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Shannon Vann

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Butch Lamb  
Matthew Bennett  
Clayton Meadows

**City Attorney**

John Robert Montgomery

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**Assistant City Manger**

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***Report on Audit of  
Financial Statements  
June 30, 2011***



**City of Sallisaw, Oklahoma**  
**Report on Audit of Financial Statements**  
**June 30, 2011**  
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**Report on Audit of Financial Statements**  
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# Ronald C. Cottrell, CPA

## Independent Auditor's Report

October 3, 2011

City Commissioners  
City of Sallisaw  
Sallisaw, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sallisaw, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City of Sallisaw's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Sallisaw's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Sallisaw's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sallisaw, Oklahoma, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note VI. D. to the financial statements, the City of Sallisaw made adjustments to beginning net assets for governmental activities and business-type activities in the government-wide financial statements, and to the Sallisaw Municipal Authority in the fund financial statements, and to beginning fund balances for the non-major governmental funds in the fund financial statements to correct errors in the prior year's financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2011, on our consideration of the City of Sallisaw's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the

## Ronald C. Cottrell, CPA

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

The management's discussion and analysis and budgetary comparison information on pages 3 through 15 and 43 through 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sallisaw's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying combining and individual nonmajor fund financial statements listed under supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of OMB Circular A-133 or the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ronald C. Cottrell, CPA

**City of Sallisaw, Oklahoma**  
**Management's Discussion and Analysis**  
**June 30, 2011**

The following discussion and analysis of the City of Sallisaw's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the City's financial statements, which begin on page 13.

**Financial Highlights**

- ❖ The assets of the City of Sallisaw exceeded its liabilities at the close of the most recent fiscal year by \$ 17,254,688 (net assets). Of this amount, \$ 3,966,506 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- ❖ During the year, the government's total net assets increased by \$ 597,590.
- ❖ As of the close of the current fiscal year, the City of Sallisaw's governmental funds reported combined ending fund balances of \$ 2,736,634, a decrease of \$ 799,402 in comparison with the prior year. Approximately \$ 1,382,361 is available for spending at the government's discretion (unreserved fund balance).
- ❖ At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 423,256, or 7% of total general fund expenditures.
- ❖ The City of Sallisaw's total debt increased \$ 2,856,104 during the current fiscal year.
- ❖ Net capital assets increased \$ 3,517,002 after deducting depreciation of \$ 2,127,573.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Sallisaw's basic financial statements. The City of Sallisaw's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad view of the City of Sallisaw's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Sallisaw's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Sallisaw is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

See disclaimer in accompanying Independent Auditor's Report.

Both of the government-wide financial statements distinguish functions of the City of Sallisaw that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Sallisaw include general government, public safety, public works, and culture and recreation. The business-type activities of the City of Sallisaw include the Sallisaw Municipal Authority which includes the city's electric, water, wastewater, landfill, and sanitation utility operations, as well as telecommunication services.

The government-wide financial statements can be found on pages 16–17 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Sallisaw, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Sallisaw can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains twenty-one (21) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital improvements fund, both of which are considered to be major funds. Data from the other nineteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided for the general and capital improvements funds (major funds) to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 18–20 of this report.

**Proprietary funds.** The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its Municipal Authority operation.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City does not have any internal service funds. Because these type services predominantly benefit governmental rather than business-type functions, they would have been included within governmental activities in the government-wide financial statements if the City had reported any such funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Sallisaw Municipal Authority, as well as the Sallisaw Water Projects fund, both of which are considered major funds of the City. The Sallisaw Water Projects fund is part of the Sallisaw Municipal Authority, but is used to account for the account balances (asset and debt) as well as the activities of its water system projects.

The basic proprietary fund financial statements can be found on pages 21–23 of this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City does not report any fiduciary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24–42 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's actual revenues and expenditures on a budgetary basis compared with the original and final budgets for the general and capital improvement funds. Required supplementary information can be found on pages 43–44 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on budget and actual revenues and expenditures for the general and capital improvements funds. Combining and individual fund statements and schedules can be found on pages 45–54 of this report.

## **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$ 17,254,688 at the close of the most recent fiscal year.

One portion of the City's net assets (50%) reflects its investment in capital assets (e.g., land, buildings, improvements, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. 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.

**City of Sallisaw**  
Net Assets  
June 30, 2011 and 2010

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Current assets	\$ 3,203,605	\$ 4,058,269	\$ 7,217,439	\$ 6,858,636	\$ 10,421,044	\$ 10,916,905
Capital and other noncurrent assets	6,659,053	6,167,969	41,972,088	39,016,741	48,631,141	45,184,710
Total assets	9,862,658	10,226,238	49,189,527	45,875,377	59,052,185	56,101,615
Current liabilities	705,431	968,647	3,358,065	4,423,927	4,063,496	5,392,574
Long-term liabilities	226,365	464,744	37,507,636	33,669,910	37,734,001	34,134,654
Total liabilities	931,796	1,433,391	40,865,701	38,093,837	41,797,497	39,527,228
Net assets:						
Invested in capital assets, net of related debt	6,194,228	5,259,084	2,464,522	2,318,723	8,658,750	7,577,807
Restricted	1,354,273	1,507,363	3,275,159	3,476,442	4,629,432	4,983,805
Unrestricted	1,382,361	2,026,400	2,584,145	1,986,375	3,966,506	4,012,775
Total net assets	\$ 8,930,862	\$ 8,792,847	\$ 8,323,826	\$ 7,781,540	\$ 17,254,688	\$ 16,574,387

An additional portion of the City's net assets (15%) represents resources that are subject to external restrictions on how they may be used, for example, capital improvements and debt service. The remaining balance of unrestricted net assets (\$ 3,966,506) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net assets increased by \$ 597,590 during the current fiscal year. This is mainly attributed to:

- A net increase in capital assets of \$3,025,917
- A net increase in long term liabilities of \$3,599,347
- A decrease in current liabilities of \$1,329,078
- An increase in the amount of landfill closure cost charged to expense of \$237,705

**City of Sallisaw**  
Statement of Activities  
Years Ended June 30, 2011 and 2010

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Program revenues:						
Charges for services	\$ 377,983	\$ 460,606	\$ 16,557,597	\$ 15,290,963	\$ 16,935,580	\$ 15,751,569
Grants/contributions	795,224	570,736	18,000	108,000	813,224	678,736
General revenues	5,687,051	5,557,497	95,008	139,049	5,782,059	5,696,546
Total revenues	6,860,258	6,588,839	16,670,605	15,538,012	23,530,863	22,126,851

See disclaimer in accompanying Independent Auditor's Report.

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Expenses:						
General government	1,777,735	1,696,465	-	-	1,777,735	1,696,465
Public safety	2,693,080	2,781,501	-	-	2,693,080	2,781,501
Public works	1,561,610	1,655,778	-	-	1,561,610	1,655,778
Culture and recreation	601,598	648,983	-	-	601,598	648,983
Economic development	117,492	109,992	-	-	117,492	109,992
Electric	-	-	7,570,659	7,129,826	7,570,659	7,129,826
Water	-	-	2,534,844	2,699,957	2,534,844	2,699,957
Wastewater	-	-	761,167	753,921	761,167	753,921
Landfill	-	-	1,172,175	1,021,129	1,172,175	1,021,129
Sanitation	-	-	538,551	582,212	538,551	582,212
Telecommunications	-	-	2,759,926	2,899,568	2,759,926	2,899,568
Administration/other	33,797	34,184	810,639	745,991	844,436	780,175
Total expenses	<u>6,785,312</u>	<u>6,926,903</u>	<u>16,147,961</u>	<u>15,832,604</u>	<u>22,933,273</u>	<u>22,759,507</u>
Increase (decrease) in net assets before transfers	74,946	(338,064)	522,644	(294,592)	597,590	(632,656)
Transfers, net	<u>60,796</u>	<u>464,088</u>	<u>(60,796)</u>	<u>(464,088)</u>	-	-
Increase in net assets	135,742	126,024	461,848	(758,680)	597,590	(632,656)
Net assets, beginning, restated	<u>8,795,120</u>	<u>8,669,096</u>	<u>7,861,978</u>	<u>8,620,658</u>	<u>16,657,098</u>	<u>17,289,754</u>
Net assets, ending	<u>\$ 8,930,862</u>	<u>\$ 8,795,120</u>	<u>\$ 8,323,826</u>	<u>\$ 7,861,978</u>	<u>\$ 17,254,688</u>	<u>\$ 16,657,098</u>

**Governmental activities.** Governmental activities increased the City's net assets by \$ 135,742. Key elements of this increase are as follows:

- Increase in grant revenues and other contributions of \$224,488.
- Increase in total revenues of \$271,419.
- Decrease in total expenses of \$ 141,591.

**City of Sallisaw**  
Governmental Activities  
Years Ended June 30, 2011 and 2010

	Program Revenues		Cost of Services	
	2011	2010	2011	2010
General government	\$ 34,770	\$ 88,203	\$ 1,777,735	\$ 1,696,465
Public safety	1,004,875	507,843	2,693,080	2,781,501
Public works	124,908	428,419	1,561,610	1,655,778
Culture and recreation	8,654	6,877	601,598	648,983
Economic development	-	-	117,492	109,992
Interest on long-term debt	-	-	33,797	34,184
Total governmental activities	<u>\$ 1,173,207</u>	<u>\$ 1,031,342</u>	<u>\$ 6,785,312</u>	<u>\$ 6,926,903</u>

See disclaimer in accompanying Independent Auditor's Report.

**Business-type activities.** Business-type activities increased the City's net assets by \$ 461,848. The key elements in this increase are:

- Increase in service revenue of \$1,266,634.
- Increase in total expense of \$315,357.
- Increase in long-term liabilities of \$3,837,726.
- Increase in unrestricted assets of \$597,770.

**City of Sallisaw**  
Business-Type Activities  
Years Ended June 30, 2011 and 2010

	<u>Program Revenues</u>		<u>Cost of Services</u>	
	2011	2010	2011	2010
Electric	\$ 9,427,904	\$ 8,933,844	\$ 7,570,659	\$ 7,129,826
Water	1,278,594	1,174,063	2,534,844	2,699,957
Wastewater	513,036	513,648	761,167	753,921
Sanitation	931,336	955,151	538,551	582,212
Landfill	1,449,701	1,292,918	1,172,175	1,021,129
Telecommunications	2,276,908	2,241,522	2,759,926	2,899,568
Administration/other	698,118	287,817	810,639	745,991
Total business-type activities	<u>\$ 16,575,597</u>	<u>\$ 15,398,963</u>	<u>\$ 16,147,961</u>	<u>\$ 15,832,604</u>

**Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 2,736,634, a decrease of \$ 799,402 in comparison with the prior year. Approximately 51% of this total amount (\$ 1,382,361) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for capital improvements and encumbrances/other.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 423,256. As a measure of the general fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Unreserved fund balance represents 7% of total general fund expenditures. General fund revenues of \$ 5,938,124 represented an increase of \$ 91,446 over the prior year, due mainly to an increase in various tax receipts received during the fiscal year. Expenditures of \$ 5,968,508 were \$ 7,446 less than the prior year as a result of city staff diligently working to hold expenses to FY 2010 levels. During FY 2011 merit increases for employees were frozen due to the economic conditions of the area.

See disclaimer in accompanying Independent Auditor's Report.

The other governmental funds have total fund balances of \$ 2,276,785, of which \$ 1,317,680 is reserved for capital improvements and other. The net decrease in fund balance during the current year in the other governmental funds was \$ 665,750.

This was the result of:

- Use of funds in the Landfill Expansion Fund for construction of landfill cell VII, \$462,502.
- Closing of the City-At-Large Fund and moving \$87,239 to the General Fund.
- In the Street & Alley Fund, \$166,297 was used on the summer street asphalt program.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Sallisaw Municipal Authority at the end of the year amounted to \$ 8,087,416. The total increase in net assets was \$ 431,503. Operating revenues showed an increase of \$ 1,187,360 due to increases in revenues from sales of electricity, water and other proprietary services.

Operating expenses increased by \$ 229,555, mainly due to increases in the cost to supply utility services. During the year, city staff worked diligently to maintain expenses at previous year levels.

### **Budgetary Highlights of Major Governmental Funds**

The total budget for the general fund did not change significantly during the year. Adjustments among the various departments were made throughout the year.

During the year, revenues of \$ 14,394,486 were less than budgetary estimates by \$ 977,593. This was primarily due to:

- A change in the local sales tax rate from 4% to 3.5%.
- A reduction in operating transfers in. Additional transfers not needed due to cost savings.

Expenditures of \$ 14,502,919 were less than budget appropriations of \$ 15,746,260, due to

- Reductions in staff due to turnover and retirements.
- Efforts of city employees to hold expenses to FY 2010 levels.

### **Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounts to \$ 46,813,098 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, vehicles and equipment, and infrastructure.

Major capital asset events during the current fiscal year included the following:

- Summer street program, \$166,297.
- Construction of Phase VII of the landfill, \$898,398.
- Completion of a new 24" raw water transmission line, \$2,990,978.
- Completion of a new 1.5 million gallon clearwell, \$1,928,958.
- Rebuild of sewage lift station #3, \$35,042.
- Purchase of a used fuel truck for the airport, \$25,000.

See disclaimer in accompanying Independent Auditor's Report.

- Purchase of a used asphalt zipper for street repair, \$30,000.

**City of Sallisaw**  
Capital Assets  
June 30, 2011 and 2010  
(net of depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,350,193	\$ 1,315,993	\$ 1,471,897	\$ 1,420,813	\$ 2,822,090	\$ 2,736,806
Construction in progress	586,779	-	-	1,322,441	586,779	1,322,441
Buildings and improvements	3,223,851	3,148,007	1,905,616	2,035,216	5,129,467	5,183,223
Equipment and vehicles	1,498,227	1,703,969	1,949,773	2,202,700	3,448,000	3,906,669
Utility systems	-	-	34,826,758	30,146,957	34,826,758	30,146,957
Capital assets, net	<u>\$ 6,659,050</u>	<u>\$ 6,167,969</u>	<u>\$ 40,154,044</u>	<u>\$ 37,128,127</u>	<u>\$ 46,813,094</u>	<u>\$ 43,296,096</u>

Additional information of the City's capital assets can be found in Note V.D. on pages 31–33 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$ 38,391,569. This represents bonds secured solely by specified revenue sources (i.e., revenue bonds and notes) totaling \$ 31,016,000, other notes payable to banks and other governmental entities of \$ 6,910,744, and \$ 464,825 in capital lease obligations.

The City's total debt increased \$ 2,856,104 during the current fiscal year. The key factor in this increase was the finalization of the Oklahoma Water Resources Board note payable dated March 2, 2010. Proceeds of this note were used to construct a new raw water transmission line and a new 1.5 MG clear well water storage tank.

**City of Sallisaw**  
Outstanding Debt  
June 30, 2011 and 2010

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Capital lease obligations	\$ 464,825	\$ 908,885	\$ -	\$ -	\$ 464,825	\$ 908,885
Revenue bonds	-	-	30,465,000	30,905,000	30,465,000	30,905,000
Unamortized premium on bonds	-	-	551,000	573,958	551,000	573,958
Notes payable	-	-	6,910,744	3,147,622	6,910,744	3,147,622
Total outstanding debt	<u>\$ 464,825</u>	<u>\$ 908,885</u>	<u>\$ 37,926,744</u>	<u>\$ 34,626,580</u>	<u>\$ 38,391,569</u>	<u>\$ 35,535,465</u>

Additional information on the City's long-term debt can be found in Note V.F. on pages 33–36 of this report.

## **Economic Factors and Next Year's Budgets and Rates**

Economic conditions of Sallisaw and the surrounding area stabilized and did show some improvement toward the end of the fiscal year. Although the local economy is still not at previous levels, the City of Sallisaw has been able to withstand the weak conditions due to budget constraints and efforts of all city employees to save funds. Costs to provide city services continue to escalate while sales tax collections and revenue for certain utilities remain static. As these conditions persist, the city will strive to cut costs where possible and still provide viable services to the community.

In preparing the 2012 revenue and expense budget, the City's elected and appointed officials considered many factors that would affect city operations in the new fiscal year. During the budget process officials had to consider, among other items:

- The cost of employee health insurance and retirement benefits.
- Removing the freeze from employee merit increases.
- Taking over operations of Brushy Lake State Park.
- The need for landfill compacting equipment.
- The need of a sewer line rehabilitation project for areas along the Rock Branch drainage ditch.
- A new water source for the community. This item has been and still remains a high priority for city officials.

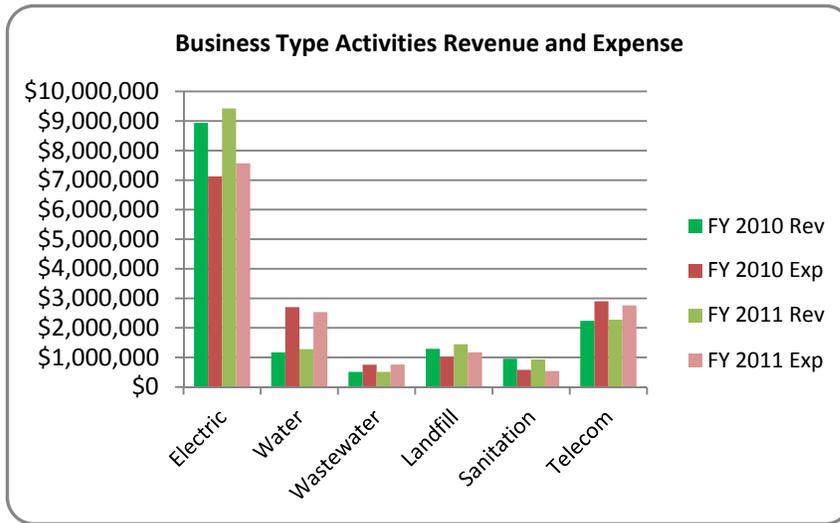
Items of note included in the FY 2012 budget include:

- Salary and Benefit budget of \$6,643,522 to fund 123 full time employees and 32 part-time/seasonal positions.
- \$157,281 for a 3% cost of living salary adjustment.
- Increasing the city's contribution to OMRF retirement benefits from 18.18% to 18.8%.
- \$67,000 for maintenance and contract operations at Brushy Lake Park.
- \$95,000 for economic development contract items.
- \$78,000 for the first year's lease purchase of two landfill compactor units.
- \$300,000 for matching funds for sewer line rehabilitation. A \$300,000 grant request has been submitted for this item as well.
- \$45,000 for the first year's lease purchase of eight police pursuit vehicles.

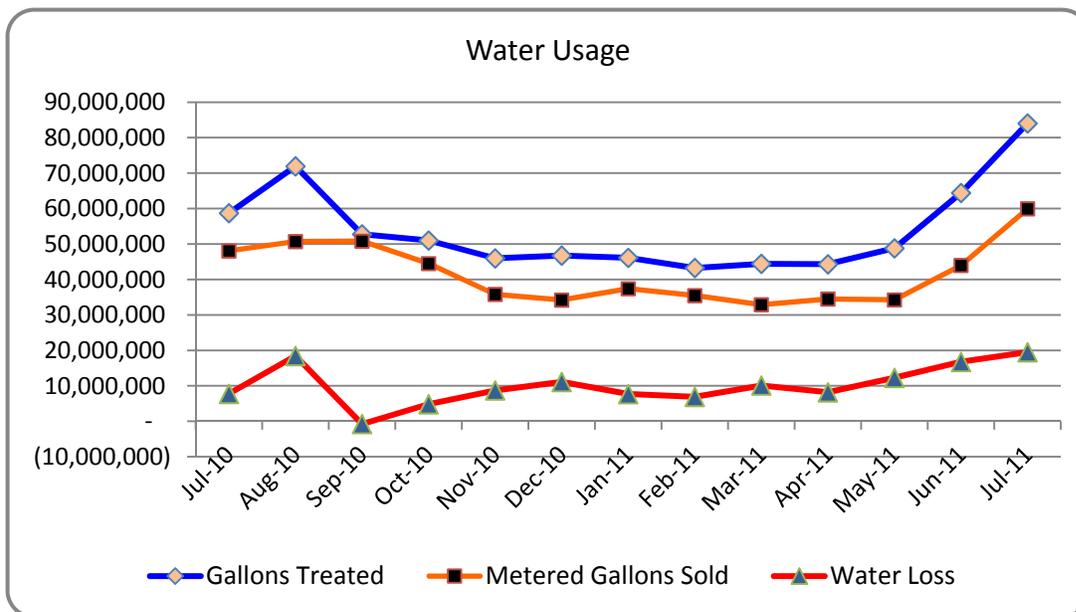
Utility Rates: The utility rates for Sallisaw remain among the lowest in the State of Oklahoma. For FY 2012 utility service revenues are expected to remain stable with little or no fluctuation.

During FY 2011 a significant change was made to the water rate structure. This was required to provide additional revenues needed for debt service related to the Oklahoma Water Resources Board March 3, 2010 loan.

Compared to FY 2010, FY 2011 revenues from utility services increased \$766,333, while direct expenses to provide these services increased \$251,339.

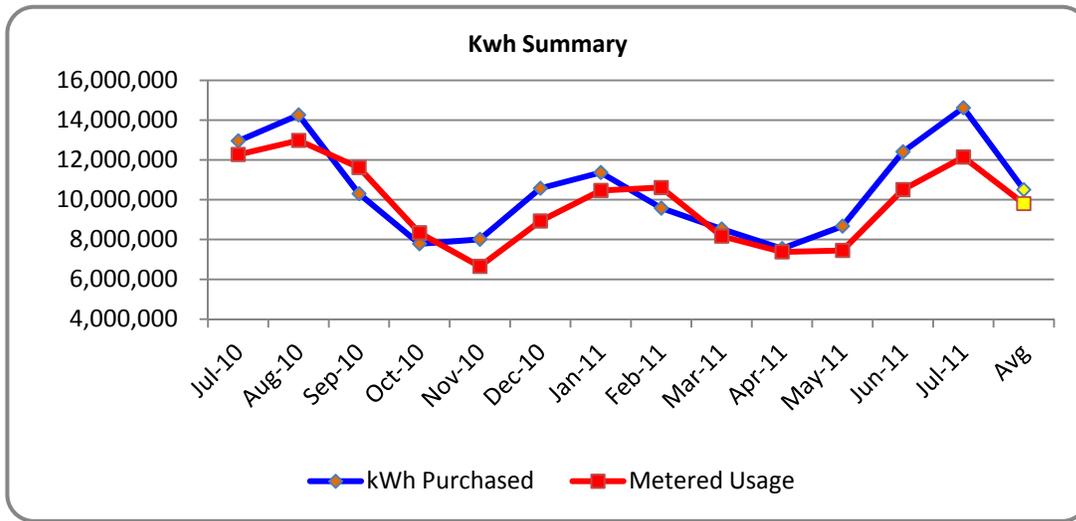


Water Usage: Toward the end of the fiscal year, water usage increased due to the hot dry weather. During July 2011, the water treatment plant was producing up to 2.7 million gallons of water daily. Water sales peaked at 59,944,000 gallons in July 2011. During the year, the city provided water service to an average of 3,449 meters per month.



See disclaimer in accompanying Independent Auditor's Report.

Electric Usage: Electric usage also increased toward the end of the fiscal year due to the heat. Sales of electricity peaked at 14,618,977 kwh in July 2011. During the year, the city provided electricity to an average of 3,876 electric meters per month.

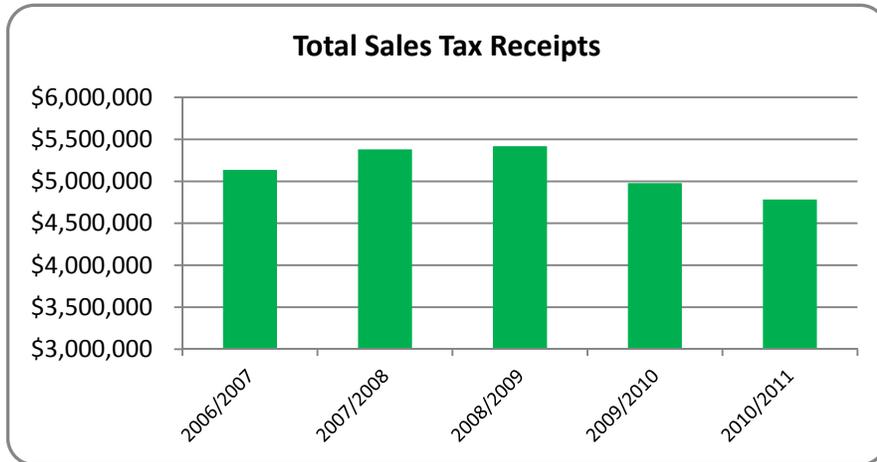


Sales Tax Revenues: Revenues related to sales tax receipts are expected to remain stable with the possibility of slowly increasing back to FY 2008/2009 levels. Sales tax receipts based on 1% show FY 2011 ended at 92% of FY 2009 levels.

**Sales Tax Receipts Based on 1%**

	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
<b>JULY</b>	\$ 97,375	\$ 115,064	\$ 123,642	\$ 109,329	\$ 104,436
<b>AUG</b>	\$ 98,823	\$ 116,159	\$ 111,624	\$ 107,913	\$ 108,897
<b>SEPT</b>	\$ 114,772	\$ 107,923	\$ 121,860	\$ 106,308	\$ 103,898
<b>OCT</b>	\$ 106,172	\$ 117,309	\$ 107,390	\$ 101,176	\$ 108,157
<b>NOV</b>	\$ 99,514	\$ 100,668	\$ 102,593	\$ 95,095	\$ 94,195
<b>DEC</b>	\$ 98,950	\$ 104,137	\$ 108,627	\$ 103,610	\$ 99,355
<b>JAN</b>	\$ 118,428	\$ 120,443	\$ 133,217	\$ 91,637	\$ 107,095
<b>FEB</b>	\$ 117,751	\$ 121,066	\$ 115,682	\$ 122,903	\$ 113,732
<b>MAR</b>	\$ 105,974	\$ 109,052	\$ 116,105	\$ 101,108	\$ 97,332
<b>APR</b>	\$ 109,199	\$ 110,200	\$ 108,765	\$ 99,661	\$ 106,464
<b>MAY</b>	\$ 115,729	\$ 108,486	\$ 102,095	\$ 101,224	\$ 106,390
<b>JUNE</b>	\$ 101,288	\$ 114,429	\$ 102,809	\$ 104,714	\$ 96,871
<b>TOTAL</b>	\$ 1,283,974	\$ 1,344,935	\$ 1,354,407	\$ 1,244,675	\$ 1,246,821
<b>Avg</b>	\$ 106,998	\$ 112,078	\$ 112,867	\$ 103,723	\$ 103,902

See disclaimer in accompanying Independent Auditor's Report.



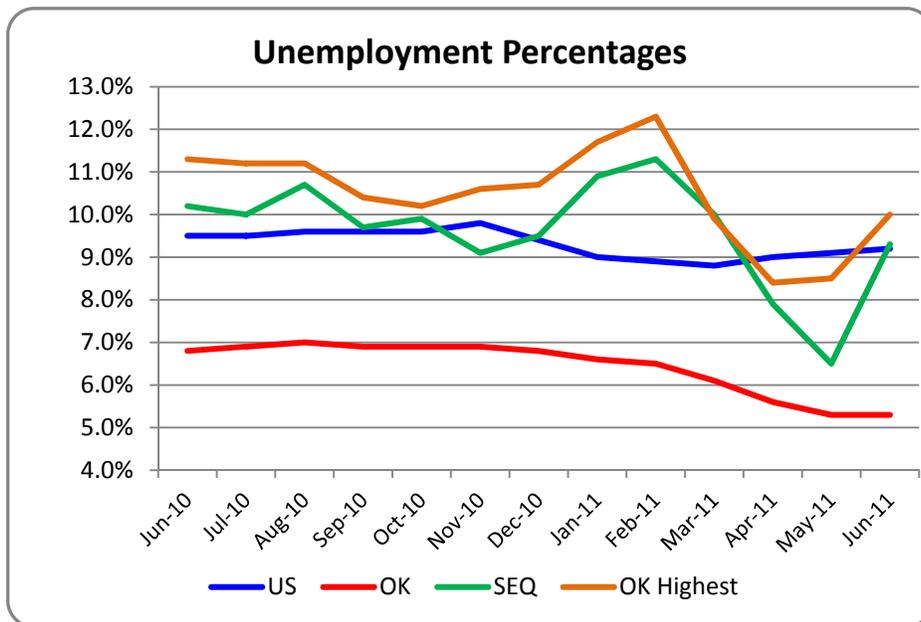
As of June 30, 2011 the sales tax rate within the city limits of Sallisaw was 9.417%, with 3.5% of this going to the City of Sallisaw.

Last Sales Tax Change: 1/1/2010

Total sales tax = 9.417%

City	State	County Roads	County Jail	County Sheriff/ Jail	County Fire Dept
3.500%	4.500%	0.500%	0.167%	0.500%	0.250%

Unemployment: As of June 2011, the unemployment rate for Sequoyah County was at 9.3%, compared to 5.3% for Oklahoma and 9.2% for the United States.



See disclaimer in accompanying Independent Auditor's Report.

The City of Sallisaw leadership and staff continues to find ways to improve city services and move Sallisaw further into the future. The City actively seeks new industry and commercial business that will create jobs for the community and stimulate the local economy. Infrastructure continues to be updated as funds allow and we continue to build our reserve funds as much as possible. We routinely seek grants and other federal and state funding to assist in maintaining and improving services.

**Mission Statement**

"The mission of the City of Sallisaw is to provide superior municipal services to all residents of the City in the most efficient, cost-effective manner possible, and to promote growth and development of the community to enhance the quality of life for all citizens."

**Board of City Commissioners**

Mayor	Shannon Vann	
Commissioner	Butch Lamb	Ward 1
Commissioner	Josh Bailey	Ward 2
Commissioner	Clayton Meadows	Ward 3
Commissioner	Matthew Bennett	Ward 4

**Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, and investors 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 Office of the City Manager at the City of Sallisaw, Post Office Box 525, Sallisaw, Oklahoma 74955-0525. You may also visit our website at [www.sallisawok.org](http://www.sallisawok.org) for more budgetary and contact information.

**City of Sallisaw, Oklahoma**  
**Statement of Net Assets**  
**June 30, 2011**

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 1,938,351	\$ 1,218,198	\$ 3,156,549
Investments	893,283	839,016	1,732,299
Receivables (net of allowance for uncollectibles):			
Accounts	15,895	1,310,626	1,326,521
Taxes	426,019	-	426,019
Due from other governments	19,658	-	19,658
Accrued interest	2,529	3,383	5,912
Internal balances	(216,300)	216,300	-
Prepaid expenses	124,170	-	124,170
Restricted assets:			
Cash and cash equivalents	-	94,803	94,803
Investments	-	3,535,113	3,535,113
Total current assets	<u>3,203,605</u>	<u>7,217,439</u>	<u>10,421,044</u>
Noncurrent assets:			
Notes receivable	-	50,000	50,000
Debt issuance costs (net of accumulated amortization)	-	1,768,043	1,768,043
Capital assets (net of accumulated depreciation)	6,659,053	40,154,045	46,813,098
Total noncurrent assets	<u>6,659,053</u>	<u>41,972,088</u>	<u>48,631,141</u>
Total assets	<u>9,862,658</u>	<u>49,189,527</u>	<u>59,052,185</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued liabilities	466,971	766,052	1,233,023
Payable from restricted assets:			
Accrued interest	-	753,368	753,368
Customer deposits	-	655,063	655,063
Deferred revenue	-	-	-
Current portion of long-term obligations	238,460	1,183,582	1,422,042
Total current liabilities	<u>705,431</u>	<u>3,358,065</u>	<u>4,063,496</u>
Noncurrent liabilities:			
Capital lease obligations	464,825	-	464,825
Revenue bonds payable (net of unamortized premium)	-	35,985,606	35,985,606
Notes payable	-	1,941,139	1,941,139
Deferred loss on refunding	-	(669,922)	(669,922)
Accrued landfill closure costs	-	1,434,395	1,434,395
Less: current portion of long-term obligation	(238,460)	(1,183,582)	(1,422,042)
Total noncurrent liabilities	<u>226,365</u>	<u>37,507,636</u>	<u>37,734,001</u>
Total liabilities	<u>931,796</u>	<u>40,865,701</u>	<u>41,797,497</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	6,194,228	2,464,522	8,658,750
Restricted for:			
Enabling legislation	628,656	-	628,656
Statutes	273,781	-	273,781
Debt service	-	2,559,126	2,559,126
Contractual agreement	451,836	716,033	1,167,869
Unrestricted	1,382,361	2,584,145	3,966,506
Total net assets	<u>\$ 8,930,862</u>	<u>\$ 8,323,826</u>	<u>\$ 17,254,688</u>

The accompanying notes are an integral part of these financial statements.

**City of Sallisaw, Oklahoma**  
**Statement of Activities**  
**Year Ended June 30, 2011**

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 1,777,735	\$ 34,770	\$ -	\$ -
Public safety	2,693,080	209,696	232,930	562,249
Public works	1,561,610	124,863	45	-
Culture and recreation	601,598	8,654	-	-
Economic development	117,492	-	-	-
Interest on long-term debt	33,797	-	-	-
Total governmental activities	<u>6,785,312</u>	<u>377,983</u>	<u>232,975</u>	<u>562,249</u>
Business-type activities:				
Administration	43,415	-	-	-
Electric	7,570,659	9,427,904	-	-
Water	2,534,844	1,278,594	-	-
Wastewater	761,167	513,036	-	-
Landfill	1,172,175	1,449,701	-	-
Sanitation	538,551	931,336	-	-
Telecommunications	2,759,926	2,276,908	-	-
Other	767,224	680,118	18,000	-
Total business-type activities	<u>16,147,961</u>	<u>16,557,597</u>	<u>18,000</u>	<u>-</u>
Total primary government	<u>\$ 22,933,273</u>	<u>\$ 16,935,580</u>	<u>\$ 250,975</u>	<u>\$ 562,249</u>

General revenues:

Taxes:

  Sales and use

  Franchise

  Other

Interest income

Miscellaneous

Loss on refunding

Transfers – internal activity

  Total general revenues and transfers

  Change in net assets

Net assets, beginning, restated

Net assets, ending

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (1,742,965)	\$ -	\$ (1,742,965)
(1,688,205)	-	(1,688,205)
(1,436,702)	-	(1,436,702)
(592,944)	-	(592,944)
(117,492)	-	(117,492)
(33,797)	-	(33,797)
<u>(5,612,105)</u>	<u>-</u>	<u>(5,612,105)</u>
-	(43,415)	(43,415)
-	1,857,245	1,857,245
-	(1,256,250)	(1,256,250)
-	(248,131)	(248,131)
-	277,526	277,526
-	392,785	392,785
-	(483,018)	(483,018)
-	(69,106)	(69,106)
<u>-</u>	<u>427,636</u>	<u>427,636</u>
<u>(5,612,105)</u>	<u>427,636</u>	<u>(5,184,469)</u>
4,939,445	-	4,939,445
159,294	-	159,294
305,175	-	305,175
13,363	98,886	112,249
269,774	36,723	306,497
-	(40,601)	(40,601)
60,796	(60,796)	-
<u>5,747,847</u>	<u>34,212</u>	<u>5,782,059</u>
135,742	461,848	597,590
<u>8,795,120</u>	<u>7,861,978</u>	<u>16,657,098</u>
<u>\$ 8,930,862</u>	<u>\$ 8,323,826</u>	<u>\$ 17,254,688</u>

**City of Sallisaw, Oklahoma**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2011**

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 649,993	\$ 1,288,358	\$ 1,938,351
Investments	-	893,283	893,283
Receivables:			
Accounts	15,895	-	15,895
Taxes	419,341	6,678	426,019
Due from other governments	-	19,658	19,658
Accrued interest	-	2,529	2,529
Due from other funds	121,208	66,279	187,487
Prepaid expenses	124,170	-	124,170
Total assets	<u>\$ 1,330,607</u>	<u>\$ 2,276,785</u>	<u>\$ 3,607,392</u>
<b>Cash and cash equivalents</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 71,862	\$ -	\$ 71,862
Due to other funds	403,787	-	403,787
Accrued compensated absences	395,109	-	395,109
Total liabilities	<u>870,758</u>	<u>-</u>	<u>870,758</u>
Fund balances:			
Reserved for:			
Capital improvements	-	840,163	840,163
Encumbrances/other	36,593	477,517	514,110
Unreserved, designated for, reported in:			
Special revenue funds	-	959,105	959,105
Unreserved, undesignated, report in:			
General Fund	423,256	-	423,256
Total fund balances	<u>459,849</u>	<u>2,276,785</u>	<u>2,736,634</u>
Total liabilities and fund balances	<u>\$ 1,330,607</u>	<u>\$ 2,276,785</u>	<u>\$ 3,607,392</u>

The accompanying notes are an integral part of these financial statements.

**City of Sallisaw, Oklahoma**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances –**  
**Governmental Funds**  
**Year Ended June 30, 2011**

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes	\$ 5,223,865	\$ -	\$ 5,223,865
Licenses and permits	36,323	-	36,323
Intergovernmental	69,137	866,648	935,785
Fines and forfeitures	204,174	-	204,174
Charges for services	103,782	32,600	136,382
Other	295,460	14,908	310,368
Interest	5,383	7,978	13,361
Total revenues	<u>5,938,124</u>	<u>922,134</u>	<u>6,860,258</u>
<b>Expenditures</b>			
General government	1,737,724	-	1,737,724
Public safety	2,366,179	185,958	2,552,137
Public works	1,216,744	167,878	1,384,622
Economic development	117,492	-	117,492
Culture and recreation	530,369	15,697	546,066
Debt service:			
Principal	-	444,060	444,060
Interest	-	33,797	33,797
Capital outlay	-	904,558	904,558
Total expenditures	<u>5,968,508</u>	<u>1,751,948</u>	<u>7,720,456</u>
Excess of revenues over (under) expenditures	(30,384)	(829,814)	(860,198)
<b>Other financing sources (uses)</b>			
Transfers in	4,976,997	802,953	5,779,950
Transfers out	(5,080,265)	(638,889)	(5,719,154)
Total other financing sources (uses)	<u>(103,268)</u>	<u>164,064</u>	<u>60,796</u>
<b>Net change in fund balances</b>	(133,652)	(665,750)	(799,402)
Fund balances, beginning, restated	<u>593,501</u>	<u>2,942,535</u>	<u>3,536,036</u>
Fund balances, ending	<u>\$ 459,849</u>	<u>\$ 2,276,785</u>	<u>\$ 2,736,634</u>

The accompanying notes are an integral part of these financial statements.

**City of Sallisaw, Oklahoma**  
**Reconciliation of Governmental Funds and Government-Wide**  
**Financial Statements**  
**Year Ended June 30, 2011**

Total fund balance - governmental funds	\$ 2,736,634
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.	6,659,053
Long-term liabilities are not due and payable in the current period and therefore are not reported in funds:	
Capital lease obligations	(464,825)
<b>Net assets of governmental activities</b>	<b>\$ 8,930,862</b>
Net change in fund balances – total governmental funds	\$ (799,402)
Adjustments for the statement of activities:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets are allocated over their estimated useful lives as a depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation in the current reporting period.	
Capital outlay expenditures	1,010,085
Depreciation expense	(519,001)
	491,084
The issuance of long-term debt provides current financial resources to governmental funds while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.	
Capital lease principal payments	444,060
	444,060
Change in net assets of governmental activities	<b>\$ 135,742</b>

The accompanying notes are an integral part of these financial statements.

**City of Sallisaw, Oklahoma**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2011**

	Enterprise Funds		Totals
	Sallisaw Municipal Authority	Nonmajor Enterprise Funds	
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 1,193,037	\$ 25,161	\$ 1,218,198
Investments	839,016	-	839,016
Receivables:			
Accounts (net of allowance for uncollectibles)	1,310,626	-	1,310,626
Due from other funds	445,658	239,166	684,824
Accrued interest	3,383	-	3,383
Restricted assets:			
Cash and cash equivalents	94,803	-	94,803
Investments	3,535,113	-	3,535,113
Total current assets	<u>7,421,636</u>	<u>264,327</u>	<u>7,685,963</u>
Noncurrent assets:			
Notes receivable	50,000	-	50,000
Debt issuance costs (net of accumulated amortization)	1,768,043	-	1,768,043
Capital assets (net of accumulated depreciation)	<u>38,683,721</u>	<u>1,470,324</u>	<u>40,154,045</u>
Total noncurrent assets	<u>40,501,764</u>	<u>1,470,324</u>	<u>41,972,088</u>
Total assets	<u>47,923,400</u>	<u>1,734,651</u>	<u>49,658,051</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued liabilities	766,052	-	766,052
Payable from restricted assets:			
Accrued interest payable	753,368	-	753,368
Customer deposits	655,063	-	655,063
Due to other funds	229,358	239,166	468,524
Current portion of long-term obligations	<u>1,069,966</u>	<u>113,616</u>	<u>1,183,582</u>
Total current liabilities	<u>3,473,807</u>	<u>352,782</u>	<u>3,826,589</u>
Noncurrent liabilities:			
Revenue bonds payable (net of unamortized premium)	35,985,606	-	35,985,606
Notes payable	682,064	1,259,075	1,941,139
Deferred loss on refunding	(669,922)	-	(669,922)
Accrued landfill closure costs	1,434,395	-	1,434,395
Less: Current portion of long-term obligations	<u>(1,069,966)</u>	<u>(113,616)</u>	<u>(1,183,582)</u>
Total noncurrent liabilities	<u>36,362,177</u>	<u>1,145,459</u>	<u>37,507,636</u>
Total liabilities	<u>39,835,984</u>	<u>1,498,241</u>	<u>41,334,225</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	2,016,051	448,471	2,464,522
Restricted:			
Debt service	2,559,126	-	2,559,126
Capital projects/other	716,033	-	716,033
Unrestricted	<u>2,796,206</u>	<u>(212,061)</u>	<u>2,584,145</u>
Total net assets	<u>\$ 8,087,416</u>	<u>\$ 236,410</u>	<u>\$ 8,323,826</u>

The accompanying notes are an integral part of these financial statements.

**City of Sallisaw, Oklahoma**  
**Statement of Revenues, Expenses, and Changes in Net Assets –**  
**Proprietary Funds**  
**Year Ended June 30, 2011**

	Enterprise Funds		Totals
	Sallisaw Municipal Authority	Nonmajor Enterprise Funds	
<b>Operating revenues</b>			
Charges for services:			
Electric	\$ 9,427,904	\$ -	\$ 9,427,904
Water	1,278,594	-	1,278,594
Wastewater	513,036	-	513,036
Landfill	1,449,701	-	1,449,701
Sanitation	931,336	-	931,336
Telecommunications	2,276,908	-	2,276,908
Other	590,118	90,000	680,118
Total operating revenues	<u>16,467,597</u>	<u>90,000</u>	<u>16,557,597</u>
<b>Operating expenses</b>			
Administration	43,415	-	43,415
Electric	7,432,837	-	7,432,837
Water	713,737	-	713,737
Wastewater	526,881	-	526,881
Landfill	843,753	-	843,753
Sanitation	481,824	-	481,824
Telecommunications	1,974,353	-	1,974,353
Economic development	-	10,771	10,771
Depreciation and amortization	1,688,480	40,663	1,729,143
Bad debt expense	115,033	-	115,033
Total operating expenses	<u>13,820,313</u>	<u>51,434</u>	<u>13,871,747</u>
Net operating income (loss)	2,647,284	38,566	2,685,850
<b>Nonoperating revenues (expenses)</b>			
Miscellaneous revenues	8,661	46,062	54,723
Interest income	98,886	-	98,886
Gain (loss) on refunding	(40,601)	-	(40,601)
Interest expense and fiscal charges	(1,596,662)	(54,284)	(1,650,946)
Payments to hospital	(625,268)	-	(625,268)
Total nonoperating revenues (expenses)	<u>(2,154,984)</u>	<u>(8,222)</u>	<u>(2,163,206)</u>
<b>Operating transfers</b>			
Transfers in	6,585,275	-	6,585,275
Transfers (out)	(6,646,072)	-	(6,646,072)
Total operating transfers	<u>(60,797)</u>	<u>-</u>	<u>(60,797)</u>
Net income (loss)	431,503	30,344	461,847
Net assets, beginning, restated	<u>7,655,913</u>	<u>206,066</u>	<u>7,861,979</u>
Net assets, ending	<u>\$ 8,087,416</u>	<u>\$ 236,410</u>	<u>\$ 8,323,826</u>

The accompanying notes are an integral part of these financial statements.

**City of Sallisaw, Oklahoma**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2011**

	Enterprise Funds		Totals
	Sallisaw Municipal Authority	Nonmajor Enterprise Funds	
<b>Cash flows from operating activities</b>			
Receipts from customers	\$ 16,125,248	\$ 90,000	\$ 16,215,248
Payments to suppliers	(10,570,438)	(10,771)	(10,581,209)
Payments to employees	(1,249,949)	-	(1,249,949)
Net cash provided (used) by operating activities	<u>4,304,861</u>	<u>79,229</u>	<u>4,384,090</u>
<b>Cash flows from noncapital financing activities</b>			
(Increase) decrease in interfund receivables/payables	(155,428)	-	(155,428)
Miscellaneous revenues/ (expenses)	(495,567)	18,000	(477,567)
Operating transfers in (out)	(60,797)	-	(60,797)
Net cash provided (used) by noncapital financing activities	<u>(711,792)</u>	<u>18,000</u>	<u>(693,792)</u>
<b>Cash flows from capital and related financing activities</b>			
Proceeds from long-term debt	4,588,064	-	4,588,064
Principal paid on long-term debt	(1,218,812)	(41,025)	(1,259,837)
Interest expense and fiscal charges	(1,578,125)	(54,284)	(1,632,409)
(Increase) decrease in restricted assets	386,644	-	386,644
Acquisition/construction of capital assets	(5,573,976)	-	(5,573,976)
Net cash provided (used) by capital and related financing activities	<u>(3,396,205)</u>	<u>(95,309)</u>	<u>(3,491,514)</u>
<b>Cash flows from investing activities</b>			
(Increase) decrease in investments	(263,137)	-	(263,137)
Interest income	95,861	-	95,861
Net cash provided (used) by investing activities	<u>(167,276)</u>	<u>-</u>	<u>(167,276)</u>
Net increase (decrease) in cash and cash equivalents	29,588	1,920	31,508
Cash and cash equivalents, beginning	1,163,449	23,241	1,186,690
Cash and cash equivalents, ending	<u>\$ 1,193,037</u>	<u>\$ 25,161</u>	<u>\$ 1,218,198</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Net operating income (loss)	\$ 2,647,284	\$ 38,566	\$ 2,685,850
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	1,688,480	40,663	1,729,143
Changes in assets and liabilities:			
(Increase) decrease in receivables	(342,349)	-	(342,349)
Increase (decrease) in accounts payable	(3,228)	-	(3,228)
Increase (decrease) in customer deposits	34,406	-	34,406
Increase (decrease) in deferred revenue	(40,601)	-	(40,601)
Increase (decrease) in accrued expenses	320,869	-	320,869
Total adjustments	<u>1,657,577</u>	<u>40,663</u>	<u>1,698,240</u>
Net cash provided (used) by operating activities	<u>\$ 4,304,861</u>	<u>\$ 79,229</u>	<u>\$ 4,384,090</u>

The accompanying notes are an integral part of these financial statements.

**City of Sallisaw, Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2011**

**I. Organization**

The City of Sallisaw, Oklahoma, (the City) operates under a Council-Manager form of government under Title 11 of the *Oklahoma Statutes*. The City provides the following services to its citizens: public safety (police and fire), streets and highways, sanitation and solid waste services, social services, culture and recreation, public improvements, electric and water utilities, cable television, Internet, telephone, planning and zoning, and general administrative services.

**II. Summary of significant accounting policies**

**A. Reporting entity**

The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations. The City's financial statements do not include any discretely presented component units which would be reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

**Blended component units.** The Sallisaw Municipal Authority (SMA) serves all the citizens of the City and is governed by a board comprised of the City's elected commissioners. The rates for user charges and bond issuance authorizations are approved by the city commission and the legal liability for the general obligation portion of SMA's debt remains with the City. SMA is reported as an enterprise fund type. The Sallisaw Library Trust Authority, Sallisaw Economic Authority and the Sallisaw Industrial Trust Authority are blended component units of the City of Sallisaw.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### **C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Sales and use taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The Sallisaw Municipal Authority accounts for the City's utility operations including electric, water, wastewater, sanitation, and landfill.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Sallisaw Municipal Authority and of the City's internal service funds are charges to customers for sales and services. The SMA also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

#### **D. Assets, liabilities, and net assets or equity**

##### ***1. Deposits and investments***

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to invest in obligations of the U.S. Treasury; time deposits with financial institutions, if such deposits are fully insured by federal depository insurance or pledged collateral; and debt securities issued by the State of Oklahoma, an Oklahoma County, school district, or municipality.

Investments for the City, as well as for its component unit, are reported at fair value.

##### ***2. Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles.

##### ***3. Inventories and prepaid items***

Inventories of governmental and proprietary funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

#### 4. *Restricted assets*

Certain proceeds of the Sallisaw Municipal Authority's enterprise fund revenue bonds and sales tax notes payable, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate trustee accounts, and their use is limited by applicable bond covenants. The "revenue bond construction" account is used to report those proceeds of revenue bond issuances that are restricted for use in construction. The revenue bond "bond fund" and the sales tax revenue note "sinking fund" accounts are used to segregate resources accumulated for debt service payments over the next twelve months.

#### 5. *Capital assets*

Capital assets which include; property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than the following amounts, along with an estimated useful life in excess of one year.

Assets	Cost Threshold
Buildings and improvements	\$ 25,000
Equipment and vehicles	5,000
Telecommunications, computer, and other personal property	10,000
Infrastructure	50,000

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	30–50
Improvements other than buildings	15–30
Infrastructure	30–40
Equipment and vehicles	3–12

## 6. *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

## 7. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

## 8. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### III. Reconciliation of government-wide and fund financial statements

#### A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that long-term liabilities such as capital lease obligations are not due and payable in the current period and therefore are not reported in the funds. The details of this difference are as follows:

Capital leases payable	<u>\$ 464,825</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 464,825</u>

Another difference concerns capital asset reporting. The cost of capital assets, net of accumulated depreciation, are reported on the government-wide statement of net assets, but not on the governmental fund financial statements since they are not financial resources. The details of this difference are as follows:

Capital assets, net of accumulated depreciation	<u>\$ 6,659,053</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 6,659,053</u>

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this difference are as follows:

Capital outlay expenditures	\$ 1,010,085
Depreciation expense	<u>(519,001)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 491,084</u>

Another element of that reconciliation states that the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this difference are as follows:

Principal repayments:	
Capital lease obligations	<u>\$ 444,060</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 444,060</u>

**IV. Stewardship, compliance, and accountability**

**Budgetary information**

Annual budgets are adopted for all governmental funds and the Sallisaw Municipal Authority. All unencumbered annual appropriations will lapse at fiscal year-end. Actual expenditures within a fund may not exceed 90% of the budget until actual revenues equal to the estimated amount have been received. No expenditure can exceed the actual amount on hand.

Prior to June of each year, all department heads of the City submit requests for appropriations to the city manager so that a budget may be prepared. The city manager meets with each of the department heads to review their needs estimates and requests. The commissioners hold a public hearing prior to June 15 and a final budget must be prepared and adopted no later than June 23.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations within a department or between departments may be approved by the city manager. Once the budget is established, the commission must authorize any amendments that change the total legal appropriations of the fund previously approved in the budget. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**V. Detailed notes on all funds**

**A. Deposits and investments**

*Deposits*

The City’s carrying amount of deposits was \$ 3,237,953 as of June 30, 2011, and the bank balances totaled \$ 3,678,221. Deposits are carried at cost.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2011, \$ 1,465,706 of the City’s bank balances of \$ 3,678,221 was exposed to custodial credit risk as follows:

Collateral held by the pledging bank, not in the City’s name	\$ 1,465,706
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*Investments*

As of June 30, 2011, the City had the following investments.

Investment	Maturities	Fair Value
Certificates of deposit	< 182 days	\$ 2,292,622
U.S. Treasury Mutual Funds	n/a	2,984,738
Total		\$ 5,277,360

*Interest Rate Risk.* The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State statutes limit investments to the following: a) direct obligations of the U.S. Government, its agencies or instrumentalities; b) collateralized or insured certificates of deposit within the state, and insured certificates only if out of state; c) savings accounts or savings certificates; d) fully collateralized prime banker acceptances, prime commercial paper, repurchase agreements, or SEC regulated money market funds; e) obligations to the payment of which the full faith and credit of the state is pledged; f) county, municipal, or school district and valorem tax funded debt; g) bonds, notes, or money judgments of a county, municipality, or school district; h) revenue anticipation notes of a public trust of which the municipality is beneficiary; or; i) any bond, note, or other debt of any public trust of which the municipality is sole beneficiary, or other entities whose governing boards were appointed by the municipality. The City has no investment policy that would further limit its investment choices. As of June 30, 2011, the City’s investments in certificates of deposit were all federally insured.

*Concentration of Credit Risk.* The City places no limit on the amount it may invest in anyone issuer. More than 5 percent of the City’s investments are in U.S. Treasury securities and certificates of deposit. These investments are 57 % and 43 %, respectively, of the City’s total investments.

## B. Receivables

Receivables as of June 30, 2011, for the City of Sallisaw's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Nonmajor Governmental Funds	Sallisaw Municipal Authority	Total
Receivables:				
Taxes	\$ 419,341	\$ 6,678	\$ -	\$ 426,019
Accounts	15,895	-	1,391,566	1,407,461
Due from other governments	-	19,658	-	19,658
Notes receivable	-	-	50,000	50,000
Interest	-	2,529	3,383	5,912
Gross receivables	435,236	28,865	1,444,949	1,909,050
Less: allowance for uncollectibles	-	-	(80,940)	(80,940)
Net total receivables	<u>\$ 435,236</u>	<u>\$ 28,865</u>	<u>\$ 1,364,009</u>	<u>\$ 1,828,110</u>

## C. Restricted assets

The Sallisaw Municipal Authority Revenue Bonds Series 2005, the Sallisaw Municipal Authority Utility System Refunding Revenue Bonds, Series 2010, and the Sallisaw Municipal Authority Sales Tax Revenue Notes, Series 2006 all require restricted cash and investment accounts for bond payment, as well as a reserve fund for payment of the debt principal and interest if insufficient funds are available in the bond sinking fund accounts. The funds are on deposit with the bond trustee.

The following is a summary of the restricted asset account balances as of June 30, 2011:

	Enterprise Funds				Meter Deposit Fund	Total
	Sallisaw Municipal Authority			OWRB Note		
	Series 2006 Revenue Notes	Series 2005 Revenue Bonds	Series 2009 Revenue Bonds			
Restricted assets:						
Reserve fund	\$ (9,948)	\$ 1,587,495	\$ -	\$ -	\$ -	\$ 1,577,547
Sinking fund	-	642,632	338,847	-	-	981,479
Construction fund	-	415,765	-	100	-	415,865
Customer deposits	-	-	-	-	655,026	655,026
Total restricted assets	<u>\$ (9,948)</u>	<u>\$ 2,645,892</u>	<u>\$ 338,847</u>	<u>\$ 100</u>	<u>\$ 655,026</u>	<u>\$ 3,629,917</u>

## D. Capital assets

Capital asset balances and activities for the year ended June 30, 2011, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,315,993	\$ 34,200	\$ -	\$ 1,350,193
Construction in progress	-	586,779	-	586,779
Total capital assets, not being depreciated	<u>1,315,993</u>	<u>620,979</u>	<u>-</u>	<u>1,936,972</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Buildings	1,838,015	-	-	1,838,015
Building improvements	775,014	97,468	-	872,482
Land improvements	2,605,234	46,839	-	2,652,073
Street improvements	501,280	166,297	-	667,577
Equipment	1,879,071	53,502	-	1,932,573
Computer/network/office	107,148	-	-	107,148
Vehicles	2,561,247	25,000	-	2,586,247
Total capital assets, being depreciated	<u>10,267,009</u>	<u>389,106</u>	<u>-</u>	<u>10,656,115</u>
Less accumulated depreciation for:				
Buildings	(1,161,568)	(54,573)	-	(1,216,141)
Building improvements	(221,774)	(31,769)	-	(253,543)
Land improvements	(1,097,569)	(110,002)	-	(1,207,571)
Street improvements	(90,625)	(38,416)	-	(129,041)
Equipment	(1,149,471)	(116,969)	-	(1,266,440)
Computer/network/office	(72,423)	(4,988)	-	(77,411)
Vehicles	(1,621,603)	(162,284)	-	(1,783,887)
Total accumulated depreciation	<u>(5,415,033)</u>	<u>(519,001)</u>	<u>-</u>	<u>(5,934,034)</u>
Total capital assets, being depreciated, net	<u>4,851,976</u>	<u>(129,895)</u>	<u>-</u>	<u>4,722,081</u>
Governmental activities capital assets, net	<u>\$ 6,167,969</u>	<u>\$ 491,084</u>	<u>\$ -</u>	<u>\$ 6,659,053</u>

**Business-type activities:**

Capital assets, not being depreciated:

Land	\$ 1,420,813	\$ -	\$ -	\$ 1,420,813
Easements	-	51,084	-	51,084
Construction in progress	1,322,441	3,597,494	(4,919,935)	-
Total capital assets, not being depreciated	<u>2,743,254</u>	<u>3,648,578</u>	<u>(4,919,935)</u>	<u>1,471,897</u>

Capital assets, being depreciated:

Land improvements	176,977	-	-	176,977
Buildings	2,390,461	-	(168,860)	2,221,601
Building improvements	79,258	-	-	79,258
Water distribution lines	3,538,570	-	-	3,538,570
Water treatment facilities	18,241,927	4,919,935	-	23,161,862
Wastewater collection lines	1,296,742	-	-	1,296,742
Wastewater treatment facilities	4,747,340	64,850	-	4,812,190
Electric system	1,278,910	-	-	1,278,910
Landfill improvements	2,323,565	898,398	-	3,221,963
Telecommunications system	6,531,805	-	-	6,531,805
Vehicles	1,485,816	-	-	1,485,816
Equipment	3,366,899	81,730	-	3,448,629
Total capital assets, being depreciated	<u>45,458,270</u>	<u>5,964,913</u>	<u>(168,860)</u>	<u>51,254,323</u>

Less accumulated depreciation for:

Land improvements	(5,300)	(7,551)	-	(12,851)
Buildings	(566,105)	(60,671)	109,794	(516,982)
Building improvements	(36,950)	(5,437)	-	(42,387)
Water distribution lines	(1,455,596)	(128,388)	-	(1,583,984)
Water treatment facilities	(1,201,493)	(444,759)	-	(1,646,252)
Wastewater collection lines	(233,687)	(46,579)	-	(280,266)
Wastewater treatment facilities	(2,936,562)	(165,773)	-	(3,102,335)
Electric system	(275,742)	(51,559)	-	(327,301)

Landfill improvements	(613,762)	(127,377)	-	(741,139)
Telecommunications system	(1,098,185)	(235,822)	-	(1,334,007)
Vehicles	(1,025,525)	(91,893)	-	(1,117,418)
Equipment	(1,624,490)	(242,763)	-	(1,867,253)
Total accumulated depreciation	<u>(11,073,397)</u>	<u>(1,608,572)</u>	<u>109,794</u>	<u>(12,572,175)</u>
Total capital assets, being depreciated, net	<u>34,384,873</u>	<u>4,356,341</u>	<u>(59,066)</u>	<u>38,682,148</u>
Business-type activities capital assets, net	<u>\$ 37,128,127</u>	<u>\$ 8,004,919</u>	<u>\$ (4,979,001)</u>	<u>\$ 40,154,045</u>

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

Governmental activities:	
General government	\$ 40,011
Public safety	140,943
Public works	282,515
Cultural and recreation	55,532
Total depreciation expense – governmental activities	<u>\$ 519,001</u>
Business-type activities:	
Electric	\$ 85,356
Water	604,301
Wastewater	231,427
Landfill	281,292
Sanitation	51,547
Telecommunications	313,985
Economic development	40,664
Total depreciation expense – business-type activities	<u>\$ 1,608,572</u>

## E. Deposits subject to refund

Utility customers are required to make a meter deposit which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2011, cash and investments included \$ 655,026 available for refund of customer deposits, while the liability to customers was \$ 665,063.

## F. Long-term debt

### Capital Leases

The City has entered into several lease agreements as lessee for financing the acquisition of buildings, land, and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The governmental activities capital lease obligations are as follows:

First National Bank dated February 4, 2009, in the amount of \$ 168,546, payable in monthly installments of \$ 4,987 including interest at 4.14% for seven police vehicles.	\$ 39,450
First National Bank dated January 26, 2009, in the amount of \$ 360,000, payable in monthly installments of \$ 8,153 including interest at 4.15% for sports complex property	148,815
National Bank of Sallisaw dated July 17, 2008, in the amount of \$ 273,900, payable in monthly installments of \$ 8,060 including interest at 3.89% for 2008 Kamatsu dump truck	8,028

National Bank of Sallisaw dated October 25, 2008, in the amount of \$ 65,600, payable in monthly installments of \$ 1,933 including interest at 3.85% for 2008 Case 580 backhoe	9,573
Armstrong Bank dated May 28, 2010, in the amount of \$ 358,312, payable in monthly installments of \$ 8,073 including interest at 3.99% for Caterpillar dozer.	<u>258,959</u>
Total capital lease obligations	<u>\$ 464,825</u>

The assets acquired through capital leases are as follows:

Asset:	<u>Governmental Activities</u>
7 police vehicles	\$ 168,546
Sports complex property	461,917
Kamatsu dump truck	273,900
Case 580 backhoe	65,600
Caterpillar dozer	<u>358,312</u>
Total	1,328,275
Less: accumulated depreciation	<u>(169,479)</u>
Net	<u>\$ 1,158,796</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, were as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities Capital Lease Obligations</u>
2012	\$ 252,494
2013	153,029
2014	80,726
2015	-
2016	-
Total required payments	<u>486,249</u>
Less: amount representing interest	<u>(21,424)</u>
Total principal payments	<u>\$ 464,825</u>

## Revenue bonds and notes payable

### Business-type activities

Sallisaw Municipal Authority

Revenue bonds:

\$ 8,475,000 Sallisaw Municipal Authority Utility System Refunding Revenue Bonds, Series 2009, due annually in amounts from \$ 305,000 to \$ 645,000 plus semi-annual interest of 4.45%, with final maturity at January 1, 2028 secured by a first mortgage on the leasehold of the telecommunications system and, subject to the mortgage securing the Series 2002 bonds, a second mortgage on the leasehold of the water, sanitary sewer, electric, and garbage collection systems. \$ 8,170,000

\$ 22,920,000 Sallisaw Municipal Authority Revenue Bonds, Series 2005, due annually in amounts from \$ 115,000 to \$ 3,080,000 plus semi-annual interest of 3.80% to 5.00%, with final maturity at January 1, 2035, secured by the Sallisaw Municipal Authority water, sewer, and electric systems and facilities, and a pledge of its net revenues.	22,295,000
Unamortized bond premium	<u>551,000</u>
Total revenue bonds	<u>31,016,000</u>
Notes payable:	
Note payable to the National Bank of Sallisaw, dated October 28, 2004, in the amount of \$ 991,943, due and payable in monthly installments of \$ 10,175 including interest at 4.25% secured by property at the landfill.	305,529
Note payable to Oklahoma Water Resources Board, dated March 2, 2010, authorized in the amount of \$ 5,360,000, due and payable in semi-annual installments of \$ 15,747 including interest at 2.58%, plus an administrative fee of .05%, secured by water system.	4,969,605
Note payable to First National Bank of Sallisaw, dated May 1, 2010, in the amount of \$ 950,500, due and payable in monthly installments of \$ 17,886, including interest at 4.88%, for construction of landfill cell.	376,535
Sallisaw Economic Authority:	
Note payable to Sallisaw Improvement Corporation, due and payable on or before June 30, 2010, with interest at 0.00%, for the Cello foam project	71,937
Note payable to Sallisaw Municipal Authority, dated January 26, 2008, in the amount of \$ 50,000 due and payable on or before January 31, 2016.	50,000
Note payable to Sallisaw First National Bank, dated October 4, 2005, in the amount of \$ 980,000, due and payable in monthly installments of \$ 5,998 including interest at 6.00% secured by real estate located in the Sallisaw Industrial Park.	899,915
Sallisaw Industrial Finance Authority:	
CDBG note payable to the Oklahoma Department of Commerce, dated May 16, 2008, in the amount of \$ 350,000, due and payable in monthly installments of \$ 1,944, including interest at 0.00% secured by pledge of lease agreement and revenues from Sallisaw Improvement Corporation.	<u>237,223</u>
Total notes payable	<u>6,910,744</u>
Total business-type activities	<u>37,926,744</u>
Total long-term debt	<u>\$ 38,391,569</u>

Long-term liabilities transactions for the year ended June 30, 2011, and changes therein were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b>Governmental activities</b>					
Capital leases	\$ 908,885	\$ -	\$ (444,060)	\$ 464,825	\$ 238,460
Total governmental activities	908,885	-	(444,060)	464,825	238,460
<b>Business-type activities</b>					
Revenue bonds:					
Series 2005	22,430,000	-	(135,000)	22,295,000	140,000
Series 2009	8,475,000	-	(305,000)	8,170,000	350,000
Unamortized bond premium	573,958	-	(22,958)	551,000	22,958
Revenue notes:					
Series 2006	324,182	-	(324,182)	-	-
Notes payable:					
National Bank of Sallisaw	412,036	-	(106,507)	305,529	111,261
Sallisaw Improvement Corporation	100,000	-	(28,063)	71,937	71,937
Sallisaw Municipal Authority	50,000	-	-	50,000	-
First National Bank of Sallisaw	917,607	-	(17,692)	899,915	18,346
First National Bank of Sallisaw	567,700	-	(191,165)	376,535	200,705
CDBG/EDIF	260,556	-	(23,333)	237,223	23,333
OWRB	515,541	4,588,064	(134,000)	4,969,605	268,000
Total business-type activities	34,626,580	4,588,064	(1,287,900)	37,926,744	1,206,540
Total long-term debt	\$ 35,535,465	\$ 4,588,064	\$ (1,731,960)	\$ 38,391,569	\$ 1,445,000

Annual debt service requirements to maturity for business-type activities long-term debt are as follows:

Year Ending June 30,	Business-type Activities			
	Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2012	\$ 490,000	\$ 1,391,769	\$ 693,582	\$ 102,920
2013	765,000	1,368,144	602,872	85,510
2014	800,000	1,332,363	390,353	74,200
2015	830,000	1,300,731	313,454	70,348
2016	860,000	1,270,719	1,160,320	31,511
2017-2021	5,445,000	5,776,169	1,460,555	75,665
2022-2026	7,235,000	4,386,517	1,340,000	42,165
2027-2031	6,890,000	2,695,215	949,608	9,612
2032-2036	7,150,000	1,029,750	-	-
Totals	\$ 30,465,000	\$ 20,551,377	\$ 6,910,744	\$ 491,931

### G. Debt issuance costs

Debt issuance costs, net of accumulated amortization, totaled \$ 1,433,324 as of June 30, 2011. Unamortized bond discount was \$ 334,718. Amortization during the year was \$ 102,230 for the debt issuance costs and \$ 18,343 for bond discount.

## H. Compensated absences

Full-time employees with at least one year of service earn vacation of five to twenty days per year depending on years of service completed. None may be carried over from one benefit year into another. In accordance with the guidelines set forth by GASB Statement

No. 16, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, a provision has been made for accumulated vacation, compensatory time, and holiday pay as follows:

Governmental activities:	
Current	\$ 395,109

Full-time employees are granted sick leave at the rate of 4.615 hours per pay period, with no limitation on the amount that can be accrued. Employees are not compensated for unused sick leave upon termination of employment.

## I. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2011, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General fund	Sallisaw Municipal Authority	\$ 121,208
Nonmajor governmental	Sallisaw Municipal Authority	54,075
Nonmajor governmental	General fund	12,204
Sallisaw Municipal Authority	General fund	391,583
Sallisaw water projects fund	Sallisaw Municipal Authority	54,075
Nonmajor enterprise	Nonmajor enterprise	239,166
Total		<u>\$ 872,311</u>

Interfund transactions:

	Transfers Out			Totals
	General Fund	Nonmajor Governmental	Sallisaw Municipal Authority	
Transfer in:				
General fund	\$ -	\$ 69,216	\$ 4,907,781	\$ 4,976,997
Nonmajor governmental	137,642	40,000	625,311	802,953
Sallisaw Municipal Authority	4,942,624	529,673	-	5,472,297
SMA Water Projects	-	-	1,112,979	1,112,979
Totals	<u>\$ 5,080,266</u>	<u>\$ 638,889</u>	<u>\$ 6,646,071</u>	<u>\$ 12,365,226</u>

## J. Landfill closure and post-closure liability

Federal and State regulations require the City to place a final cover on its landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for eighteen years after closure. Although closure and post-closure care costs will be paid only near or after the date the landfill stops accepting waste, the City reports a portion of those costs as an operating expense of the Sallisaw Municipal Authority each fiscal year. The amount of the current period expense is based upon the amount of landfill capacity used as of each fiscal year.

The \$ 1,434,395 reported as other noncurrent liabilities for the accrued landfill closure cost liability as of June 30, 2011, represents the cumulative amount of such cost reported to date based on the use of approximately 52.40 % of the estimated capacity of the landfill. The Sallisaw Municipal Authority will recognize the remaining estimated costs of closure and post-closure care in the amount of \$ 1,303,000 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2011. The City expects to close the landfill in 2023. Actual costs may be more or less at that time than are currently estimated. The estimated closure and post-closure costs and the accrued liability as of June 30, 2011, are as follows:

Estimated closure costs	\$ 1,239,936
Estimated post-closure costs	1,497,459
Total estimated costs	<u>2,737,395</u>
Accrued closure costs	1,434,395
Current estimated costs charged to expense	<u>\$ 320,869</u>

The City has qualified under the State of Oklahoma Department of Environmental Quality (DEQ) financial assurance test relating to these future closure and post-closure costs, whereby the City's overall financial condition and other submitted information serves as evidence of the City's ability to pay for the closure and post-closure care costs when the landfill is actually closed. As such, the City is not required to fund an escrow trust account for the costs.

## **VI. Other information**

### **A. Risk management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City has insurance for the major risks such as property, general liability, workers' compensation, and unemployment. Commercial insurance is used to cover general liability claims and the risk of loss to City buildings and mobile equipment. Judgments against the City may be paid by a property tax assessment over a three-year period.

### **B. Contingent liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

A tract of land located in the City is under investigation by the State of Oklahoma Department of Environmental Quality (DEQ) and the U.S. Environmental Protection Agency (EPA). The investigation concerns the existence of elevated levels of heavy metals on the surface of the site and the possible existence of such metal in ground water under the site. The City, along with other involved parties and the DEQ voluntarily entered into a consent

order on June 21, 2000, to address water quality violations and outstanding remediation issues. The consent order required the respondents to negotiate a plan of action to correct the violations and address the outstanding remediation issues. The City has entered into a settlement agreement with the other respondents whereby the City will not be liable for remediation costs.

### **C. Employee retirement systems and pension plans**

The City of Sallisaw participates in the Oklahoma State Police Pension and Retirement System (OPPRS) and the Oklahoma State Firefighters' Pension and Retirement System (OFPRS), both of which are cost-sharing multiple-employer defined benefit pension plans administered by the State of Oklahoma. Additionally, for other City employees not covered by the other plans, the City of Sallisaw maintains a defined benefit plan—the Oklahoma Municipal Retirement Fund Employee Retirement System of Sallisaw (the Plan).

#### Oklahoma State Police Pension and Retirement System (OPPRS)

Plan Description – The OPPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OPPRS. The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information for the police employees of the City. That report may be obtained by writing to the Oklahoma State Police Pension and Retirement System, 1001 N.W. 63rd Street, Suite 305, Oklahoma City, Oklahoma 73116-7339, or by calling 1-405-840-3555.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary and the City of Sallisaw contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OPPRS for the year ended June 30, 2011, for employees and employer were \$ 57,879 and \$ 94,053, respectively, on covered payroll of \$ 723,483.

#### Oklahoma State Firefighters' Pension and Retirement System (OFPRS)

Plan Description – The OFPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OFPRS. The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the firefighting employees of the City. That report may be obtained by writing to the Oklahoma State Firefighters' Pension and Retirement System, 4545 North Lincoln Boulevard, Suite 265, Oklahoma City, Oklahoma 73105, or by calling 1-405-525-7813.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary and the City of Sallisaw contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OFPRS for the year ended June 30, 2011, for employees and employer were \$ 17,029 and \$ 27,673, respectively, on covered payroll of \$ 212,868.

Oklahoma Municipal Retirement Fund Employee Retirement System of Sallisaw, Oklahoma

Plan Description – The Oklahoma Municipal Retirement Fund Employee Retirement System of Sallisaw, Oklahoma (the Plan) is a defined benefit retirement plan covering City employees not covered by other plans. The Plan operates as a trust maintained by the Oklahoma Municipal Retirement Fund (OMRF). The OMRF board of trustees retains BankOne as custodian to hold the Plan assets which are invested by various professional managers. All regular, full-time City employees not covered by other plans are required to participate in the Plan. Benefits vest after ten years of service. Employees, who retire at age 65 or completion of 10 years of service, if later, are entitled to an annual retirement benefit, payable monthly in an amount equal to 3.00% of final average compensation multiplied by the number of years of credited service.

An employee is eligible for an early retirement benefit once he has attained age 55 and has completed 10 years of service. The amount of benefit is determined based on the final average salary and credited service as of the date of termination. If benefit payments are to begin before age 65, the amount of benefit will be actuarially reduced. A late retirement benefit is computed in the same manner as a normal retirement based on average salary and credited service as of the termination of employment.

A participant who becomes totally and permanently disabled after completion of ten years of service will be entitled to a disability benefit computed as an early retirement benefit based on average salary and service as of the date of disability but without actuarial reduction for payments beginning prior to normal retirement age if the employee is also eligible for a disability benefit from Social Security.

Employee contributions are returned with interest if their employment is terminated prior to completion of ten years of service. A death benefit is payable after ten years of service based on 50% of the employee's accrued benefit. This benefit is payable for life or until remarriage of the surviving spouse. For a vested single participant, 50% of the accrued benefit is payable for 60 months certain.

Funding Policy – The following amount shown as the actuarial accrued liability is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the Plan on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits, and is independent of the funding method used to determine contributions to the Plan.

The actuarial accrued liability was computed as part of an actuarial valuation performed as of January 1, 2011. Significant actuarial assumptions used in the valuation include 1) a rate of return on the investment of present and future assets of 7.50% compounded annually, and 2) future salary increases of 4.00% to 7.42% per year.

The total actuarial liability exceeded the net assets available for benefits by \$ 4,970,877 at January 1, 2011, as follows:

Actuarial accrued liability	\$ 14,754,723
Net assets available for benefits (actuarial value)	<u>9,783,836</u>
Unfunded actuarial accrued liability	<u>\$ 4,970,887</u>

The Plan's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so sufficient assets will be available to pay benefits when due. Required contributions are determined using the aggregate entry age normal cost method. Unfunded actuarial accrued liabilities are being amortized as a level dollar amount over 30 years from the valuation date.

For the year ended June 30, 2011, employees were required to contribute 6% of annual compensation while the City contributed the remaining amounts necessary to fund the pension plan using an actuarial basis. The City's contribution rate, for the year ended June 30, 2011, was 18.18%. Contributions to the Plan for payroll for the year ended June 30, 2011, for employees and employer were \$ 175,852 and \$ 532,833, respectively.

For the year ended June 30, 2011, the City's covered payroll was \$ 2,989,875. Covered payroll refers to all compensation paid by the City of Sallisaw to active employees covered by the Plan on which contributions are based.

Significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation as described above.

The schedule of funding progress for the Plan for the past ten years is as follows:

Accrual Valuation Date	Value of Assets Available for Benefits	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Percentage Funded	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
01/01/11	\$ 9,783,836	\$ 14,754,723	\$ 4,970,887	66.3%	\$ 2,920,272	170.2 %
01/01/10	9,146,032	13,789,091	4,643,059	66.3%	3,171,878	146.4 %
01/01/09	8,665,670	12,662,631	3,996,961	68.4%	2,913,231	137.2 %
01/01/08	8,873,995	11,479,729	2,605,734	77.3%	2,847,744	91.5 %
01/01/07	8,081,755	10,557,013	2,475,257	76.6%	2,818,855	87.8 %
01/01/06	7,372,380	9,878,658	2,506,278	74.6%	2,628,802	95.3 %
01/01/05	6,822,495	9,251,048	2,428,543	73.7%	2,587,306	93.9 %
01/01/04	6,273,456	8,529,899	2,256,443	73.5%	2,279,049	99.0 %
01/01/03	5,810,679	7,564,767	1,754,088	76.8%	2,051,949	85.5 %
01/01/02	5,979,638	7,410,214	1,430,577	80.7%	2,052,274	69.7 %
01/01/01	5,682,313	6,799,946	1,117,634	83.6%	1,856,661	60.2 %
01/01/00	5,173,495	5,344,689	171,194	96.8%	1,929,065	8.9 %

The amounts shown for valuation prior to January 1, 1998, are the pension benefit obligation (PBO) as defined in GASB Statement No. 5, *Accounting for Contingencies*. GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, which replaced GASB Statement No. 5, requires that the actuarial accrued liability used to fund the Plan be used to measure funding progress.

#### ICMA Retirement Corporation Deferred Compensation Plan

Plan Description – Full-time employees of the City are eligible to participate in the City's deferred compensation plan, ICMA Retirement Corporation Deferred Compensation Plan (the ICMA). The ICMA was created in accordance with Section 457 of the *Internal Revenue Code* to permit the city manager to defer a portion of his salary until future years. The deferred compensation is not available to an employee until retirement, termination, death, or unforeseeable emergency.

Funding Policy – The City contributes 20 % of covered annual compensation. All amounts of compensation deferred under the ICMA, all property and rights purchased with those amounts, and all income attributed to those amounts, properties, or rights are solely the property of the employer’s general creditors until paid or made available to the employee or other beneficiary. Contributions to the ICMA for the year ended June 30, 2011, were \$ 20,500 on covered payroll of \$ 102,730.

**D. Prior period adjustments**

Adjustments were made to beginning net assets in the government-wide financial statements and the proprietary fund financial statements, and to fund balance in the governmental fund financial statements to correct errors in the prior year’s financial statements relation to cash and payables.

The details of the adjustments are as follows:

Government-wide financial statements –	Governmental Activities	Business-Type Activities
Cash	\$ 2,273	\$ -
Payables	-	80,438
Totals	<u>\$ 2,273</u>	<u>\$ 80,438</u>
Fund financial statements –	Non-major Governmental	SMA-Water Projects Fund
Cash	\$ 2,273	\$ -
Payables	-	80,438
Totals	<u>\$ 2,273</u>	<u>\$ 80,438</u>

**City of Sallisaw, Oklahoma**  
**Budgetary Comparison Schedule**  
**General Fund**  
**(Budgetary Basis)**  
**Year Ended June 30, 2011**

	General Fund			Variance with Final Budget Positive (Negative)
	Budget		Actual	
	Original	Final		
<b>Fund balance, beginning</b>	\$ 374,181	\$ 374,181	\$ 593,501	\$ 219,320
<b>Resources</b>				
Taxes	5,643,200	5,643,200	5,292,856	(350,344)
Licenses and permits	26,520	26,520	36,323	9,803
Intergovernmental	69,000	69,000	69,137	137
Fines and forfeitures	190,600	190,600	204,174	13,574
Charges for services	73,800	73,800	103,782	29,982
Miscellaneous	116,200	116,200	295,461	179,261
Interest	7,000	7,000	5,383	(1,617)
Operating transfers	9,245,759	9,245,759	8,387,370	(858,389)
Total resources	<u>15,372,079</u>	<u>15,372,079</u>	<u>14,394,486</u>	<u>(977,593)</u>
Amounts available for appropriation	15,746,260	15,746,260	14,987,987	(758,273)
<b>Charges to appropriations:</b>				
Administration	642,846	664,615	651,133	13,482
Customer service	465,309	458,452	431,380	27,072
Finance	439,047	450,547	412,926	37,621
Network administration	68,609	74,040	65,218	8,822
Contingency	272,253	271,445	213,658	57,787
Contributions to others	102,500	117,500	117,492	8
Police patrol	1,555,959	1,582,213	1,501,773	80,440
Police auxiliary	425,633	435,607	391,314	44,293
Animal welfare	75,449	70,939	58,329	12,610
Municipal court	46,486	47,040	42,238	4,802
Fire suppression	389,931	395,781	372,525	23,256
Building development	325,874	307,872	246,368	61,504
Street	740,820	757,985	702,354	55,631
Airport	100,900	92,923	77,500	15,423
Fleet maintenance	208,301	218,228	186,249	31,979
Cemetery	16,500	12,500	4,273	8,227
Parks	567,992	527,796	484,225	43,571
Swimming pool	67,382	65,382	46,144	19,238
Electric	789,895	801,432	754,948	46,484
Water production	564,219	529,816	486,889	42,927
Water distribution	292,278	254,873	226,848	28,025
Wastewater collection	226,453	221,532	193,725	27,807
Wastewater treatment	327,561	366,921	333,156	33,765
Sanitation	381,238	410,831	401,835	8,996
Landfill	570,780	554,107	522,884	31,223
Telecommunications	572,045	545,883	497,270	48,613
Operating transfers	5,510,000	5,510,000	5,080,265	429,735
Total charges to appropriations	<u>15,746,260</u>	<u>15,746,260</u>	<u>14,502,919</u>	<u>1,243,341</u>
<b>Fund balances, ending</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 485,068</u>	<u>\$ 485,068</u>

See disclaimer in accompanying Independent Auditor's Report.

**City of Sallisaw, Oklahoma**  
**Reconciliation of Budgetary Comparison Schedule on a Budgetary**  
**Basis With Fund Financial Statements on a GAAP Basis**  
**Year Ended June 30, 2011**

<u><b>Budgetary funds</b></u>	<u>General Fund</u>
<b><u>Financial statement major funds</u></b>	
<b>Revenues</b>	
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	\$ 6,007,116
Adjustments:	
<i>Budgetary</i> general fund revenues are reported on the cash basis, rather than the modified accrual basis	(68,992)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 5,938,124</u>
<b>Expenditures</b>	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	\$ 9,422,654
Reclassifications:	
Utility service expenditures are included in the general fund for budgetary purposes	(3,417,555)
Proceeds for capital lease obligations are reported as other financing sources for GAAP reporting	-
Adjustments:	
Encumbrances for goods and services ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for GAAP reporting	(36,591)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u>\$ 5,968,508</u>
<b>Other financing sources (uses)</b>	
Actual amounts (budgetary basis) "other financing sources and uses" from the budgetary comparison schedules	\$ (13,467,635)
Reclassifications:	
Utility services expenditures are reclassified as transfers out for GAAP reporting	(3,417,555)
Expenditure of proceeds from capital lease obligations are reported as capital outlay for GAAP reporting	-
Adjustments:	
Budgetary transfers are reported on the cash basis, rather than the modified accrued basis. Tax revenues accrued and transferred to other funds	16,781,922
Total other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ (103,268)</u>

See disclaimer in accompanying Independent Auditor's Report.

**City of Sallisaw, Oklahoma**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2011**

	Special Revenue			
	Street and Alley Fund	Library Fund	Library Trust Authority	Youth & Recreation Fund
<b>Assets</b>				
Cash and cash equivalents	\$ 108,670	\$ 17,879	\$ 45	\$ 101,848
Investments	-	-	82,871	-
Receivables:				
Taxes	6,678	-	-	-
Interest	-	-	229	-
Due from other funds	-	-	-	12,204
Due from other governments	-	-	-	-
Total assets	\$ 115,348	\$ 17,879	\$ 83,145	\$ 114,052
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	-
Total liabilities	-	-	-	-
<b>Fund balances</b>				
Reserved:				
Capital improvements	-	-	-	114,052
Encumbrances/other	115,348	-	83,145	-
Unreserved:				
Designated	-	17,879	-	-
Total fund balances	115,348	17,879	83,145	114,052
Total liabilities and fund balances	\$ 115,348	\$ 17,879	\$ 83,145	\$ 114,052

Special Revenue

Police Drug Fund	Department of Justice Grant	Oklahoma Highway Safety Grant	Sallisaw Reserve Fund	Health Insurance Fund	Cherokee Nation CNBHS	City At-Large Fund
\$ 23,338	\$ (775)	\$ (3,423)	\$ 67,239	\$ -	\$ 169,022	\$ -
-	-	-	707,537	-	-	-
-	-	-	-	-	-	-
-	-	-	1,952	-	-	-
-	-	-	-	-	-	-
-	775	3,423	-	-	-	-
<u>\$ 23,338</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 776,728</u>	<u>\$ -</u>	<u>\$ 169,022</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
23,338	-	-	-	-	169,022	-
-	-	-	776,728	-	-	-
<u>23,338</u>	<u>-</u>	<u>-</u>	<u>776,728</u>	<u>-</u>	<u>169,022</u>	<u>-</u>
<u>\$ 23,338</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 776,728</u>	<u>\$ -</u>	<u>\$ 169,022</u>	<u>\$ -</u>

**City of Sallisaw, Oklahoma**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2011**  
(continued)

	Special Revenue		Capital Projects	
	Fire Department Fund	Police Department Fund	Capital Improvements Fund	Cemetery Fund
<b>Assets</b>				
Cash and cash equivalents	\$ 23,803	\$ 15,361	\$ 508,029	\$ 31,872
Investments	-	-	-	102,875
Receivables:				
Taxes	-	-	-	-
Interest	-	-	-	348
Due from other funds	-	-	54,075	-
Due from other governments	-	-	-	-
Total assets	\$ 23,803	\$ 15,361	\$ 562,104	\$ 135,095
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	-
Total liabilities	-	-	-	-
<b>Fund balances</b>				
Reserved:				
Capital improvements	-	-	514,604	135,095
Encumbrances/other	23,803	15,361	47,500	-
Unreserved:				
Designated	-	-	-	-
Total fund balances	23,803	15,361	562,104	135,095
Total liabilities and fund balances	\$ 23,803	\$ 15,361	\$ 562,104	\$ 135,095

<u>Capital Projects</u>		Total
<u>Landfill</u>	<u>FAA</u>	<u>Nonmajor</u>
<u>Expansion</u>	<u>Grant</u>	<u>Governmental</u>
<u>Fund</u>		<u>Funds</u>
\$ 164,498	\$ 60,952	\$ 1,288,358
-	-	893,283
-	-	6,678
-	-	2,529
-	-	66,279
-	15,460	19,658
<u>\$ 164,498</u>	<u>\$ 76,412</u>	<u>\$ 2,276,785</u>
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	76,412	840,163
-	-	477,517
164,498	-	959,105
<u>164,498</u>	<u>76,412</u>	<u>2,276,785</u>
<u>\$ 164,498</u>	<u>\$ 76,412</u>	<u>\$ 2,276,785</u>

**City of Sallisaw, Oklahoma**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2011**

	Special Revenue			
	Street and Alley Fund	Library Fund	Library Trust Authority	Youth & Recreation Fund
<b>Revenues</b>				
Charges for services	\$ -	\$ -	\$ -	\$ -
Intergovernmental	73,626	-	-	-
Other	-	-	-	-
Interest	141	-	608	-
Total revenues	<u>73,767</u>	<u>-</u>	<u>608</u>	<u>-</u>
<b>Expenditures</b>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	166,297	-	-	-
Culture and recreation	-	15,697	-	-
Debt service:				
Principal	-	-	-	89,628
Interest	-	-	-	8,204
Capital outlay	-	-	-	-
Total expenditures	<u>166,297</u>	<u>15,697</u>	<u>-</u>	<u>97,832</u>
Excess of revenues over (under) expenditures	(92,530)	(15,697)	608	(97,832)
<b>Other financing sources (uses)</b>				
Transfers in	-	-	-	104,571
Transfers (out)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>104,571</u>
<b>Net change in fund balances</b>	(92,530)	(15,697)	608	6,739
Fund balances, beginning, restated	<u>207,878</u>	<u>33,576</u>	<u>82,537</u>	<u>107,313</u>
Fund balances, ending	<u>\$ 115,348</u>	<u>\$ 17,879</u>	<u>\$ 83,145</u>	<u>\$ 114,052</u>

Special Revenue						
Police Drug Fund	Department of Justice Grant	Oklahoma Highway Safety Grant	Sallisaw Reserve Fund	Health Insurance Fund	Cherokee Nation CNBHS	City At-Large Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	775	15,769	-	-	183,299	-
3,445	-	-	-	-	2,297	3,674
30	-	-	4,966	-	-	-
<u>3,475</u>	<u>775</u>	<u>15,769</u>	<u>4,966</u>	<u>-</u>	<u>185,596</u>	<u>3,674</u>
-	-	-	-	-	-	-
6,744	-	15,769	-	-	156,774	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	8,573	-	-	-	-	-
<u>6,744</u>	<u>8,573</u>	<u>15,769</u>	<u>-</u>	<u>-</u>	<u>156,774</u>	<u>-</u>
(3,269)	(7,798)	-	4,966	-	28,822	3,674
-	662	-	40,000	-	-	-
-	-	-	-	(18,303)	-	(90,913)
-	<u>662</u>	<u>-</u>	<u>40,000</u>	<u>(18,303)</u>	<u>-</u>	<u>(90,913)</u>
(3,269)	(7,136)	-	44,966	(18,303)	28,822	(87,239)
<u>26,607</u>	<u>7,136</u>	<u>-</u>	<u>731,762</u>	<u>18,303</u>	<u>140,200</u>	<u>87,239</u>
<u>\$ 23,338</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 776,728</u>	<u>\$ -</u>	<u>\$ 169,022</u>	<u>\$ -</u>

**City of Sallisaw, Oklahoma**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2011**

(continued)

	<u>Special Revenue</u>		<u>Capital Projects</u>	
	<u>Fire Department Fund</u>	<u>Police Department Fund</u>	<u>Capital Improvements Fund</u>	<u>Cemetery Fund</u>
<b>Revenues</b>				
Charges for services	\$ -	\$ -	\$ -	\$ 32,600
Intergovernmental	44,089	3,385	-	-
Other	-	-	5,447	45
Interest	-	-	723	702
Total revenues	<u>44,089</u>	<u>3,385</u>	<u>6,170</u>	<u>33,347</u>
<b>Expenditures</b>				
Current:				
General government	-	-	-	-
Public safety	5,146	1,525	-	-
Public works	-	-	-	1,581
Culture and recreation	-	-	-	-
Debt service:				
Principal	-	-	354,432	-
Interest	-	-	25,593	-
Capital outlay	33,116	-	233,185	27,280
Total expenditures	<u>38,262</u>	<u>1,525</u>	<u>613,210</u>	<u>28,861</u>
Excess of revenues over (under) expenditures	5,827	1,860	(607,040)	4,486
<b>Other financing sources (uses)</b>				
Transfers in	-	-	625,311	-
Transfers (out)	-	-	(106,113)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>519,198</u>	<u>-</u>
<b>Net change in fund balances</b>	5,827	1,860	(87,842)	4,486
Fund balances, beginning, restated	<u>17,976</u>	<u>13,501</u>	<u>649,946</u>	<u>130,609</u>
Fund balances, ending	<u>\$ 23,803</u>	<u>\$ 15,361</u>	<u>\$ 562,104</u>	<u>\$ 135,095</u>

Capital Projects		Total Nonmajor Governmental Funds
Landfill Expansion Fund	FAA Grant	
\$ -	\$ -	\$ 32,600
-	545,705	866,648
-	-	14,908
808	-	7,978
<u>808</u>	<u>545,705</u>	<u>922,134</u>
-	-	-
-	-	185,958
-	-	167,878
-	-	15,697
-	-	444,060
-	-	33,797
39,750	562,654	904,558
<u>39,750</u>	<u>562,654</u>	<u>1,751,948</u>
(38,942)	(16,949)	(829,814)
-	32,409	802,953
(423,560)	-	(638,889)
<u>(423,560)</u>	<u>32,409</u>	<u>164,064</u>
(462,502)	15,460	(665,750)
<u>627,000</u>	<u>60,952</u>	<u>2,942,535</u>
<u>\$ 164,498</u>	<u>\$ 76,412</u>	<u>\$ 2,276,785</u>

**City of Sallisaw, Oklahoma**  
**Combining Statement of Net Assets**  
**Sallisaw Municipal Authority**  
**June 30, 2011**

	Business-type Activities Enterprise Funds		Totals
	Sallisaw Municipal Authority	Sallisaw Water Projects Fund	
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 921,862	\$ 271,175	\$ 1,193,037
Investments	839,016	-	839,016
Receivables:			
Accounts (net of allowance for uncollectibles)	1,310,626	-	1,310,626
Due from other funds	391,583	54,075	445,658
Accrued interest	3,383	-	3,383
Restricted assets:			
Cash and cash equivalents	94,703	100	94,803
Investments	1,304,987	2,230,126	3,535,113
Total current assets	<u>4,866,160</u>	<u>2,555,476</u>	<u>7,421,636</u>
Noncurrent assets:			
Notes receivable	50,000	-	50,000
Debt issuance costs (net of accumulated amortization)	516,865	1,251,178	1,768,043
Capital assets (net of accumulated depreciation)	<u>17,216,507</u>	<u>21,467,214</u>	<u>38,683,721</u>
Total noncurrent assets	<u>17,783,372</u>	<u>22,718,392</u>	<u>40,501,764</u>
Total assets	<u>22,649,532</u>	<u>25,273,868</u>	<u>47,923,400</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued liabilities	766,052	-	766,052
Payable from restricted assets:			
Accrued interest payable	162,590	590,778	753,368
Customer deposits	655,063	-	655,063
Due to other funds	229,358	-	229,358
Current portion of long-term obligations	<u>661,966</u>	<u>408,000</u>	<u>1,069,966</u>
Total current liabilities	<u>2,475,029</u>	<u>998,778</u>	<u>3,473,807</u>
Noncurrent liabilities:			
Revenue bonds payable (net of unamortized premium)	8,170,000	27,815,606	35,985,606
Notes payable	682,064	-	682,064
Deferred loss on refunding	(669,922)	-	(669,922)
Accrued landfill closure costs	1,434,395	-	1,434,395
Less: Current portion of long-term obligations	<u>(661,966)</u>	<u>(408,000)</u>	<u>(1,069,966)</u>
Total noncurrent liabilities	<u>8,954,571</u>	<u>27,407,606</u>	<u>36,362,177</u>
Total liabilities	<u>11,429,600</u>	<u>28,406,384</u>	<u>39,835,984</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	8,364,443	(6,348,392)	2,016,051
Restricted:			
Debt service	328,899	2,230,227	2,559,126
Capital projects/other	623,492	92,541	716,033
Unrestricted	<u>1,903,098</u>	<u>893,108</u>	<u>2,796,206</u>
Total net assets	<u>\$ 11,219,932</u>	<u>\$ (3,132,516)</u>	<u>\$ 8,087,416</u>

**City of Sallisaw, Oklahoma**  
**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets –**  
**Sallisaw Municipal Authority**  
**Year Ended June 30, 2011**

	Business-type Activities Enterprise Funds		Totals
	Sallisaw Municipal Authority	Sallisaw Water Projects Fund	
<b>Operating revenues</b>			
Charges for services:			
Electric	\$ 9,427,904	\$ -	\$ 9,427,904
Water	1,278,594	-	1,278,594
Wastewater	513,036	-	513,036
Landfill	1,449,701	-	1,449,701
Sanitation	931,336	-	931,336
Telecommunications	2,276,908	-	2,276,908
Other	590,118	-	590,118
Total operating revenues	<u>16,467,597</u>	<u>-</u>	<u>16,467,597</u>
<b>Operating expenses</b>			
Administration	43,415	-	43,415
Electric	7,432,837	-	7,432,837
Water	713,737	-	713,737
Wastewater	526,881	-	526,881
Landfill	843,753	-	843,753
Sanitation	481,824	-	481,824
Telecommunications	1,974,353	-	1,974,353
Economic development	-	-	-
Depreciation and amortization	1,207,863	480,617	1,688,480
Bad debt expense	115,033	-	115,033
Total operating expenses	<u>13,339,696</u>	<u>480,617</u>	<u>13,820,313</u>
Net operating income (loss)	3,127,901	(480,617)	2,647,284
<b>Nonoperating revenues (expenses)</b>			
Miscellaneous revenues	(697)	9,358	8,661
Interest income	7,633	91,253	98,886
Gain (loss) on refunding	(40,601)	-	(40,601)
Interest expense and fiscal charges	(378,989)	(1,217,673)	(1,596,662)
Payments to hospital	(625,268)	-	(625,268)
Total nonoperating revenues (expenses)	<u>(1,037,922)</u>	<u>(1,117,062)</u>	<u>(2,154,984)</u>
<b>Operating transfers</b>			
Transfers in	5,472,296	1,112,979	6,585,275
Transfers (out)	(6,646,072)	-	(6,646,072)
Total operating transfers	<u>(1,173,776)</u>	<u>1,112,979</u>	<u>(60,797)</u>
Net income (loss)	916,203	(484,700)	431,503
Net assets, beginning, restated	10,303,729	(2,647,816)	7,655,913
Net assets, ending	<u>\$ 11,219,932</u>	<u>\$ (3,132,516)</u>	<u>\$ 8,087,416</u>

**City of Sallisaw, Oklahoma**  
**Combining Statement of Cash Flows**  
**Sallisaw Municipal Authority**  
**Year Ended June 30, 2011**

	Business-type Activities Enterprise Funds		Totals
	Sallisaw Municipal Authority	Sallisaw Water Projects Fund	
<b>Cash flows from operating activities</b>			
Receipts from customers	\$ 16,125,248	\$ -	\$ 16,125,248
Payments to suppliers	(10,570,438)	-	(10,570,438)
Payments to employees	(1,249,949)	-	(1,249,949)
Net cash provided (used) by operating activities	<u>4,304,861</u>	<u>-</u>	<u>4,304,861</u>
<b>Cash flows from noncapital financing activities</b>			
(Increase) decrease in interfund receivables/payables	(153,527)	(1,901)	(155,428)
Miscellaneous revenues/ (expenses)	(585,364)	89,797	(495,567)
Operating transfers in (out)	(1,173,776)	1,112,979	(60,797)
Net cash provided (used) by noncapital financing activities	<u>(1,912,667)</u>	<u>1,200,875</u>	<u>(711,792)</u>
<b>Cash flows from capital and related financing activities</b>			
Proceeds from long-term debt	-	4,588,064	4,588,064
Principal paid on long-term debt	(926,854)	(291,958)	(1,218,812)
Interest expense and fiscal charges	(414,983)	(1,163,142)	(1,578,125)
(Increase) decrease in restricted assets	470,543	(83,899)	386,644
Acquisition/construction of capital assets	(985,912)	(4,588,064)	(5,573,976)
Net cash provided (used) by capital and related financing activities	<u>(1,857,206)</u>	<u>(1,538,999)</u>	<u>(3,396,205)</u>
<b>Cash flows from investing activities</b>			
(Increase) decrease in investments	(263,137)	-	(263,137)
Interest income	4,608	91,253	95,861
Net cash provided (used) by investing activities	<u>(258,529)</u>	<u>91,253</u>	<u>(167,276)</u>
Net increase (decrease) in cash and cash equivalents	276,459	(246,871)	29,588
Cash and cash equivalents, beginning	645,403	518,046	1,163,449
Cash and cash equivalents, ending	<u>\$ 921,862</u>	<u>\$ 271,175</u>	<u>\$ 1,193,037</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Net operating income (loss)	\$ 3,127,901	\$ (480,617)	\$ 2,647,284
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	1,207,863	480,617	1,688,480
Changes in assets and liabilities:			
(Increase) decrease in receivables	(342,349)	-	(342,349)
Increase (decrease) in accounts payable	(3,228)	-	(3,228)
Increase (decrease) in customer deposits	34,406	-	34,406
Increase (decrease) in deferred revenue	(40,601)	-	(40,601)
Increase (decrease) in accrued expenses	320,869	-	320,869
Total adjustments	<u>1,176,960</u>	<u>480,617</u>	<u>1,657,577</u>
Net cash provided (used) by operating activities	<u>\$ 4,304,861</u>	<u>\$ -</u>	<u>\$ 4,304,861</u>

**City of Sallisaw, Oklahoma**  
**Combining Statement of Net Assets –**  
**Nonmajor Proprietary Funds**  
**June 30, 2011**

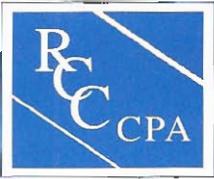
	Enterprise		Total Nonmajor Enterprise Funds
	Sallisaw Economic Authority	Sallisaw Industrial Finance Authority	
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 27,105	\$ (1,944)	\$ 25,161
Due from other funds	-	239,166	239,166
Total current assets	<u>27,105</u>	<u>237,222</u>	<u>264,327</u>
Noncurrent assets:			
Capital assets (net of accumulated depreciation)	1,470,324	-	1,470,324
Total noncurrent assets	<u>1,470,324</u>	<u>-</u>	<u>1,470,324</u>
Total assets	<u>1,497,429</u>	<u>237,222</u>	<u>1,734,651</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued liabilities	-	-	-
Due to other funds	239,166	-	239,166
Current portion of long-term obligations	90,283	23,333	113,616
Total current liabilities	<u>329,449</u>	<u>23,333</u>	<u>352,782</u>
Noncurrent liabilities:			
Notes payable	1,021,853	237,222	1,259,075
Less: current portion	(90,283)	(23,333)	(113,616)
Total noncurrent liabilities	<u>931,570</u>	<u>213,889</u>	<u>1,145,459</u>
Total liabilities	<u>1,261,019</u>	<u>237,222</u>	<u>1,498,241</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	448,471	-	448,471
Restricted:			
Debt service	-	-	-
Unrestricted	(212,061)	-	(212,061)
Total net assets	<u>\$ 236,410</u>	<u>\$ -</u>	<u>\$ 236,410</u>

**City of Sallisaw, Oklahoma**  
**Combining Statement of Revenues, Expenses, and Changes in Net Assets -**  
**Nonmajor Proprietary Funds**  
**Year Ended June 30, 2011**

	Enterprise		Total Nonmajor Enterprise Funds
	Sallisaw Economic Authority	Sallisaw Industrial Finance Authority	
<b>Operating revenues</b>			
Charges for services:			
Other	\$ 90,000	\$ -	\$ 90,000
Total operating revenues	<u>90,000</u>	<u>-</u>	<u>90,000</u>
<b>Operating expenses</b>			
Economic development	10,771	-	10,771
Depreciation	40,663	-	40,663
Total operating expenses	<u>51,434</u>	<u>-</u>	<u>51,434</u>
Net operating income (loss)	38,566	-	38,566
<b>Nonoperating revenues (expenses)</b>			
Miscellaneous	46,062	-	46,062
Interest and fiscal charges	(54,284)	-	(54,284)
Total nonoperating revenues (expenses)	<u>(8,222)</u>	<u>-</u>	<u>(8,222)</u>
<b>Operating transfers</b>			
Transfers in	-	-	-
Transfers out	-	-	-
Total operating transfers	<u>-</u>	<u>-</u>	<u>-</u>
Net income (loss)	30,344	-	30,344
Net assets, beginning	<u>206,066</u>	<u>-</u>	<u>206,066</u>
Net assets, ending	<u>\$ 236,410</u>	<u>\$ -</u>	<u>\$ 236,410</u>

**City of Sallisaw, Oklahoma**  
**Combining Statement of Cash Flows –**  
**Nonmajor Proprietary Funds**  
**Year Ended June 30, 2011**

	Enterprise		Total Nonmajor Enterprise Funds
	Sallisaw Economic Authority	Sallisaw Industrial Finance Authority	
<b>Cash flows from operating activities</b>			
Receipts from customers	\$ 90,000	\$ -	\$ 90,000
Payments to suppliers	(10,771)	-	(10,771)
Net cash provided (used) by operating activities	<u>79,229</u>	<u>-</u>	<u>79,229</u>
<b>Cash flows from noncapital financing activities</b>			
(Increase) decrease in interfund receivables/payables	(21,389)	21,389	-
Miscellaneous revenues	18,000	-	18,000
Net cash provided (used) by noncapital financing activities	<u>(3,389)</u>	<u>21,389</u>	<u>18,000</u>
<b>Cash flows from capital and related financing activities</b>			
Principal paid on long-term debt	(17,692)	(23,333)	(41,025)
Interest expense and fiscal charges	(54,284)	-	(54,284)
Net cash provided (used) by capital and related financing activities	<u>(71,976)</u>	<u>(23,333)</u>	<u>(95,309)</u>
<b>Cash flows from investing activities</b>			
Net cash provided (used) by investing activities	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	3,864	(1,944)	1,920
Cash and cash equivalents, beginning	<u>23,241</u>	<u>-</u>	<u>23,241</u>
Cash and cash equivalents, ending	<u>\$ 27,105</u>	<u>\$ (1,944)</u>	<u>\$ 25,161</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Net operating income (loss)	\$ 38,566	\$ -	\$ 38,566
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	40,663	-	40,663
Total adjustments	<u>40,663</u>	<u>-</u>	<u>40,663</u>
Net cash provided (used) by operating activities	<u>\$ 79,229</u>	<u>\$ -</u>	<u>\$ 79,229</u>



Ronald C. Cottrell, CPA

**Independent Auditor's 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**

October 3, 2011

City Commissioners  
City of Sallisaw  
Sallisaw, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sallisaw, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City of Sallisaw's basic financial statements, and have issued our report thereon dated October 3, 2011. Our report included an explanatory paragraph relating to prior period adjustments for correction of errors. We did not audit management's discussion and analysis or the budgetary comparison schedules, which are required supplementary information, and therefore expressed no opinion on it. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Sallisaw'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 of Sallisaw's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Sallisaw'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

## Ronald C. Cottrell, CPA

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Sallisaw'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 and use of the city commissioners, management of the City of Sallisaw, and is not intended to be and should not be used by anyone other than these specified parties.

Ronald C. Cottrell, CPA

**City of Sallisaw, Oklahoma**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2011**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<b><u>Federal Programs</u></b>			
<b><u>U. S. Department of Justice</u></b>			
Direct Programs -			
Office of Justice Programs			
Edward Byne Memorial Justice Assistance Grant	16.579	ARRA - 2009-SB-B9-0467	\$ 7,136
Justice Assistance Grant Program	16.607	FY 2010 BVP	775
Total U.S. Department of Justice			<u>7,911</u>
 <b><u>U. S. Department of Transportation</u></b>			
Direct Program -			
Airport Improvement Program	20.106	3-40-0083-008-2010	545,705
 Pass-Through Program From:			
Oklahoma Highway Safety Office (OHSO)			
State and Community Highway Safety	20.600	PT-10-03-36-02	12,346
		PT-11-03-21-03	3,423
Total U.S. Department of Transportation			<u>561,474</u>
 <b><u>Environmental Protection Agency</u></b>			
Pass-Through Program From:			
Oklahoma Water Resources Board			
Safe Drinking Water State Revolving Fund	66.468	ORF-09-0034-DW	182,481
Total Environmental Protection Agency			<u>182,481</u>
 <b><u>U. S. Department of Human Services</u></b>			
Pass-Through Program From:			
Cherokee Nation Health Services			
Community Anti-Drug Network	93.243	PR#75628	156,774
Total U.S. Department of Human Services			<u>156,774</u>
			<u>\$ 908,640</u>

The accompanying notes are an integral part of this schedule.

**City of Sallisaw, Oklahoma**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2011**

**I. Basis of accounting**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Sallisaw and is presented on the accrual basis of accounting. The information in these schedules are presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**II. Expenditures**

Expenditures represent current year federal grant/contract portion only.

**III. Noncash awards**

City of Sallisaw expended no form of noncash assistance during the year ended June 30, 2011, which are required by OMB Circular A-133 to be included in the schedule of expenditures of federal and state awards.

**IV. Subrecipients**

City of Sallisaw provided no federal awards to subrecipients during the year ended June 30, 2011.

**City of Sallisaw**  
**Summary Schedule of Prior Audit Findings**

**Financial Statement Findings**

There were no findings of noncompliance in the prior year's audit.

**Federal Award Findings and Questioned Costs**

There were no findings of noncompliance in the prior year's audit.



## Ronald C. Cottrell, CPA

### **Independent Auditor's 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**

October 3, 2011

City Commissioners  
City of Sallisaw  
Sallisaw, Oklahoma

#### **Compliance**

We have audited the City of Sallisaw's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Sallisaw's major federal programs for the year ended June 30, 2011. City of Sallisaw's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Sallisaw's management. Our responsibility is to express an opinion on City of Sallisaw's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Sallisaw'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 City of Sallisaw's compliance with those requirements.

In our opinion, the City of Sallisaw 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, 2011.

#### **Internal Control Over Compliance**

Management of the City of Sallisaw 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 of Sallisaw's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over

## Ronald C. Cottrell, CPA

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 of Sallisaw's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, 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 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.

This report is intended solely for the information and use of the board of directors and management of City of Sallisaw 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.

*Ronald C. Cottrell, CPA*

**City of Sallisaw**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2011**

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**Section I - Summary of Auditor's Results**

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*Financial Statements*

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

*Federal Awards*

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Type of auditor's 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?	No

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
20.106	Airport Improvement Program

Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	Yes

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**Section II - Financial Statement Findings**

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No matters were reported.

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**Section III - Federal Award Findings and Questioned Costs**

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No matters were reported.