>\$ -</u>	<u>\$ 2,046,872</u>	<u>\$ -</u>	<u>\$ 2,581,059</u>	<u>\$ 1,108,928</u>

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McAlester Regional Health Center Authority Component Unit

Notes Payable to Banks:

The notes payable to banks are due between November 2013 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, 2012, are as follows:

Year Ended June 30,	<u>Discretely Presented Component Unit Debt</u>	
	<u>Notes Payable to Banks</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 236,495	\$ 49,119
2014	183,142	38,876
2015	487,396	21,837
2016	33,183	11,237
2017	27,520	9,801
2018-2022	160,960	25,645
2023	<u>11,477</u>	<u>172</u>
Total	<u>\$ 1,140,173</u>	<u>\$ 156,687</u>

Notes Payable to Vendor:

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

Year Ended June 30,	<u>Discretely Presented Component Unit Debt</u>	
	<u>Notes Payable to Vendor</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 247,809	\$ 14,259
2014	<u>71,775</u>	<u>1,480</u>
Total	<u>\$ 319,584</u>	<u>\$ 15,739</u>

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Capital Lease Obligations:

The Authority is obligated under leases for equipment that are accounted for as capital leases. The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates of 3.77% to 7.00% together with the present value of the future minimum lease payments as of June 30, 2012:

Year Ended June 30,	<u>Capital Lease Obligations Payable</u>
2013	\$ 663,678
2014	343,134
2015	153,498
2016	<u>19,933</u>
Total minimum lease payments	1,180,243
Less amount representing interest	<u>58,941</u>
Present value of future minimum lease payments	<u><u>\$ 1,121,302</u></u>

**8. Net Assets and Fund Balances**

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

	<u>General Fund</u>	<u>Reserve Fund</u>	<u>Capital Improvement Plan Fund</u>	<u>Dedicated Sales Tax - MPWA</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Fund Balance:						
Restricted For:						
Grant purposes	\$ -	\$ -	\$ -	\$ -	\$ 74,134	\$ 74,134
Juvenile programs	-	-	-	-	11,741	11,741
Tourism	-	-	-	-	207,577	207,577
E911	-	-	-	-	1,131,488	1,131,488
Economic development	-	-	-	-	1,704,877	1,704,877
Police capital outlay	-	-	-	-	59,317	59,317
Cemetery	-	-	-	-	361,396	361,396
Emergencies	-	3,607,037	-	-	-	3,607,037
Debt Service	-	-	-	4,302,363	1,068,870	5,371,233
Sub-total Restricted	<u>-</u>	<u>3,607,037</u>	<u>-</u>	<u>4,302,363</u>	<u>4,619,400</u>	<u>12,528,800</u>
Assigned to:						
Tourism	-	-	-	-	341,056	341,056
E911	-	-	-	-	1,132	1,132
Economic development	-	-	-	-	483,325	483,325
Other	-	-	-	-	32,744	32,744
Debt service	-	-	-	139	-	139
Capital improvements	-	-	2,106,826	-	-	2,106,826
Nutrition services	4,746	-	-	-	-	4,746
Budget balancing purposes	56,607	-	-	-	-	56,607
Sub-total Assigned	<u>61,353</u>	<u>-</u>	<u>2,106,826</u>	<u>139</u>	<u>858,257</u>	<u>3,026,575</u>
Unassigned	1,872,415	-	-	-	-	1,872,415
Total Fund Balance	<u>\$ 1,933,768</u>	<u>\$ 3,607,037</u>	<u>\$ 2,106,826</u>	<u>\$ 4,302,502</u>	<u>\$ 5,477,657</u>	<u>\$ 17,427,790</u>

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**Enterprise Funds:**

Restricted For Economic Development	\$ 185,867
Total Enterprise Fund Restrictions	\$ 185,867

**Restricted Net Assets – Governmental Activities**

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

Fund	Restricted By	Amount
Juvenile Fine Fund	State statutes and/or debt indentures	\$ 11,741
State Forfeiture Fund	State statutes and/or debt indentures	2,209
Cemetery Perpetual Care Fund	State statutes and/or debt indentures	361,396
Federal Forfeiture Fund	State statutes and/or debt indentures	54,153
		\$ 429,499
Dedicated Sales Tax - MPWA	External parties (voters)	\$ 4,302,363
E911 Fund	External parties (voters)	1,131,488
Reserve Fund	External parties (voters)	3,607,037
Tourism / SE Expo Fund	External parties (voters)	207,577
Economic Development Fund	External parties (voters)	1,704,877
Sales Tax - Schools Fund	External parties (voters)	1,068,870
Fire Improvement Grant Fund	External parties (grantors)	3,750
Police Equipment Fund	External parties (grantors)	2,955
CDBG Grants Fund	External parties (grantors)	70,384
		\$ 12,099,301

**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).

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**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 \$55,895,942 of Series 1999, 2002, 2003, 2004 and 2011 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, 2004 and 2011 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 \$94,114,655, which includes \$43,183,620 of accreted bonds. Pledged sales taxes transferred in the current year were \$4,871,269 and the net utility revenues were \$2,671,489. Debt service payments of \$4,947,874, excluding accreted interest, for the current fiscal year were 101.6% of the pledged and transferred sales taxes and 65.6% of both pledged and transferred sales taxes and utility revenues.

**10. Internal and Interfund Balances and Transfers**

*Transfers:*

Internal transfers between funds and activities for the year ended June 30, 2012, were as follows:

Transfer From	Transfer To	Amount	Nature of Transfer
General Fund	Police Equipment Fund	\$ 7,640	Matching grant monies
General Fund	Fire Improvement Grant Fund	3,750	Matching grant monies
General Fund	McAlester Airport Authority	99,103	Operating transfer
General Fund	Gifts & Contributions Fund	32,500	City share of ADA project
General Fund	Capital Improvement Plan Fund	1,720,130	Transfer for capital improvements
Capital Improvement Plan Fund	McAlester Airport Authority	50,000	Matching grant monies
Capital Improvement Plan Fund	CDBG Grants Fund	58,218	Matching grant monies
Dedicated Sales Tax Fund	MPWA - Bond Trustee Acct	3,368,108	Debt payments to trustee bank
Sales Tax - Schools Fund	MPWA - Bond Trustee Acct	603,590	Debt payments to trustee bank
Economic Development Fund	MPWA - Bond Trustee Acct	899,571	Debt payments to trustee bank
Economic Development Fund	MPWA	3,390	Trustee bank fiscal agent fees
MPWA	General Fund	2,349,668	Operating transfer
MPWA	CDBG Grants Fund	77,626	Matching grant monies
MPWA - Bond Trustee Acct	Capital Improvement Plan Fund	392,963	Transfer for capital improvements
MPWA	Economic Development Fund	483,325	Reimburse for capital outlay expense
		<u>\$ 10,149,582</u>	
	Transfers	Transfers	Net Transfers/ Internal Activity
	<u>In</u>	<u>Out</u>	<u></u>
Reconciliation to Fund			
Financial Statements:			
Governmental Funds	\$ 5,125,820	\$ (6,846,000)	\$ (1,720,180)
Enterprise Funds	5,023,762	(3,303,582)	1,720,180
Total Transfers	<u>\$ 10,149,582</u>	<u>\$ (10,149,582)</u>	<u>\$ -</u>
Reconciliation to statement of activities:		<u>Governmental</u>	<u>Business-Type</u>
Net transfers		\$ (1,720,180)	\$ 1,720,180
Reclassification of expenses between activities		90,630	(90,630)
Reclassification of capital asset purchases between activities		(2,848,236)	2,848,236
Total Transfers - Internal Activity		<u>\$ (4,477,786)</u>	<u>\$ 4,477,786</u>

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*Balances:*

Interfund receivables and payables at June 30, 2012, were as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Interfund Balance</u>
General Fund	Capital Improvement Plan Fund	\$ 800,000	Bond related issues
General Fund	Fleet Maintenance Fund	26,791	GF share of payroll liability
General Fund	Workers Compensation Fund	215,754	GF share of claims liability
Juvenile Fine Fund	Gifts & Contributions Fund	25,000	Park donation
Gifts & Contributions Fund	General Fund	2,256	Negative share of cash
MPWA	Fleet Maintenance Fund	9,910	GF share of payroll liability
MPWA	Workers Compensation Fund	193,745	GF share of claims liability
		<u>\$ 1,273,456</u>	

	<u>Due From Other Fund</u>	<u>Due To Other Funds</u>	<u>Internal Service Funds Reconciliation</u>	<u>Net Activity/ Internal Balances</u>
Reconciliation to Fund				
Financial Statements:				
Governmental Funds	\$ 827,256	\$ (1,069,801)	\$ 446,200	\$ 203,655
Enterprise Funds	-	(203,655)	-	(203,655)
Total Interfund Balances	<u>\$ 827,256</u>	<u>\$ (1,273,456)</u>	<u>\$ 446,200</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.

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

Claims Liability Analysis

The claims liabilities related to the above noted risks of loss that are retained are determined in accordance with the requirements of Statement of Financial Accounting Standard No. 5, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. For workers' compensation, changes in the claims liability for the City from July 1, 2009 to June 30, 2012 are as follows:

	<u>Total Claims Liability</u>
Claims liability, July 1, 2009	\$ 337,035
Claims incurred	371,749
Claims paid	<u>(404,671)</u>
Claims liability, July 1, 2010	304,113
Claims incurred	397,938
Claims paid	<u>(382,292)</u>
Claims liability, June 30, 2011	319,759
Claims incurred	475,561
Claims paid	<u>(385,821)</u>
Claims liability, June 30, 2012	<u><u>\$ 409,499</u></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 2012, the City's involvement in federal and state award programs was significant. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements. Any liability for reimbursement which may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

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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 two Consent Orders from the Oklahoma Department of Environmental Quality related to the water treatment plant; Case No. 07-233 and Case 09-241. Case 07-233 relates to disinfection by-products (dbp's). This work has been completed and the plant is approaching compliance. Compliance is required by July 1, 2013 or an engineering report is to be submitted to show how compliance is to be achieved. Case 09-241 relates to the discharge from the plant's backwash lagoons. As approved by DEQ, the Lagoon Improvements schedule sets the completion of construction to be by January 2014 and compliance achieved by July 1, 2014.

### **13. Pension Plan Participation**

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

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

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

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

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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	21.9% of Payroll (\$885,271 annual required contribution)
Plan members	None required
Funding of administrative costs	Investment earnings
Period required to vest	10 years
Eligibility for distribution	Age 55 with ten years credited service. Annual rate of retirement starts at 5% at age 56.
Provisions for:	
Disability benefits	Yes
Death benefits	Yes

Annual Required Contributions

Actuarial assumptions:

Valuation date	July 1, 2012
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, 2012, 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, 2012 was as follows:

	<u>2012</u>
Annual pension cost	\$ 875,888
Contributions made	<u>(885,464)</u>
Increase (decrease) in net pension obligation	(9,576)
Net pension obligation beginning of year	<u>462,795</u>
Net pension obligation end of year	<u>\$ 453,219</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
2011	806,226	101.0%	462,795
2012	875,888	101.1%	453,219

**Funded Status and Funding Progress**

As of July 1, 2012, the funded status of the McAlester Employees' Retirement System defined benefit plan is as follows:

Actuarial accrued liability (AAL)	\$16,807,499
Actuarial value of plan assets	<u>10,763,608</u>
Overfunded (Unfunded) actuarial accrued liability (UAAL)	<u>\$ (6,043,891)</u>
Funded ratio (actuarial value of plan assets/AAL)	64.0%
Annual covered payroll (active plan members)	\$4,108,795
UAAL as a percentage of covered payroll	147.1%

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 \$539,732 (or 26.6% of covered payroll).

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

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

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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 \$238,475 (or 10.9% 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. 63<sup>rd</sup> 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
2010	281,276	100%	2010	296,068	100%
2011	269,253	100%	2011	295,100	100%
2012	263,781	100%	2012	282,222	100%

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**Budgetary Comparison Schedules (Budgetary Basis) – Year Ended June 30, 2012**

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Beginning Budgetary Fund Balance, Restated:</b>	\$ 45,000	\$ 419,692	\$ 1,336,617	\$ 916,925
<b>Resources (Inflows):</b>				
<b>TAXES:</b>				
Sales tax	7,888,193	8,148,793	8,334,053	185,260
Use tax	630,000	630,000	592,424	(37,576)
Franchise tax	666,500	666,500	600,661	(65,839)
<b>Total Taxes</b>	<u>9,184,693</u>	<u>9,445,293</u>	<u>9,527,138</u>	<u>81,845</u>
<b>INTERGOVERNMENTAL:</b>				
Alcoholic beverage tax	116,500	116,500	123,198	6,698
Tobacco/cigarette tax	197,600	197,600	216,174	18,574
Gas excise tax	41,950	41,950	47,598	5,648
Vehicle tax	122,600	122,600	125,051	2,451
Grant revenue	-	33,127	127,409	94,282
<b>Total Intergovernmental</b>	<u>478,650</u>	<u>511,777</u>	<u>639,430</u>	<u>127,653</u>
<b>CHARGES FOR SERVICES:</b>				
Court costs	378,000	378,000	234,387	(143,613)
Cemetery opening/closing	33,300	33,300	29,444	(3,856)
Cemetery fees	12,000	12,000	16,300	4,300
Swimming pool revenue	25,000	25,000	30,199	5,199
Ambulance revenue	408,700	408,700	457,509	48,809
Street cuts	3,500	3,500	3,794	294
Recreation fees	3,500	3,500	3,520	20
Administrative reimbursement	17,400	17,400	24,400	7,000
Oil and gas leases	505,000	805,550	1,099,295	293,745
Abatements	27,700	27,700	17,136	(10,564)
Rental property	600	600	600	-
Rental rooms	6,500	6,500	6,217	(283)
Burgular alarms	6,200	6,200	10,475	4,275
Complex concessions	14,000	14,000	16,341	2,341
Complex rental	19,500	19,500	19,350	(150)
<b>Total Charges for Services</b>	<u>1,460,900</u>	<u>1,761,450</u>	<u>1,968,967</u>	<u>207,517</u>
<b>FINES AND FORFEITURES</b>	<u>815,000</u>	<u>815,000</u>	<u>627,213</u>	<u>(187,787)</u>
<b>LICENSES AND PERMITS</b>	<u>129,120</u>	<u>129,120</u>	<u>92,307</u>	<u>(36,813)</u>
<b>INVESTMENT INCOME</b>	<u>50,000</u>	<u>50,000</u>	<u>46,163</u>	<u>(3,837)</u>
<b>MISCELLANEOUS:</b>				
Auctions	2,000	2,000	61,289	59,289
Hay sales	800	800	7,100	6,300
Vendors	500	500	867	367
Cemetery lots	16,500	16,500	11,638	(4,862)
Demolitions	4,400	4,400	400	(4,000)
Court admin fee	3,700	3,700	2,653	(1,047)
Miscellaneous	33,000	33,000	121,935	88,935
Credit card payment fees	6,800	6,800	5,950	(850)
Restitution reimbursements	5,500	5,500	5,937	437
Reimbursements	8,500	8,500	39,558	31,058
<b>Total Miscellaneous</b>	<u>81,700</u>	<u>81,700</u>	<u>257,327</u>	<u>175,627</u>
<b>OTHER FINANCING SOURCES:</b>				
Transfers from other funds	2,337,449	2,337,449	2,349,668	12,219
<b>Total Other Financing Sources</b>	<u>2,337,449</u>	<u>2,337,449</u>	<u>2,349,668</u>	<u>12,219</u>
<b>Amounts available for appropriation</b>	<u>14,582,512</u>	<u>15,551,481</u>	<u>16,844,830</u>	<u>1,293,349</u>

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GENERAL FUND				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Charges to Appropriations (Outflows):</b>				
<b>LEGISLATURE:</b>				
Mayor and Council:				
Personal services	4,845	5,007	5,006	1
Materials and supplies	10,580	10,418	10,048	370
Other services and charges	140,580	140,580	103,306	37,274
<b>TOTAL LEGISLATURE</b>	<b>156,005</b>	<b>156,005</b>	<b>118,360</b>	<b>37,645</b>
<b>ADMINISTRATION:</b>				
City Manager:				
Personal services	194,424	206,354	206,164	190
Materials and supplies	3,200	3,200	2,341	859
Other services and charges	37,300	131,979	113,406	18,573
Capital outlay	10,000	3,153	3,025	128
<b>Total City Manager</b>	<b>244,924</b>	<b>344,686</b>	<b>324,936</b>	<b>19,750</b>
Finance:				
Personal services	276,897	244,388	242,046	2,342
Materials and supplies	6,200	6,200	4,724	1,476
Other services and charges	10,700	9,475	6,669	2,806
Capital outlay	1,200	1,200	-	1,200
<b>Total Finance</b>	<b>294,997</b>	<b>261,263</b>	<b>253,439</b>	<b>7,824</b>
City Clerk:				
Personal services	79,553	102,489	101,456	1,033
Materials and supplies	3,650	3,650	2,369	1,281
Other services and charges	32,630	12,184	8,065	4,119
<b>Total City Clerk</b>	<b>115,833</b>	<b>118,323</b>	<b>111,890</b>	<b>6,433</b>
City Attorney:				
Personal services	22,829	23,508	23,506	2
Materials and supplies	200	200	-	200
Other services and charges	91,200	155,521	111,702	43,819
<b>Total City Attorney</b>	<b>114,229</b>	<b>179,229</b>	<b>135,208</b>	<b>44,021</b>
Court:				
Personal services	148,225	153,479	152,927	552
Materials and supplies	6,600	3,765	3,320	445
Other services and charges	16,500	16,096	13,750	2,346
<b>Total Court</b>	<b>171,325</b>	<b>173,340</b>	<b>169,997</b>	<b>3,343</b>
Interdepartmental:				
Personal services	285,000	29,868	-	29,868
Materials and supplies	41,000	47,163	32,630	14,533
Other services and charges	1,266,691	733,729	650,267	83,462
<b>Total Interdepartmental</b>	<b>1,592,691</b>	<b>810,760</b>	<b>682,897</b>	<b>127,863</b>
Information Services:				
Personal services	66,183	70,014	69,998	16
Materials and supplies	4,646	3,646	3,484	162
Other services and charges	39,540	45,555	45,015	540
Capital outlay	25,000	45,759	45,699	60
<b>Total Information Services</b>	<b>135,369</b>	<b>164,974</b>	<b>164,196</b>	<b>778</b>

(Continued)

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(Continued)

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
ADMINISTRATION, (Continued):				
CID:				
Personal services	584,309	617,004	605,185	11,819
Materials and supplies	10,100	8,600	6,847	1,753
Other services and charges	5,000	4,000	2,596	1,404
Total CID	<u>599,409</u>	<u>629,604</u>	<u>614,628</u>	<u>14,976</u>
TOTAL ADMINISTRATION	<u>3,268,777</u>	<u>2,682,179</u>	<u>2,457,191</u>	<u>224,988</u>
PUBLIC SAFETY:				
Patrol:				
Personal services	2,581,385	2,756,831	2,651,297	105,534
Materials and supplies	155,200	164,242	140,704	23,538
Other services and charges	50,750	161,443	151,547	9,896
Capital outlay	-	6,000	6,000	-
Debt service	62,220	63,020	63,020	-
Total Patrol	<u>2,849,555</u>	<u>3,151,536</u>	<u>3,012,568</u>	<u>138,968</u>
Animal Control:				
Personal services	73,169	83,512	82,922	590
Materials and supplies	10,791	10,791	9,236	1,555
Other services and charges	2,000	3,781	3,665	116
Capital outlay	-	24,000	-	24,000
Total Animal Control	<u>85,960</u>	<u>122,084</u>	<u>95,823</u>	<u>26,261</u>
Communications:				
Personal services	160,151	164,305	162,279	2,026
Materials and supplies	3,000	3,000	2,154	846
Other services and charges	2,000	2,000	360	1,640
Total Communications	<u>165,151</u>	<u>169,305</u>	<u>164,793</u>	<u>4,512</u>
Fire:				
Personal services	2,578,944	2,906,318	2,904,265	2,053
Materials and supplies	75,539	75,422	72,864	2,558
Other services and charges	41,050	67,615	63,634	3,981
Capital outlay	12,000	2,802	-	2,802
Debt service	37,802	22,664	22,664	-
Total Fire	<u>2,745,335</u>	<u>3,074,821</u>	<u>3,063,427</u>	<u>11,394</u>
EMS:				
Materials and supplies	59,163	69,663	65,454	4,209
Other services and charges	57,500	50,000	43,401	6,599
Total EMS	<u>116,663</u>	<u>119,663</u>	<u>108,855</u>	<u>10,808</u>
TOTAL PUBLIC SAFETY	<u>5,962,664</u>	<u>6,637,409</u>	<u>6,445,466</u>	<u>191,943</u>
COMMUNITY SERVICES:				
Parks:				
Personal services	661,578	709,671	709,642	29
Materials and supplies	127,590	118,511	120,401	(1,890)
Other services and charges	40,500	137,343	136,080	1,263
Debt service	5,748	-	-	-
Total Parks	<u>835,416</u>	<u>965,525</u>	<u>966,123</u>	<u>(598)</u>
Swimming Pools:				
Personal services	83,035	98,663	98,582	81
Materials and supplies	42,000	42,000	39,260	2,740
Other services and charges	7,000	7,000	6,932	68
Total Swimming Pools	<u>132,035</u>	<u>147,663</u>	<u>144,774</u>	<u>2,889</u>

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	GENERAL FUND			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
COMMUNITY SERVICES, (Continued):				
Recreation:				
Personal services	183,844	188,879	186,404	2,475
Materials and supplies	29,064	27,283	25,578	1,705
Other services and charges	29,700	29,586	29,484	102
Capital outlay	-	7,038	7,038	-
<b>Total Recreation</b>	<b>242,608</b>	<b>252,786</b>	<b>248,504</b>	<b>4,282</b>
Cemetery:				
Personal services	302,103	309,731	309,183	548
Materials and supplies	27,680	28,120	20,965	7,155
Other services and charges	2,075	35,604	35,115	489
Capital outlay	-	81,004	-	81,004
<b>Total Cemetery</b>	<b>331,858</b>	<b>454,459</b>	<b>365,263</b>	<b>89,196</b>
Facility Maintenance:				
Personal services	187,571	197,223	194,202	3,021
Materials and supplies	60,203	60,203	58,969	1,234
Other services and charges	22,000	50,714	47,969	2,745
Capital outlay	-	6,847	6,847	-
<b>Total Facility Maintenance</b>	<b>269,774</b>	<b>314,987</b>	<b>307,987</b>	<b>7,000</b>
<b>TOTAL COMMUNITY SERVICES</b>	<b>1,811,691</b>	<b>2,135,420</b>	<b>2,032,651</b>	<b>102,769</b>
ADMINISTRATIVE SERVICES:				
Planning & Community Development:				
Personal services	244,179	261,989	261,014	975
Materials and supplies	9,055	9,555	8,293	1,262
Other services and charges	89,900	61,545	22,823	38,722
<b>Total Planning &amp; Community Development</b>	<b>343,134</b>	<b>333,089</b>	<b>292,130</b>	<b>40,959</b>
Human Resources/Risk Management:				
Personal services	173,511	184,751	184,658	93
Materials and supplies	19,991	27,941	27,205	736
Other services and charges	17,600	24,300	20,589	3,711
<b>Total Human Resources/Risk Management</b>	<b>211,102</b>	<b>236,992</b>	<b>232,452</b>	<b>4,540</b>
<b>TOTAL ADMINISTRATIVE SERVICES</b>	<b>554,236</b>	<b>570,081</b>	<b>524,582</b>	<b>45,499</b>
PUBLIC WORKS:				
Streets:				
Personal services	630,471	652,433	612,279	40,154
Materials and supplies	354,338	392,809	369,805	23,004
Other services and charges	2,510	153,417	152,727	690
<b>Total Streets</b>	<b>987,319</b>	<b>1,198,659</b>	<b>1,134,811</b>	<b>63,848</b>
<b>TOTAL PUBLIC WORKS</b>	<b>987,319</b>	<b>1,198,659</b>	<b>1,134,811</b>	<b>63,848</b>
OTHER FINANCING USES:				
Transfers to other funds	1,841,820	2,171,728	2,156,284	15,444
<b>Total Charges to Appropriations</b>	<b>14,582,512</b>	<b>15,551,481</b>	<b>14,869,345</b>	<b>682,136</b>
<b>Ending Budgetary Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,975,485</b>	<b>\$ 1,975,485</b>

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	<b>SPECIAL REVENUE - RESERVE FUND (Budgetary Basis)</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	
	<b>Original</b>	<b>Final</b>		
Beginning Budgetary Fund Balance	\$ -	\$ -	\$ 3,577,461	\$ 3,577,461
Resources (Inflows):				
Investment income	38,000	38,000	29,576	(8,424)
Amounts available for appropriation	<u>38,000</u>	<u>38,000</u>	<u>3,607,037</u>	<u>3,569,037</u>
Charges to appropriations (outflows):				
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Charges to Appropriations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending Budgetary Fund Balance	<u>\$ 38,000</u>	<u>\$ 38,000</u>	<u>\$ 3,607,037</u>	<u>\$ 3,569,037</u>

See accompanying notes to budgetary comparison schedules

**Footnotes to Budgetary Comparison Schedules:**

- 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 are lapsed at year end and are re-appropriated and re-encumbered in the subsequent fiscal year.
- 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.
- The budgetary basis differs from the modified accrual basis as shown in the schedule below:

	<b><u>General Fund</u></b>
<b>Sources/Inflows of resources</b>	
Actual amounts (budgetary basis) "available appropriation" from the budgetary comparison schedule	\$16,844,830
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.	(1,336,617)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(2,349,668)
The City reports on-behalf payments made by state in the General Fund in the fund financial statements, but are not budgeted.	778,206
The City reports grant revenue for assets contributed by grantors in the General Fund in the fund financial statements, but are not budgeted.	96,718

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The City budgets for revenues on the modified cash basis of accounting, rather than on the modified accrual basis.	<u>(739)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$14,032,730</u>
<b>Uses/Outflows of resources</b>	
Actual amounts (budgetary basis) “total charges to appropriations” from the budgetary comparison schedule	\$14,869,345
Differences – budget to GAAP:	
The City budgets for payroll and miscellaneous accrued liabilities on the modified cash basis, rather than on the modified accrual basis.	(145,330)
The City reports internal service activity as expenses in the General Fund in the fund financial statements, but are budgeted as transfers.	125,788
The City reports on-behalf payments made by state in the General Fund in the fund financial statements, but are not budgeted.	778,206
The City reports capital outlay for assets contributed by grantors in the General Fund in the fund financial statements, but are not budgeted.	96,718
Transfers to other funds and component units are outflows of budgetary resources but are not expenditures for financial reporting purposes.	<u>(2,156,284)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$13,568,443</u>
	<b><u>Reserve Fund</u></b>
<b>Sources/Inflows of resources</b>	
Actual amounts (budgetary basis) “available appropriation” from the budgetary comparison schedule	\$3,607,037
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.	<u>(3,577,461)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$29,576</u>

4. For the year ended June 30, 2012, the City complied, in all material respects, with the applicable budget laws.

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

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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)
7/1/2003	7,212,203	8,673,171	1,460,968	83.2%	4,556,448	32.1%
7/1/2004	7,756,230	9,041,242	1,285,012	85.8%	4,684,360	27.4%
7/1/2005	7,832,545	9,483,292	1,650,747	82.6%	4,555,872	36.2%
7/1/2006	8,201,138	10,499,055	2,297,917	78.1%	4,071,060	56.4%
7/1/2007	8,777,906	11,058,765	2,280,859	79.4%	4,523,484	50.4%
7/1/2008	9,233,904	11,532,207	2,298,303	80.1%	4,082,914	56.3%
7/1/2009	9,779,352	13,164,083	3,384,731	74.3%	4,326,276	78.2%
7/1/2010	9,990,470	14,807,371	4,816,901	67.5%	4,274,311	112.7%
7/1/2011	10,503,533	15,986,289	5,482,756	65.7%	4,037,185	135.8%
7/1/2012	10,763,608	16,807,499	6,043,891	64.0%	4,108,795	147.1%

**Trend Schedule of Employer Contributions**

McAlester Employees' Retirement System			
Fiscal Year	Required Contribution	Percentage Contributed	Net Pension Obligation (Asset)
2003	468,209	72.6%	\$36,406
2004	448,502	98.6%	41,837
2005	441,700	0.6%	480,720
2006	473,699	101%	470,216
2007	516,115	81%	569,651
2008	533,593	99.5%	572,508
2009	518,694	116.3%	487,961
2010	657,455	102.6%	470,753
2011	806,226	101.0%	462,795
2012	875,888	101.1%	453,219

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**SUPPLEMENTARY INFORMATION**

**Combining Balance Sheet, General Fund Accounts – June 30, 2012**

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	<u>General Fund</u>	<u>Nutrition Fund</u>	<u>Total General Fund</u>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 2,145,970	\$ 4,805	\$ 2,150,775
Receivables:			
Due from other funds	2,256	-	2,256
Due from other governments	1,179,462	5,108	1,184,570
Franchise tax receivable	60,858	-	60,858
Court fines receivable, net of allowance	1,074,557	-	1,074,557
Ambulance receivable, net of allowance	79,276	-	79,276
Prepaid expenses	11,445	-	11,445
Other receivables, net of allowance	13,432	-	13,432
 Total assets	 <u>\$ 4,567,256</u>	 <u>\$ 9,913</u>	 <u>\$ 4,577,169</u>
<b>LIABILITIES AND FUND BALANCES:</b>			
Liabilities:			
Accounts payable	\$ 176,497	\$ 1,245	\$ 177,742
Accrued payroll liabilities	332,118	3,922	336,040
Due to other funds	1,042,545	-	1,042,545
Amounts held in escrow	4,132	-	4,132
Deferred revenue	1,082,942	-	1,082,942
 Total liabilities	 <u>2,638,234</u>	 <u>5,167</u>	 <u>2,643,401</u>
Fund Balances:			
Assigned	56,607	4,746	61,353
Unassigned	1,872,415	-	1,872,415
 Total fund balances	 <u>1,929,022</u>	 <u>4,746</u>	 <u>1,933,768</u>
 Total liabilities and fund balances	 <u>\$ 4,567,256</u>	 <u>\$ 9,913</u>	 <u>\$ 4,577,169</u>

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**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances, General Fund**  
**Accounts – Year Ended June 30, 2012**

	<u>General Fund</u>	<u>Nutrition Fund</u>	<u>Total General Fund</u>
<b>Revenues:</b>			
Taxes	\$ 9,559,668	\$ -	\$ 9,559,668
Intergovernmental	1,495,720	63,786	1,559,506
Charges for services	1,947,362	-	1,947,362
Fines and forfeitures	634,183	-	634,183
Licenses and permits	92,307	-	92,307
Investment income	46,163	-	46,163
Miscellaneous	257,327	-	257,327
 Total Revenues	 <u>14,032,730</u>	 <u>63,786</u>	 <u>14,096,516</u>
<b>Expenditures:</b>			
Current:			
Legislature	118,071	-	118,071
Administration	2,359,521	-	2,359,521
Public safety	7,168,673	-	7,168,673
Community services	1,984,767	-	1,984,767
Administration services	505,034	-	505,034
Health and welfare	-	293,906	293,906
Public works	1,136,893	-	1,136,893
Capital outlay	210,600	-	210,600
Debt service:			
Principal retirement	74,926	-	74,926
Interest and fiscal charges	9,958	-	9,958
 Total Expenditures	 <u>13,568,443</u>	 <u>293,906</u>	 <u>13,862,349</u>
<b>Excess (deficiency) of revenues over expenditures</b>	464,287	(230,120)	234,167
<b>Other Financing Sources (Uses):</b>			
Transfers in	2,349,668	-	2,349,668
Transfers out	(1,863,123)	-	(1,863,123)
Interaccount transfers	(220,603)	220,603	-
 Total Other Financing Sources (Uses)	 <u>265,942</u>	 <u>220,603</u>	 <u>486,545</u>
 <b>Net change in fund balances</b>	 730,229	 (9,517)	 720,712
 <b>Fund balances - beginning</b>	 1,198,793	 14,263	 1,213,056
 <b>Fund balances - ending</b>	 <u>\$ 1,929,022</u>	 <u>\$ 4,746</u>	 <u>\$ 1,933,768</u>

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**Combining Balance Sheet, Nonmajor Governmental Funds – June 30, 2012**

	<b>SPECIAL REVENUE FUNDS</b>				
	<b>JUVENILE FINE FUND</b>	<b>TOURISM/ SE EXPO FUND</b>	<b>E-911 FUND</b>	<b>ECONOMIC DEVELOPMENT FUND</b>	<b>GIFTS &amp; CONTRIBUTIONS FUND</b>
<b><u>ASSETS</u></b>					
Cash and cash equivalents	\$ 36,741	\$ 545,389	\$ 1,091,273	\$ 915,129	\$ -
Investments	-	-	-	539,163	-
Receivables:					
Due from other funds	-	-	-	-	25,000
Due from other governments	-	42,518	-	132,980	-
Notes receivable	-	-	-	727,044	-
Other receivable	-	-	50,909	-	10,000
Total Assets	<u>\$ 36,741</u>	<u>\$ 587,907</u>	<u>\$ 1,142,182</u>	<u>\$ 2,314,316</u>	<u>\$ 35,000</u>
<b><u>LIABILITIES</u></b>					
Accounts payable and accrued liabilities	\$ -	\$ 34,999	\$ 1,435	\$ 126,114	\$ -
Accrued payroll liabilities	-	4,275	8,127	-	-
Due to other funds	25,000	-	-	-	2,256
Total Liabilities	<u>25,000</u>	<u>39,274</u>	<u>9,562</u>	<u>126,114</u>	<u>2,256</u>
<b><u>FUND EQUITY</u></b>					
Fund Balance:					
Restricted	11,741	207,577	1,131,488	1,704,877	-
Assigned	-	341,056	1,132	483,325	32,744
Total fund balances	<u>11,741</u>	<u>548,633</u>	<u>1,132,620</u>	<u>2,188,202</u>	<u>32,744</u>
Total Liabilities and Fund Balances	<u>\$ 36,741</u>	<u>\$ 587,907</u>	<u>\$ 1,142,182</u>	<u>\$ 2,314,316</u>	<u>\$ 35,000</u>

(Continued)

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**Combining Balance Sheet, Nonmajor Governmental Funds – June 30, 2012, Continued**

	<b>CAPITAL PROJECT FUNDS</b>				
	<b>POLICE EQUIPMENT FUND</b>	<b>STATE FORFEITURE FUND</b>	<b>CEMETERY PERPETUAL CARE FUND</b>	<b>CDBG GRANTS FUND</b>	<b>FEDERAL FORFEITURE FUND</b>
<b><u>ASSETS</u></b>					
Cash and cash equivalents	\$ -	\$ 2,209	\$ 361,396	\$ 71,984	\$ 54,153
Investments	-	-	-	-	-
Receivables:					
Due from other funds	-	-	-	-	-
Due from other governments	2,955	-	-	-	-
Notes receivable	-	-	-	-	-
Other receivable	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 2,955</b>	<b>\$ 2,209</b>	<b>\$ 361,396</b>	<b>\$ 71,984</b>	<b>\$ 54,153</b>
<b><u>LIABILITIES</u></b>					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 1,600	\$ -
Accrued payroll liabilities	-	-	-	-	-
Due to other funds	-	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,600</b>	<b>-</b>
<b><u>FUND EQUITY</u></b>					
Fund Balance:					
Restricted	2,955	2,209	361,396	70,384	54,153
Assigned	-	-	-	-	-
<b>Total fund balances</b>	<b>2,955</b>	<b>2,209</b>	<b>361,396</b>	<b>70,384</b>	<b>54,153</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,955</b>	<b>\$ 2,209</b>	<b>\$ 361,396</b>	<b>\$ 71,984</b>	<b>\$ 54,153</b>

(Continued)

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**Combining Balance Sheet, Nonmajor Governmental Funds – June 30, 2012, Continued**

	<u>CAPITAL PROJECT FUNDS</u>	<u>DEBT SERVICE FUND</u>	<u>TOTAL</u>
	<u>FIRE</u>	<u>SALES TAX -</u>	<u>NONMAJOR</u>
	<u>IMPROVEMENT</u>	<u>SCHOOLS</u>	<u>GOVERNMENTAL</u>
<u>ASSETS</u>	<u>GRANT FUND</u>	<u>FUND</u>	<u>FUNDS</u>
Cash and cash equivalents	\$ 3,750	\$ 935,890	\$ 4,017,914
Investments	-	-	539,163
Receivables:			
Due from other funds	-	-	25,000
Due from other governments	-	132,980	311,433
Notes receivable	-	-	727,044
Other receivable	-	-	60,909
 Total Assets	 <u>\$ 3,750</u>	 <u>\$ 1,068,870</u>	 <u>\$ 5,681,463</u>
 <u>LIABILITIES</u>			
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 164,148
Accrued payroll liabilities	-	-	12,402
Due to other funds	-	-	27,256
 Total Liabilities	 <u>-</u>	 <u>-</u>	 <u>203,806</u>
 <u>FUND EQUITY</u>			
Fund Balance:			
Restricted	3,750	1,068,870	4,619,400
Assigned	-	-	858,257
 Total fund balances	 <u>3,750</u>	 <u>1,068,870</u>	 <u>5,477,657</u>
 Total Liabilities and Fund Balances	 <u>\$ 3,750</u>	 <u>\$ 1,068,870</u>	 <u>\$ 5,681,463</u>

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**Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Nonmajor Governmental Funds – Year Ended June 30, 2012**

	SPECIAL REVENUE FUNDS				
	JUVENILE FINE FUND	TOURISM/ SE EXPO FUND	E-911 FUND	ECONOMIC DEVELOPMENT FUND	GIFTS & CONTRIBUTIONS FUND
Revenues:					
Taxes	\$ -	\$ 549,088	\$ 650,409	\$ 1,046,794	\$ -
Intergovernmental	-	-	-	-	-
Charges for services	22,000	175,498	-	-	-
Investment income	-	-	8,473	11,346	45
Miscellaneous	-	-	-	-	15,600
<b>Total Revenues</b>	<b>22,000</b>	<b>724,586</b>	<b>658,882</b>	<b>1,058,140</b>	<b>15,645</b>
Expenditures:					
Current:					
Administration	-	-	-	-	16,146
Public safety	27,510	-	401,985	-	-
Community services	-	-	-	-	-
Administrative services	-	536,259	-	-	-
Economic development	-	-	-	257,449	-
Capital outlay	-	103,254	39,804	614,757	36,639
<b>Total Expenditures</b>	<b>27,510</b>	<b>639,513</b>	<b>441,789</b>	<b>872,206</b>	<b>52,785</b>
Excess (deficiency) of revenues over expenditures	(5,510)	85,073	217,093	185,934	(37,140)
Other Financing Sources (Uses):					
Transfers in	-	-	-	483,325	32,500
Transfers out	-	-	-	(902,961)	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(419,636)</b>	<b>32,500</b>
Net change in fund balances	(5,510)	85,073	217,093	(233,702)	(4,640)
Fund balances - beginning	17,251	463,560	915,527	2,421,904	37,384
<b>Fund balances - ending</b>	<b>\$ 11,741</b>	<b>\$ 548,633</b>	<b>\$ 1,132,620</b>	<b>\$ 2,188,202</b>	<b>\$ 32,744</b>

(Continued)

**CITY OF MCALESTER, OKLAHOMA  
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**Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Nonmajor  
Governmental Funds – Year Ended June 30, 2012 (Continued)**

	CAPITAL PROJECT FUNDS				
	POLICE EQUIPMENT FUND	STATE FORFEITURE FUND	CEMETERY PERPETUAL CARE FUND	CDBG GRANTS FUND	FEDERAL FORFEITURE FUND
Revenues:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	12,955	-	-	90,630	13,489
Charges for services	-	-	5,918	-	-
Investment income	-	269	269	-	421
Miscellaneous	-	-	-	-	-
<b>Total Revenues</b>	<b>12,955</b>	<b>269</b>	<b>6,187</b>	<b>90,630</b>	<b>13,910</b>
Expenditures:					
Current:					
Administration	-	-	-	-	-
Public safety	-	-	-	-	-
Community services	-	-	2,942	-	-
Administrative services	-	-	-	-	-
Economic development	-	-	-	-	-
Capital outlay	23,500	15,868	-	240,506	1,083
<b>Total Expenditures</b>	<b>23,500</b>	<b>15,868</b>	<b>2,942</b>	<b>240,506</b>	<b>1,083</b>
Excess (deficiency) of revenues over expenditures	(10,545)	(15,599)	3,245	(149,876)	12,827
Other Financing Sources (Uses):					
Transfers in	7,640	-	-	135,844	-
Transfers out	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>7,640</b>	<b>-</b>	<b>-</b>	<b>135,844</b>	<b>-</b>
Net change in fund balances	(2,905)	(15,599)	3,245	(14,032)	12,827
Fund balances - beginning	5,860	17,808	358,151	84,416	41,326
Fund balances - ending	<b>\$ 2,955</b>	<b>\$ 2,209</b>	<b>\$ 361,396</b>	<b>\$ 70,384</b>	<b>\$ 54,153</b>

(Continued)

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**Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Nonmajor Governmental Funds – Year Ended June 30, 2012 (Continued)**

	<u>CAPITAL PROJECT FUND</u> <u>FIRE</u> <u>IMPROVEMENT</u> <u>GRANT FUND</u>	<u>DEBT SERVICE FUND</u> <u>SALES TAX -</u> <u>SCHOOLS</u> <u>FUND</u>	<u>TOTAL</u> <u>NONMAJOR</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>
Revenues:			
Taxes	\$ -	\$ 1,046,794	\$ 3,293,085
Intergovernmental	-	-	117,074
Charges for services	-	-	203,416
Investment income	-	10,806	31,629
Miscellaneous	-	-	15,600
Total Revenues	<u>-</u>	<u>1,057,600</u>	<u>3,660,804</u>
Expenditures:			
Current:			
Administration	-	-	16,146
Public safety	-	-	429,495
Community services	-	700,000	702,942
Administrative services	-	-	536,259
Economic development	-	-	257,449
Capital outlay	-	-	1,075,411
Total Expenditures	<u>-</u>	<u>700,000</u>	<u>3,017,702</u>
Excess (deficiency) of revenues over expenditures	-	357,600	643,102
Other Financing Sources (Uses):			
Transfers in	3,750	-	663,059
Transfers out	-	(603,590)	(1,506,551)
Total Other Financing Sources (Uses)	<u>3,750</u>	<u>(603,590)</u>	<u>(843,492)</u>
Net change in fund balances	3,750	(245,990)	(200,390)
Fund balances - beginning	-	1,314,860	5,678,047
Fund balances - ending	<u>\$ 3,750</u>	<u>\$ 1,068,870</u>	<u>\$ 5,477,657</u>

**CITY OF MCALESTER, OKLAHOMA**  
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**Combining Schedule of Net Assets, MPWA Accounts – June 30, 2012**

	Enterprise Fund - MPWA			Total
	McAlester Public Works Authority	Landfill Reserve Account	Bond Trustee Account	
<b>ASSETS:</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 881,139	\$ 565,843	\$ -	\$ 1,446,982
Restricted cash and cash equivalents	939,878	-	2,328,079	3,267,957
Restricted interest receivable	-	-	13	13
Accounts receivable, net of allowance	1,260,515	59,415	-	1,319,930
<b>Total current assets</b>	<b>3,081,532</b>	<b>625,258</b>	<b>2,328,092</b>	<b>6,034,882</b>
<b>Noncurrent Assets:</b>				
<b>Restricted Assets:</b>				
Cash and cash equivalents	-	-	649,098	649,098
Investment in joint venture	1,775,410	-	-	1,775,410
<b>Capital assets:</b>				
Land and other non-depreciable assets	1,585,850	-	-	1,585,850
Other capital assets, net of depreciation	20,750,072	-	-	20,750,072
Unamortized bond issuance costs	1,663,121	-	-	1,663,121
<b>Total noncurrent assets</b>	<b>25,774,453</b>	<b>-</b>	<b>649,098</b>	<b>26,423,551</b>
<b>Total Assets</b>	<b>28,855,985</b>	<b>625,258</b>	<b>2,977,190</b>	<b>32,458,433</b>
<b>LIABILITIES:</b>				
<b>Current Liabilities:</b>				
Accounts payable	402,570	7,640	-	410,210
Accrued payroll liabilities	43,852	-	-	43,852
Due to other funds	203,655	-	-	203,655
Escrow deposit liability	510,449	-	-	510,449
Interest payable	1,148,515	-	-	1,148,515
Deferred revenue	99,287	-	-	99,287
Landfill closure and postclosure liability	331,279	-	-	331,279
Due to depositors	85,886	-	-	85,886
Notes payable	162,160	-	-	162,160
Water rights contract obligation	25,949	-	-	25,949
Revenue bonds payable, net	3,045,000	-	-	3,045,000
Accrued compensated absences	27,255	-	-	27,255
<b>Total current liabilities</b>	<b>6,085,857</b>	<b>7,640</b>	<b>-</b>	<b>6,093,497</b>
<b>Noncurrent Liabilities:</b>				
Landfill closure and post-closure liability	2,981,514	-	-	2,981,514
Due to depositors	343,543	-	-	343,543
Net pension benefit obligation	100,468	-	-	100,468
Notes payable	327,802	-	-	327,802
Water rights contract obligation	201,601	-	-	201,601
Revenue bonds payable, net	51,892,168	-	-	51,892,168
Accrued compensated absences	245,291	-	-	245,291
<b>Total noncurrent liabilities</b>	<b>56,092,387</b>	<b>-</b>	<b>-</b>	<b>56,092,387</b>
<b>Total liabilities</b>	<b>62,178,244</b>	<b>7,640</b>	<b>-</b>	<b>62,185,884</b>
<b>NET ASSETS:</b>				
Invested in capital assets, net of related debt	21,618,410	-	-	21,618,410
Restricted for debt service	(2,791,323)	-	2,791,323	-
Restricted for economic development	-	-	185,867	185,867
Unrestricted (deficit)	(52,149,346)	617,618	-	(51,531,728)
<b>Total net assets (deficit)</b>	<b>\$ (33,322,259)</b>	<b>\$ 617,618</b>	<b>\$ 2,977,190</b>	<b>\$ (29,727,451)</b>

**CITY OF MCALESTER, OKLAHOMA**  
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**Combining Schedule of Revenues, Expenses, and Changes in Net Assets, MPWA Accounts – Year Ended June 30, 2012**

	Enterprise Fund - MPWA			Total
	McAlester Public Works Authority	Landfill Reserve Account	Bond Trustee Account	
<b>Operating Revenues:</b>				
Charges for services:				
Water	\$ 3,813,669	\$ -	\$ -	\$ 3,813,669
Sewer	1,677,088	-	-	1,677,088
Sanitation	2,645,867	-	-	2,645,867
Water taps	11,980	-	-	11,980
Sewer taps	7,400	-	-	7,400
Water districts	1,201,565	-	-	1,201,565
Service charges	92,465	-	-	92,465
Landfill	8,106	-	-	8,106
Roll-off garbage	182,221	-	-	182,221
Penalties	174,440	8,096	-	182,536
Recycle fees	33,737	-	-	33,737
Subtitle "D" fees	-	348,430	-	348,430
<b>Total operating revenues</b>	<u>9,848,538</u>	<u>356,526</u>	<u>-</u>	<u>10,205,064</u>
<b>Operating Expenses:</b>				
Utility office	503,173	-	-	503,173
Interdepartmental	673,453	-	-	673,453
Sanitation	2,000,632	-	-	2,000,632
Engineering	379,847	-	-	379,847
Sewer	774,113	-	-	774,113
Water	997,613	-	-	997,613
Utility maintenance	989,164	-	-	989,164
Landfill	1,026,997	37,365	-	1,064,362
Utilities Administration	151,218	-	-	151,218
Depreciation expense	1,091,879	-	-	1,091,879
Amortization expense	105,672	-	-	105,672
<b>Total operating expenses</b>	<u>8,693,761</u>	<u>37,365</u>	<u>-</u>	<u>8,731,126</u>
<b>Operating income (loss)</b>	1,154,777	319,161	-	1,473,938
<b>Non-Operating Revenues (Expenses):</b>				
Investment income	8,050	3,443	224	11,717
Interest expense and fiscal charges	(3,073,014)	-	-	(3,073,014)
Grant revenue - operating	1,874	-	-	1,874
Miscellaneous revenue	23,486	-	-	23,486
Gain on joint venture	116,351	-	-	116,351
<b>Total non-operating revenues (expenses)</b>	<u>(2,923,253)</u>	<u>3,443</u>	<u>224</u>	<u>(2,919,586)</u>
<b>Net income (loss) before contributions and transfers</b>	(1,768,476)	322,604	224	(1,445,648)
Contributed capital revenue	2,848,236	-	-	2,848,236
Interaccount transfers	6,119,240	(13,124)	(6,106,116)	-
Transfers in	3,390	-	4,871,269	4,874,659
Transfer out	(2,820,257)	-	(483,325)	(3,303,582)
<b>Change in net assets</b>	4,382,133	309,480	(1,717,948)	2,973,665
<b>Total net assets (deficit) - beginning</b>	(37,704,392)	308,138	4,695,138	(32,701,116)
<b>Total net assets (deficit) - ending</b>	<u>\$ (33,322,259)</u>	<u>\$ 617,618</u>	<u>\$ 2,977,190</u>	<u>\$ (29,727,451)</u>

**CITY OF MCALESTER, OKLAHOMA**  
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**Combining Schedule of Net Assets, MAA Accounts – June 30, 2012**

	<b>McAlester Airport Authority</b>			<b>Total</b>
	<b>McAlester Airport Authority</b>	<b>Airport Grant Account</b>	<b>Airport Hangar Account</b>	
<b>ASSETS:</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 69,353	\$ 19,985	\$ 36,760	\$ 126,098
Accounts receivable, net of allowance	13,477	-	-	13,477
Due from other governments	-	39,399	-	39,399
<b>Total current assets</b>	<b>82,830</b>	<b>59,384</b>	<b>36,760</b>	<b>178,974</b>
<b>Noncurrent Assets:</b>				
Capital assets:				
Land and other non-depreciable assets	333,536	-	-	333,536
Other capital assets, net of depreciation	2,880,619	-	-	2,880,619
<b>Total noncurrent assets</b>	<b>3,214,155</b>	<b>-</b>	<b>-</b>	<b>3,214,155</b>
<b>Total Assets</b>	<b>3,296,985</b>	<b>59,384</b>	<b>36,760</b>	<b>3,393,129</b>
<b>LIABILITIES:</b>				
<b>Current Liabilities:</b>				
Accounts payable	7,687	19,980	-	27,667
Accrued payroll liabilities	2,304	-	-	2,304
Interest payable	523	-	-	523
Notes payable	16,779	-	-	16,779
Accrued compensated absences	2,772	-	-	2,772
<b>Total current liabilities</b>	<b>30,065</b>	<b>19,980</b>	<b>-</b>	<b>50,045</b>
<b>Noncurrent Liabilities:</b>				
Net pension benefit obligation	3,410	-	-	3,410
Notes payable	303,861	-	-	303,861
Accrued compensated absences	24,946	-	-	24,946
<b>Total noncurrent liabilities</b>	<b>332,217</b>	<b>-</b>	<b>-</b>	<b>332,217</b>
<b>Total liabilities</b>	<b>362,282</b>	<b>19,980</b>	<b>-</b>	<b>382,262</b>
<b>NET ASSETS:</b>				
Invested in capital assets, net of related debt	2,893,515	-	-	2,893,515
Unrestricted	41,188	39,404	36,760	117,352
<b>Total net assets</b>	<b>\$ 2,934,703</b>	<b>\$ 39,404</b>	<b>\$ 36,760</b>	<b>\$ 3,010,867</b>

**CITY OF MCALESTER, OKLAHOMA**  
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**Combining Schedule of Revenues, Expenses, and Changes in Net Assets, MAA Accounts – Year Ended June 30, 2012**

	<b>McAlester Airport Authority</b>			<b>Total</b>
	<b>McAlester Airport Authority</b>	<b>Airport Grant Account</b>	<b>Airport Hangar Account</b>	
<b>Operating Revenues:</b>				
Rents and fees	\$ 111,902	\$ -	\$ -	\$ 111,902
<b>Total operating revenues</b>	<u>111,902</u>	<u>-</u>	<u>-</u>	<u>111,902</u>
<b>Operating Expenses:</b>				
Airport	179,481	-	-	179,481
Depreciation expense	142,951	-	-	142,951
<b>Total operating expenses</b>	<u>322,432</u>	<u>-</u>	<u>-</u>	<u>322,432</u>
<b>Net income (loss) before contributions and transfers</b>	(210,530)	-	-	(210,530)
Interest expense	(13,878)	-	-	(13,878)
Miscellaneous	2,309	-	-	2,309
Contributed capital revenue	-	274,032	-	274,032
Interaccount transfers	291,172	(291,172)	-	-
Transfers in	99,103	50,000	-	149,103
<b>Change in net assets</b>	168,176	32,860	-	201,036
<b>Total net assets - beginning</b>	2,766,527	6,544	36,760	2,809,831
<b>Total net assets - ending</b>	<u>\$ 2,934,703</u>	<u>\$ 39,404</u>	<u>\$ 36,760</u>	<u>\$ 3,010,867</u>

**CITY OF MCALESTER, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2012**

**Combining Statement of Net Assets, Internal Service Funds – June 30, 2012**

	Internal Service Funds		
	Worker's Compensation Fund	FLEET Maintenance Fund	Total
<b>ASSETS:</b>			
Current Assets:			
Cash and cash equivalents	\$ 942	\$ 17,939	\$ 18,881
Due from other funds	409,499	36,701	446,200
Total assets	410,441	54,640	465,081
<b>LIABILITIES:</b>			
Current Liabilities:			
Accounts payable	942	18,655	19,597
Accrued payroll liabilities	-	5,327	5,327
Estimated liability for claims	409,499	-	409,499
Accrued compensated absences - current	-	3,066	3,066
Accrued compensated absences - noncurrent	-	27,592	27,592
Total liabilities	410,441	54,640	465,081
<b>NET ASSETS:</b>			
Unrestricted	-	-	-
Total net assets	\$ -	\$ -	\$ -

**Combining Statement of Revenues, Expenses, and Changes in Net Assets, Internal Service Funds – Year Ended June 30, 2012**

	Internal Service Funds		
	Worker's Compensation Fund	FLEET Maintenance Fund	Total
<b>Operating Revenues:</b>			
Charges for services:			
Self insurance charges	\$ 473,059	\$ 733,014	\$ 1,206,073
Miscellaneous	2,502	422	2,924
Total operating revenues	475,561	733,436	1,208,997
<b>Operating Expenses:</b>			
Claims expense	475,561	-	475,561
FLEET maintenance expenses	-	733,436	733,436
Total operating expenses	475,561	733,436	1,208,997
<b>Operating income (loss)</b>	-	-	-
<b>Total net assets - beginning</b>	-	-	-
<b>Total net assets - ending</b>	\$ -	\$ -	\$ -

**CITY OF MCALESTER, OKLAHOMA  
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As of and for the Year Ended June 30, 2012**

**Schedule of Expenditures of Federal Awards – Year Ended June 30, 2012**

Federal/State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Grant #	Award Amount	Federal Expenditures
<b>FEDERAL AWARDS:</b>				
<u>U.S. DEPARTMENT OF JUSTICE:</u>				
Bulletproof Vest Partnership Program District Attorney's Council: Justice Assistance Grant	16.607	2007BUBX07036796	\$ 13,250	\$ 2,955
	16.738	J09-10-067	10,000	10,000
Total U.S. Department of Justice			23,250	12,955
<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	63,786	63,786
Total U.S. Department of Health and Human Services			63,786	63,786
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>				
Passed through Oklahoma Department of Commerce: Community Development Block Grant	14.228	13914 CDBG 09	90,630	90,630
Community Development Block Grant	14.228	14421 CDBG 10	73,874	-
Total U.S. Department of Housing and Urban Development			164,504	90,630
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>				
Federal Aviation Administration: Airport Improvement Grant	20.106	AIP 3-40-0057-010-2010	109,250	100,362
Airport Improvement Grant	20.106	AIP 3-40-0057-011-2011	1,420,815	153,600
Airport Improvement Grant	20.106	AIP 3-40-0057-012-2011	407,351	15,704
Total Federal Aviation Administration			1,937,416	269,666
Passed through Oklahoma Department of Public Safety: E911 Services Grant	20.610	NHTSA-2008-0142	126,877	-
Passed through Oklahoma Highway Safety Office: State and Community Highway Safety	20.600	SE-11-03-06-03	30,000	5,476
State and Community Highway Safety	20.600	SE-12-03-04-04	30,000	22,691
Total Oklahoma Highway Safety Office			60,000	28,167
Total U.S. Department of Transportation			2,124,293	297,833
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>				
Regional Response System Grant	97.073	#126.017	96,718	96,718
Passed through Oklahoma Office of Homeland Security: Multi-Hazard Mitigation Planning Grant	97.036	FEMA-1678-DR-OK	29,990	1,874
Disaster Grant - Public Assistance (Flooding)	97.036	PA-1988	4,141	4,141
Disaster Grant - Public Assistance (Severe Storm & Flooding)	97.036	PA-1988	96,289	96,289
Total Oklahoma Office of Homeland Security			130,420	102,304
Total U.S. Department of Homeland Security			227,138	199,022
<b>TOTAL FEDERAL AWARDS</b>			\$ 2,602,971	\$ 664,226

**CITY OF MCALESTER, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
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**Schedule of Revenue Bond Coverage – Year Ended June 30, 2012**

	<u>Series 1999, 2002 Bonds &amp; 1999 Loan</u>
Gross Revenue Available for Debt Service:	
Charges for services	\$ 10,205,064
Sales tax pledged and transferred	<u>3,368,108</u>
Total Gross Revenues Available	<u>13,573,172</u>
Operating Expenses:	
Water, Sewer and Sanitation	<u>7,533,575</u>
Total Operating Expenses	<u>7,533,575</u>
Net Revenues Available for Debt Service	<u>\$ 6,039,597</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>\$ 3,968,564</u>
Computed Coverage	<u>152%</u>
Coverage Requirement	<u>125%</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, 2012**

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**SINGLE AUDIT AND INTERNAL CONTROL AND COMPLIANCE INFORMATION**

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of McAlester, Oklahoma (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 28, 2013. Our report includes 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 the City's discretely presented component unit, the McAlester Regional Health Center Authority, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Cole & Reed P.C.

Oklahoma City, Oklahoma  
February 28, 2013

Independent Auditors' Report on  
Compliance with Requirements That Could Have a  
Direct and Material Effect on Each Major Program and on  
Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the City of McAlester, Oklahoma (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding 2012-01.

## Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as Finding 2012-01. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Example Entity's response and, accordingly, we express no opinion on the response.

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

Cole & Reed P.C.

Oklahoma City, Oklahoma  
February 28, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF MCALESTER

Year Ended June 30, 2012

**Section I--Summary of Auditors' Results**

*Financial statements*

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  yes  no

Identification of major programs:

<u>Program</u>	<u>CFDA Number</u>
Airport Improvement Program	20.106
FEMA Public Assistance Programs	97.036

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

Auditee qualified as low-risk auditee?  yes  no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF MCALESTER

Year Ended June 30, 2012

**Section II--Findings Required to be Reported in Accordance with *Government Auditing Standards*:**

None to report for the June 30, 2012 period.

**Section III--Finding Required to be Reported in Accordance with OMB Circular A-133:**

See Finding 2012-01.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF MCALESTER

Year Ended June 30, 2012

FINDING 2012-01

### **Criteria**

Per the OMB Circular A-133 Compliance Supplement, as a recipient of federal funding for the Airport Improvement Grant (AIG), the City of McAlester is required to fulfill specific reporting compliance requirements. In addition to the submission of Forms SF-270 or SF-271 for request for reimbursement related to grant expenditures incurred by the city, the City of McAlester should submit Form SF-425 "Federal Financial Report" at the conclusion of every quarter.

### **Condition**

When performing testing over reporting compliance for the AIG Program, C&R noted several Forms SF-425 were not submitted for the various AIG Grant Programs, as required above.

C&R noted the Forms SF-425 were not submitted for the following quarters in fiscal year 2012:

AIP-010-2010	Quarters ending 9/30/11, 12/31/11
AIP-011-2011	Quarters ending 9/30/11
AIP-011-2012	Quarters ending 9/30/11, 3/31/12, 6/30/12

### **Cause**

Employees responsible for preparation and submission of reports related to the AIG Program were not aware of the reporting requirements.

### **Effect or Potential Effect**

The City of McAlester is not in compliance with A-133 requirements regarding reporting of major federal award programs.

### **Recommendation**

C&R recommends that employees and supervisors involved in the management and implementation of the AIG Program familiarize themselves with the reporting requirements related to the federal award program. We recommend internal controls, such as a calendar, be developed and implemented to ensure reporting requirements related to the AIG Program are fulfilled.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF MCALESTER

Year Ended June 30, 2012

FINDING 2012-01—Continued

### **The City's Response and Corrective Action Plan**

The City acknowledges employees involved in the AIG program's reporting procedures were not familiar with the reporting requirements. Connie Baucom, Administrative Assistant, will prepare all missing reports (as previously discussed) with the assistance of Tim House, FAA Auditor.

Employees and supervisors involved with the AIG program understand submission of SF-425 forms is required quarterly for each grant program. Moving forward, reports will be prepared by Connie Baucom with the assistance of Tim House, then subsequently reviewed by Mel Priddy, Department Head, before submission to the FAA. All employees will cooperate to ensure reports are prepared accurately and submitted timely.

Mel Priddy, Department Head  
Community Services

Deadline for Completion: 02/28/2013