

City of Sallisaw, Oklahoma Report on Audit of Financial Statements



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Roena Poindexter, Ward 2
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Fiscal Year End June 30, 2012

City of Sallisaw, Oklahoma
Report on Audit of Financial Statements
June 30, 2012
Table of Contents

<u>Financial Section</u>	<u>Pages</u>
Independent Auditor’s Report	1–2
Management’s Discussion and Analysis	3–15
Basic Financial Statements	
Statement of Net Assets	16
Statement of Activities	17
Balance Sheet – Governmental Funds	18
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	19
Reconciliation of Governmental Funds and Government-Wide Financial Statements	20
Statement of Net Assets – Proprietary Funds	21
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	22
Statement of Cash Flows – Proprietary Funds	23
Notes to Financial Statements	24–43
<u>Required Supplementary Information</u>	
Budgetary Comparison Schedule – General Fund (Budgetary Basis)	44
Reconciliation of Budgetary Comparison Schedule on a Budgetary Basis with Fund Financial Statements on a GAAP Basis	45
<u>Supplementary Information</u>	
Combining Financial Statements	
Nonmajor Governmental Funds	
Combining Balance Sheet	46–47
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	48–49

City of Sallisaw, Oklahoma
Report on Audit of Financial Statements
June 30, 2012
Table of Contents

<u>Supplementary Information</u>	<u>Pages</u>
Sallisaw Municipal Authority	
Combining Statement of Net Assets	50
Combining Statement of Revenues, Expenses, and Changes in Net Assets	51
Combining Statement of Cash Flows	52
Nonmajor Proprietary Funds	
Combining Statement of Net Assets	53
Combining Statement of Revenues, Expenses, and Changes in Net Assets	54
Combining Statement of Cash Flows	55
Compliance and Internal Control Report	
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 <i>Government Auditing Standards</i>	56–57
Summary Schedule of Prior Audit Findings	58



Ronald C. Cottrell, CPA

Independent Auditor's Report

November 1, 2012

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, 2012, 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 previously 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2012, 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 scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-15 and 44-45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards

Ronald C. Cottrell, CPA

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sallisaw's 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 the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements as to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are 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, 2012

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, 2012. Please read it in conjunction with the City's financial statements, which begin on page 16.

Financial Highlights

- ❖ The assets of the City of Sallisaw exceeded its liabilities at the close of the most recent fiscal year by \$ 16,395,541 (net assets). Of this amount, \$ 1,353,337 (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 decreased by \$ 859,147.
- ❖ As of the close of the current fiscal year, the City of Sallisaw's governmental funds reported combined ending fund balances of \$ 3,228,987, an increase of \$ 492,353 in comparison with the prior year. Approximately \$ 1,179,991 is available for spending at the government's discretion (unassigned fund balance).
- ❖ At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 247,704, or 4% of total general fund expenditures.
- ❖ The City of Sallisaw's total debt decreased \$ 127,334 during the current fiscal year.
- ❖ Net capital assets decreased \$ 323,882 after deducting depreciation of \$ 2,412,725.

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 eighteen (18) 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

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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 24–43 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 44–45 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 46–55 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 \$ 16,395,541 at the close of the most recent fiscal year.

One portion of the City’s net assets (77%) 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, 2012 and 2011

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current assets	\$ 3,913,597	\$ 3,203,605	\$ 4,104,920	\$ 7,217,439	\$ 8,018,517	\$ 10,421,044
Capital and other noncurrent assets	6,823,193	6,659,053	41,207,748	41,972,088	48,030,941	48,631,141
Total assets	10,736,790	9,862,658	45,312,668	49,189,527	56,049,458	59,052,185
Current liabilities	1,071,398	705,431	3,371,095	3,358,065	4,442,493	4,063,496
Long-term liabilities	727,464	226,365	34,483,960	37,507,636	35,211,424	37,734,001
Total liabilities	1,798,862	931,796	37,855,055	40,865,701	39,653,917	41,797,497
Net assets:						
Invested in capital assets, net of related debt	5,708,941	6,194,228	6,894,892	2,464,522	12,603,833	8,658,750
Restricted	1,462,757	1,354,273	975,614	3,275,159	2,438,371	4,629,432
Unrestricted	1,766,230	1,382,361	(412,893)	2,584,145	1,353,337	3,966,506
Total net assets	\$ 8,937,928	\$ 8,930,862	\$ 7,457,613	\$ 8,323,826	\$ 16,395,541	\$ 17,254,688

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 (\$ 1,353,337) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net assets decreased by \$ 859,147 during the current fiscal year. This is mainly attributed to:

- A decrease in current assets of business type activities of \$3,112,519.
- An overall decrease in total assets of \$3,002,727.
- An overall decrease in total liabilities of \$2,143,580.

City of Sallisaw
Statement of Activities
Years Ended June 30, 2012 and 2011

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	\$ 461,111	\$ 377,983	\$ 16,459,636	\$ 16,557,597	\$ 16,920,747	\$ 16,935,580
Grants/contributions	633,684	795,224	18,000	18,000	651,684	813,224
General revenues	5,459,469	5,687,051	169,555	95,008	5,629,024	5,782,059
Total revenues	6,554,264	6,860,258	16,647,191	16,670,605	23,201,455	23,530,863

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	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Expenses:						
General government	1,790,700	1,777,735	-	-	1,790,700	1,777,735
Public safety	2,840,117	2,693,080	-	-	2,840,117	2,693,080
Public works	1,698,452	1,561,610	-	-	1,698,452	1,561,610
Culture and recreation	703,118	601,598	-	-	703,118	601,598
Economic development	129,992	117,492	-	-	129,992	117,492
Electric	-	-	7,846,481	7,570,659	7,846,481	7,570,659
Water	-	-	2,852,672	2,534,844	2,852,672	2,534,844
Wastewater	-	-	790,580	761,167	790,580	761,167
Landfill	-	-	1,120,913	1,172,175	1,120,913	1,172,175
Sanitation	-	-	638,897	538,551	638,897	538,551
Telecommunications	-	-	2,816,443	2,759,926	2,816,443	2,759,926
Administration/other	33,391	33,797	798,846	810,639	832,237	844,436
Total expenses	<u>7,195,770</u>	<u>6,785,312</u>	<u>16,864,832</u>	<u>16,147,961</u>	<u>24,060,602</u>	<u>22,933,273</u>
Increase (decrease) in net assets before transfers	(641,506)	74,946	(217,641)	522,644	(859,147)	597,590
Transfers, net	<u>648,572</u>	<u>60,796</u>	<u>(648,572)</u>	<u>(60,796)</u>	-	-
Increase in net assets	7,066	135,742	(866,213)	461,848	(859,147)	597,590
Net assets, beginning	<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>
Net assets, ending	<u>\$ 8,937,928</u>	<u>\$ 8,930,862</u>	<u>\$ 7,457,613</u>	<u>\$ 8,323,826</u>	<u>\$ 16,395,541</u>	<u>\$ 17,254,688</u>

Governmental activities. Governmental activities increased the City's net assets by \$ 7,066. Key elements of this increase are as follows:

- A decrease in program revenues of \$78,412.
- A decrease in overall revenues of \$305,994
- An increase in total expenses of \$410,458.

City of Sallisaw
Governmental Activities
Years Ended June 30, 2012 and 2011

	Program Revenues		Cost of Services	
	2012	2011	2012	2011
General government	\$ 46,459	\$ 34,770	\$ 1,790,700	\$ 1,777,735
Public safety	439,861	1,004,875	2,840,117	2,693,080
Public works	574,043	124,908	1,698,452	1,561,610
Culture and recreation	34,432	8,654	703,118	601,598
Economic development	-	-	129,992	117,492
Interest on long-term debt	-	-	33,391	33,797
Total governmental activities	<u>\$ 1,094,795</u>	<u>\$ 1,173,207</u>	<u>\$ 7,195,770</u>	<u>\$ 6,785,312</u>

See disclaimer in accompanying Independent Auditor's Report.

Business-type activities. Business-type activities decreased the City's net assets by \$ 866,213. The key elements in this increase are:

- An overall decrease in business type revenues of \$23,414.
- An overall increase in business type expenses of \$716,871.

City of Sallisaw
Business-Type Activities
Years Ended June 30, 2012 and 2011

	Program Revenues		Cost of Services	
	2012	2011	2012	2011
Electric	\$ 9,430,763	\$ 9,427,904	\$ 7,846,481	\$ 7,570,659
Water	1,536,776	1,278,594	2,852,672	2,534,844
Wastewater	507,586	513,036	790,580	761,167
Sanitation	919,519	931,336	638,897	538,551
Landfill	1,341,478	1,449,701	1,120,913	1,172,175
Telecommunications	2,426,850	2,276,908	2,816,443	2,759,926
Administration/other	314,664	698,118	798,846	810,639
Total business-type activities	\$ 16,477,636	\$ 16,575,597	\$ 16,864,832	\$ 16,147,961

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 \$ 3,228,987, an increase of \$ 492,353 in comparison with the prior year. Approximately 37% of this total amount (\$ 1,179,991) constitutes unassigned 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 spent or is restricted, committed, or assigned by various outside sources or for certain projects or programs.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 247,704. As a measure of the general fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Unassigned fund balance represents 4% of total general fund expenditures. General fund revenues of \$ 5,794,492 represented a decrease of \$ 143,630 over the prior year, due mainly to a decrease in various tax revenues of \$222,082. Expenditures of \$ 6,309,736 were \$ 341,228 more than the prior year due to an increase in the costs to provide public safety and other vital city services required of the city on a daily basis.

See disclaimer in accompanying Independent Auditor's Report.

The other governmental funds have total fund balances of \$ 2,857,114, of which \$ 1,924,827 is restricted, committed, or assigned. The net increase in fund balance during the current year in the other governmental funds was \$ 580,329.

This was the result of:

- An increase of fund balance in the Street and Alley Fund of \$77,169 due to having no significant projects funded from this fund during the fiscal year.
- An increase of fund balance in the Sallisaw Reserve Fund of \$155,559 due to transfers in during the year.
- An increase of fund balance in the Capital Improvements Fund of \$165,248, due to deferred projects and less cost for equipment purchases.

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 \$ (223,906). The total decrease in net assets was \$ 890,297. Operating revenues showed a decrease of \$ 97,960 due to a decrease in landfill and sanitation revenue.

Operating expenses increased by \$ 673,595, mainly due to an increase the cost of electric power and cost to maintain other proprietary services. An increase in depreciation and amortization of \$204,193 also contributed to the increase in operating expenses.

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 \$14,734,366 were less than budgetary estimates by \$431,755. This was primarily due to the General Fund not needing the full amount budgeted for Operating Transfers In.

Expenditures of \$14,893,158 were \$751,430 less than budget appropriations of \$15,644,588, due to efforts of city employees to hold expenses to FY 2011 levels. Reductions in salary requirements due to employee turnover also contributed in holding expenses down.

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, 2012, amounts to \$ 46,489,217 (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:

- The purchase of two (2) Aljon landfill compactors for the landfill facility. Cost of \$689,000.
- The purchase of a Freightliner sanitation truck. Cost of \$121,250.
- The purchase of eight (8) police vehicles. Cost of \$211,169.
- Completion of the upgrade to the City's accounting software. Cost of \$27,125.
- Police vehicle outfitting equipment. Cost of \$55,650.

See disclaimer in accompanying Independent Auditor's Report.

City of Sallisaw
Capital Assets
June 30, 2012 and 2011
(net of depreciation)

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Land and easements	\$ 1,350,193	\$ 1,350,193	\$ 1,471,897	\$ 1,471,897	\$ 2,822,090	\$ 2,822,090
Construction in progress	52,676	586,779	214,958	-	267,634	586,779
Buildings and improvements	1,152,743	1,240,810	1,676,074	1,741,490	2,828,817	2,982,300
Infrastructure and improvements	2,627,240	1,983,038	11,144,114	11,765,419	13,771,354	13,748,457
Equipment and computers	717,042	695,870	2,014,392	1,581,376	2,731,434	2,277,246
Water and sewer facilities	-	-	22,717,484	23,225,465	22,717,484	23,225,465
Vehicles	923,299	802,360	427,104	368,397	1,350,403	1,170,757
Capital assets, net	<u>\$ 6,823,193</u>	<u>\$ 6,659,050</u>	<u>\$ 39,666,023</u>	<u>\$ 40,154,044</u>	<u>\$ 46,489,216</u>	<u>\$ 46,813,094</u>

Additional information of the City's capital assets can be found in Note V.D. on pages 33–34 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$ 38,264,235. This represents bonds secured solely by specified revenue sources (i.e., revenue bonds and notes) totaling \$ 35,585,712, other notes payable to banks and other governmental entities of \$ 1,564,271, and \$ 1,114,252 in capital lease obligations.

The City's total debt decreased \$ 127,334 during the current fiscal year. The key factors in this decrease were refinancing of the Series 2005 bond issue and the continuing principal payments on other outstanding debt.

City of Sallisaw
Outstanding Debt
June 30, 2012 and 2011

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Capital lease obligations	\$ 1,114,252	\$ 464,825	\$ -	\$ -	\$ 1,114,252	\$ 464,825
Revenue bonds	-	-	30,695,000	30,465,000	30,695,000	30,465,000
Unamortized premium on bonds	-	-	-	551,000	-	551,000
Notes payable	-	-	6,454,983	6,910,744	6,454,983	6,910,744
Total outstanding debt	<u>\$ 1,114,252</u>	<u>\$ 464,825</u>	<u>\$ 37,149,983</u>	<u>\$ 37,926,744</u>	<u>\$ 38,264,235</u>	<u>\$ 38,391,569</u>

Additional information on the City's long-term debt can be found in Note V.F. on pages 34–37 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 2013 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:

- Balancing the needs of the city with the available revenues.
- The cost of employee health insurance and retirement benefits.
- The upcoming capital costs associated with the municipal landfill facility.
- Reinstating employee merit increases.
- Rate adjustments for water and electric services.
- A new water source for the community. This item is still a high priority for city officials.

Items of note included in the FY 2013 budget include:

- Funds to relocate the leachate collection lagoon at the landfill facility.
- Funds to replace the roofs of the old city hall complex and police department.
- Funds to purchase a new street sweeper and small dozer for the street department.
- Funds to continue replacement of older computer equipment and software.
- Funds for completion of the Rock Branch Sewer Line Project.

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.

Total Sales Tax Receipts July 2007 to June 2012

	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
JULY	\$ 460,256	\$ 494,566	\$ 437,314	\$ 417,743	\$ 378,525
AUG	\$ 464,635	\$ 446,494	\$ 431,652	\$ 435,587	\$ 397,852
SEPT	\$ 431,691	\$ 487,440	\$ 425,231	\$ 415,590	\$ 383,073
OCT	\$ 469,234	\$ 429,559	\$ 404,703	\$ 432,627	\$ 375,940
NOV	\$ 402,673	\$ 410,372	\$ 380,379	\$ 376,781	\$ 348,732
DEC	\$ 416,547	\$ 434,508	\$ 414,440	\$ 397,419	\$ 341,076
JAN	\$ 481,771	\$ 532,868	\$ 366,548	\$ 428,379	\$ 379,166
FEB	\$ 484,262	\$ 462,727	\$ 491,612	\$ 454,929	\$ 399,669
MAR	\$ 436,208	\$ 464,421	\$ 404,430	\$ 340,663	\$ 357,159
APR	\$ 440,800	\$ 435,059	\$ 398,642	\$ 372,625	\$ 391,107
MAY	\$ 433,945	\$ 408,380	\$ 404,895	\$ 372,365	\$ 385,879
JUNE	\$ 457,716	\$ 411,235	\$ 418,854	\$ 339,046	\$ 346,797
TOTAL	\$ 5,379,738	\$ 5,417,630	\$ 4,978,700	\$ 4,783,754	\$ 4,484,975

See disclaimer in accompanying Independent Auditor's Report.

Sales tax receipts based on 1% show FY 2012 ended at 95% of FY 2009 levels.

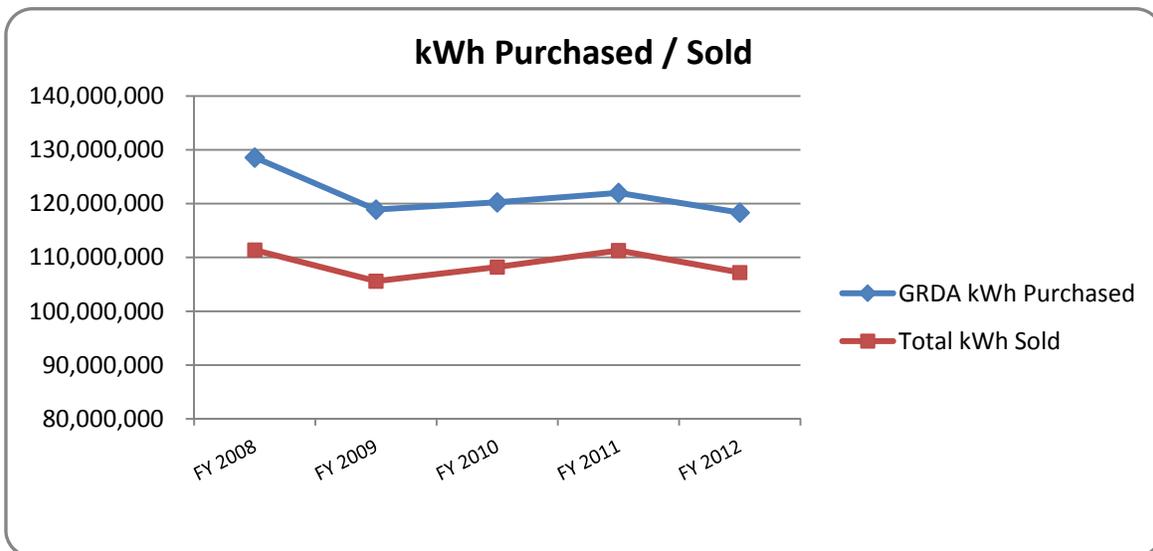
	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
JULY	\$ 115,064	\$ 123,642	\$ 109,329	\$ 104,436	\$ 108,150
AUG	\$ 116,159	\$ 111,624	\$ 107,913	\$ 108,897	\$ 113,672
SEPT	\$ 107,923	\$ 121,860	\$ 106,308	\$ 103,898	\$ 109,449
OCT	\$ 117,309	\$ 107,390	\$ 101,176	\$ 108,157	\$ 107,411
NOV	\$ 100,668	\$ 102,593	\$ 95,095	\$ 94,195	\$ 99,638
DEC	\$ 104,137	\$ 108,627	\$ 103,610	\$ 99,355	\$ 97,450
JAN	\$ 120,443	\$ 133,217	\$ 91,637	\$ 107,095	\$ 108,333
FEB	\$ 121,066	\$ 115,682	\$ 122,903	\$ 113,732	\$ 114,191
MAR	\$ 109,052	\$ 116,105	\$ 101,108	\$ 97,333	\$ 102,045
APR	\$ 110,200	\$ 108,765	\$ 99,661	\$ 106,464	\$ 111,745
MAY	\$ 108,486	\$ 102,095	\$ 101,224	\$ 106,390	\$ 110,251
JUNE	\$ 114,429	\$ 102,809	\$ 104,714	\$ 96,871	\$ 99,085
TOTAL	\$ 1,344,935	\$ 1,354,407	\$ 1,244,675	\$ 1,246,821	\$ 1,281,421

As of June 30, 2012 the sales tax rate within the city limits of Sallisaw was 9.417%, with 3.5% of this going to the City of Sallisaw.

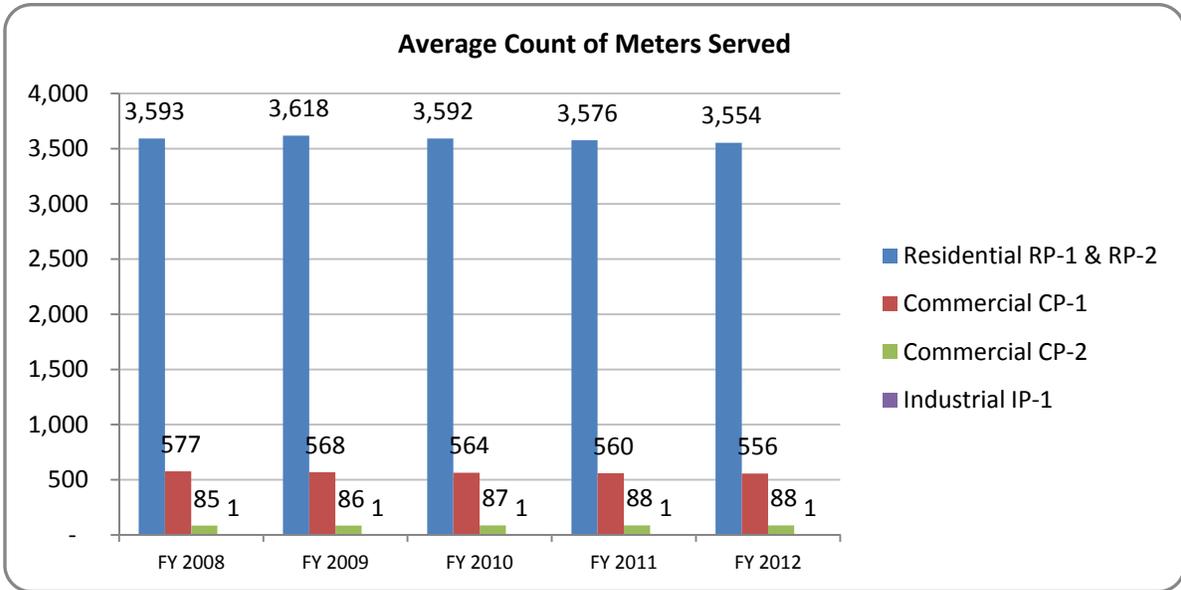
Last Sales Tax Change: 1/1/2011 Total sales tax = 9.417%

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

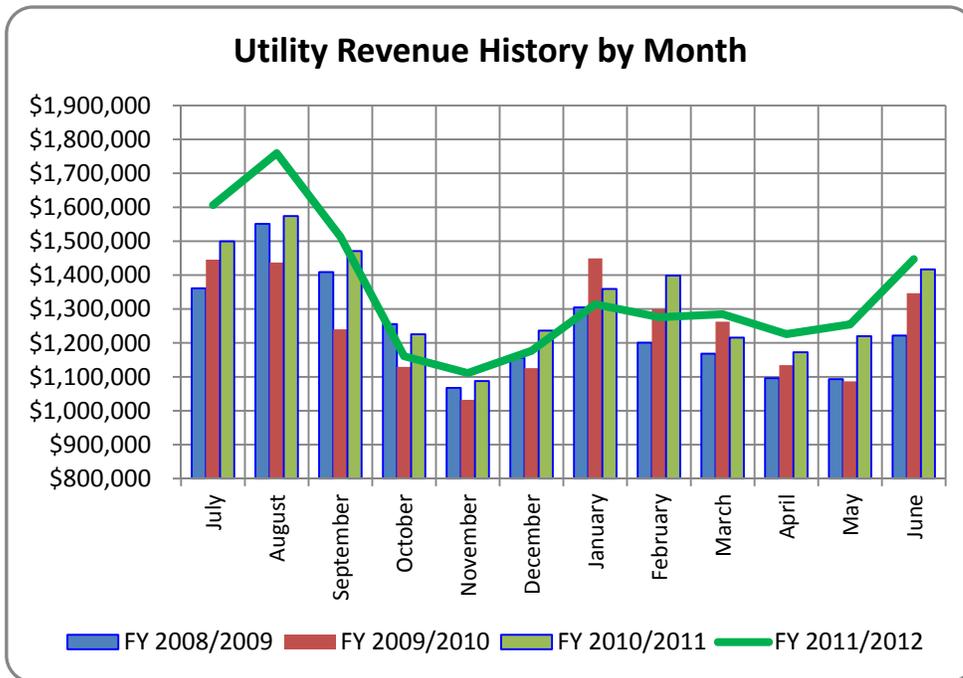
Electric Usage: Electric sales decreased during the fiscal year. During the year, the city provided electricity to an average of 4,198 electric meters per month.



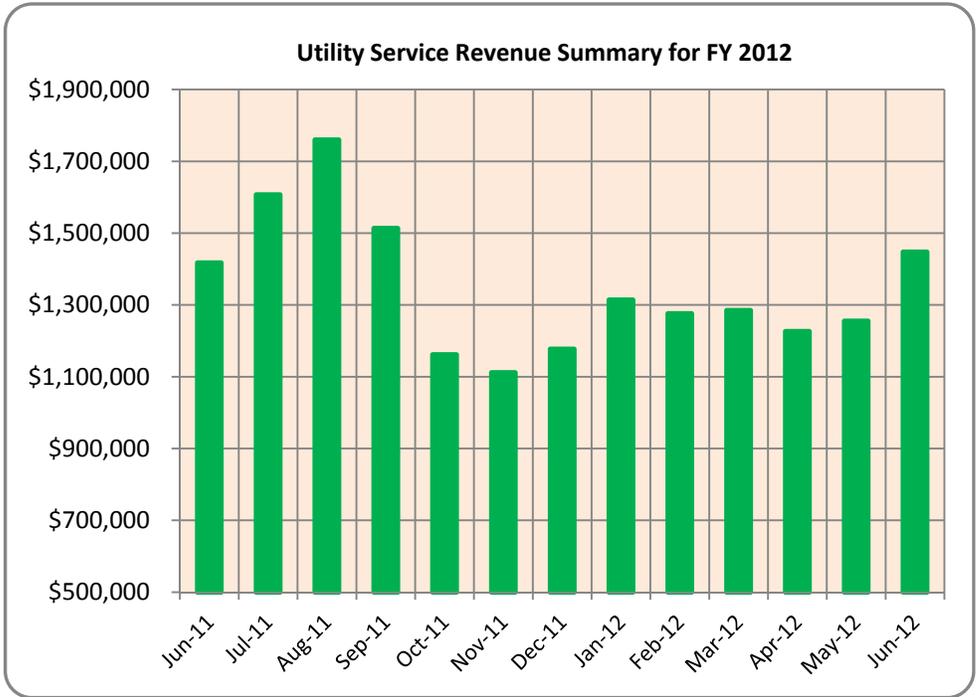
See disclaimer in accompanying Independent Auditor's Report.



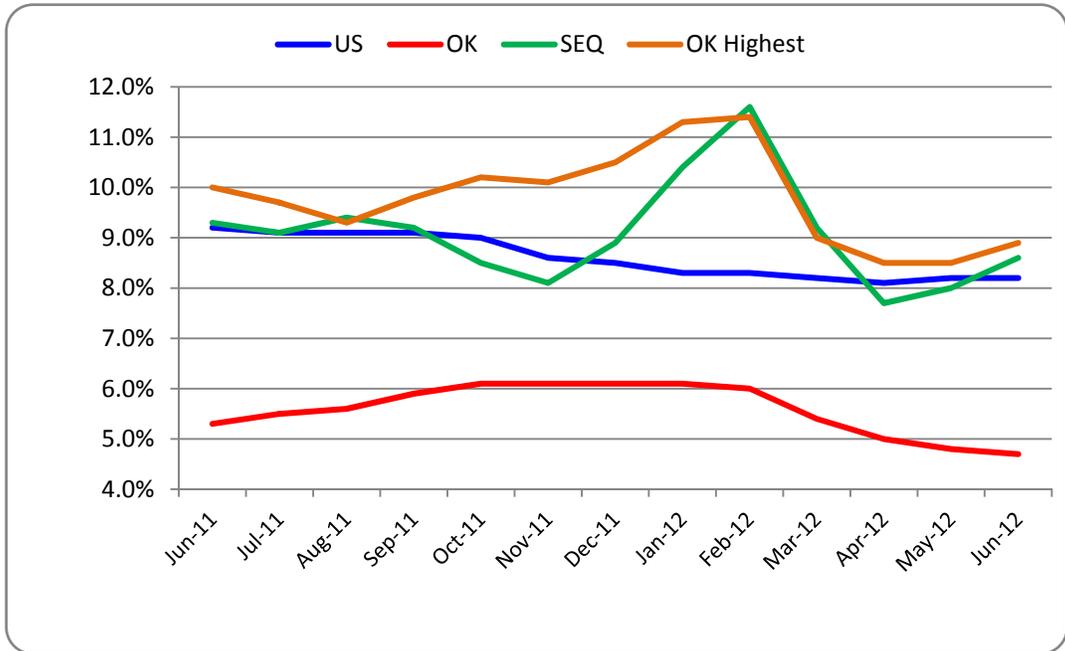
Utility Service Revenue History: As of June 2012



See disclaimer in accompanying Independent Auditor's Report.



Unemployment: As of June 2012, the unemployment rate for Sequoyah County was at 8.6%, compared to 4.7% for Oklahoma and 8.2% for the United States.



See disclaimer in accompanying Independent Auditor's Report.

The City of Sallisaw Board of City Commissioners and staff continue 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 the city continues to build its reserve funds as much as possible. The city routinely seeks 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	Trevor Meadors	Ward 1
Commissioner	Roena Poindexter	Ward 2
Commissioner	Bryan Warner	Ward 3
Commissioner	John Sawney	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 for more budgetary and contact information.



See disclaimer in accompanying Independent Auditor's Report.

City of Sallisaw, Oklahoma
Statement of Net Assets
June 30, 2012

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 2,070,281	\$ 549,337	\$ 2,619,618
Investments	995,335	745,590	1,740,925
Receivables (net of allowance for uncollectibles):			
Accounts	34,192	1,295,123	1,329,315
Taxes	466,666	-	466,666
Due from other governments	59,882	-	59,882
Accrued interest	2,529	3,383	5,912
Internal balances	160,542	(160,542)	-
Prepaid expenses	124,170	-	124,170
Restricted assets:			
Cash and cash equivalents	-	208,509	208,509
Investments	-	1,463,520	1,463,520
Total current assets	<u>3,913,597</u>	<u>4,104,920</u>	<u>8,018,517</u>
Noncurrent assets:			
Notes receivable	-	50,000	50,000
Debt issuance costs (net of accumulated amortization)	-	1,491,724	1,491,724
Capital assets (net of accumulated depreciation)	6,823,193	39,666,024	46,489,217
Total noncurrent assets	<u>6,823,193</u>	<u>41,207,748</u>	<u>48,030,941</u>
Total assets	<u>10,736,790</u>	<u>45,312,668</u>	<u>56,049,458</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	684,610	896,754	1,581,364
Payable from restricted assets:			
Accrued interest	-	229,903	229,903
Customer deposits	-	697,952	697,952
Deferred revenue	-	-	-
Current portion of long-term obligations	386,788	1,546,486	1,933,274
Total current liabilities	<u>1,071,398</u>	<u>3,371,095</u>	<u>4,442,493</u>
Noncurrent liabilities:			
Capital lease obligations	1,114,252	-	1,114,252
Revenue bonds payable (net of unamortized premium)	-	30,695,000	30,695,000
Notes payable	-	6,454,982	6,454,982
Deferred loss on refunding	-	(2,673,237)	(2,673,237)
Accrued landfill closure costs	-	1,553,701	1,553,701
Less: current portion of long-term obligation	(386,788)	(1,546,486)	(1,933,274)
Total noncurrent liabilities	<u>727,464</u>	<u>34,483,960</u>	<u>35,211,424</u>
Total liabilities	<u>1,798,862</u>	<u>37,855,055</u>	<u>39,653,917</u>
Net assets			
Invested in capital assets, net of related debt	5,708,941	6,894,892	12,603,833
Restricted for:			
Enabling legislation	727,352	-	727,352
Statutes	380,107	-	380,107
Debt service	-	559,804	559,804
Contractual agreement	355,298	415,810	771,108
Unrestricted	1,766,230	(412,893)	1,353,337
Total net assets	<u>\$ 8,937,928</u>	<u>\$ 7,457,613</u>	<u>\$ 16,395,541</u>

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

City of Sallisaw, Oklahoma
Statement of Activities
Year Ended June 30, 2012

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 1,790,700	\$ 46,459	\$ -	\$ -
Public safety	2,840,117	218,565	221,296	-
Public works	1,698,452	161,655	-	412,388
Culture and recreation	703,118	34,432	-	-
Economic development	129,992	-	-	-
Interest on long-term debt	33,391	-	-	-
Total governmental activities	<u>7,195,770</u>	<u>461,111</u>	<u>221,296</u>	<u>412,388</u>
Business-type activities:				
Administration	45,074	-	-	-
Electric	7,846,481	9,430,763	-	-
Water	2,852,672	1,536,776	-	-
Wastewater	790,580	507,586	-	-
Landfill	1,120,913	1,341,478	-	-
Sanitation	638,897	919,519	-	-
Telecommunications	2,816,443	2,426,850	-	-
Other	753,772	296,664	18,000	-
Total business-type activities	<u>16,864,832</u>	<u>16,459,636</u>	<u>18,000</u>	<u>-</u>
Total primary government	<u>\$ 24,060,602</u>	<u>\$ 16,920,747</u>	<u>\$ 239,296</u>	<u>\$ 412,388</u>

General revenues:

 Taxes:

 Sales and use

 Franchise

 Other

 Interest income

 Miscellaneous

 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>
\$ (1,744,241)	\$ -	\$ (1,744,241)
(2,400,256)	-	(2,400,256)
(1,124,409)	-	(1,124,409)
(668,686)	-	(668,686)
(129,992)	-	(129,992)
(33,391)	-	(33,391)
<u>(6,100,975)</u>	<u>-</u>	<u>(6,100,975)</u>
-	(45,074)	(45,074)
-	1,584,282	1,584,282
-	(1,315,896)	(1,315,896)
-	(282,994)	(282,994)
-	220,565	220,565
-	280,622	280,622
-	(389,593)	(389,593)
-	(439,108)	(439,108)
<u>-</u>	<u>(387,196)</u>	<u>(387,196)</u>
<u>(6,100,975)</u>	<u>(387,196)</u>	<u>(6,488,171)</u>
4,716,326	-	4,716,326
151,340	-	151,340
306,866	-	306,866
11,957	126,954	138,911
272,980	42,601	315,581
648,572	(648,572)	-
<u>6,108,041</u>	<u>(479,017)</u>	<u>5,629,024</u>
7,066	(866,213)	(859,147)
<u>8,930,862</u>	<u>8,323,826</u>	<u>17,254,688</u>
<u>\$ 8,937,928</u>	<u>\$ 7,457,613</u>	<u>\$ 16,395,541</u>

City of Sallisaw, Oklahoma
Balance Sheet
Governmental Funds
June 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 301,300	\$ 1,768,981	\$ 2,070,281
Investments	-	995,335	995,335
Receivables:			
Accounts	34,192	-	34,192
Taxes	459,610	7,056	466,666
Due from other governments	-	59,882	59,882
Accrued interest	-	2,529	2,529
Due from other funds	530,668	92,811	623,479
Prepaid expenses	124,169	-	124,169
Total assets	<u>\$ 1,449,939</u>	<u>\$ 2,926,594</u>	<u>\$ 4,376,533</u>
Cash and cash equivalents			
Liabilities:			
Accounts payable and accrued liabilities	\$ 198,769	\$ 46,142	\$ 244,911
Due to other funds	439,598	23,338	462,936
Accrued compensated absences	439,699	-	439,699
Total liabilities	<u>1,078,066</u>	<u>69,480</u>	<u>1,147,546</u>
Fund balances:			
Nonspendable	124,169	-	124,169
Restricted	-	699,946	699,946
Committed	-	119,895	119,895
Assigned	-	1,104,986	1,104,986
Unassigned	247,704	932,287	1,179,991
Total fund balances	<u>371,873</u>	<u>2,857,114</u>	<u>3,228,987</u>
Total liabilities and fund balances	<u>\$ 1,449,939</u>	<u>\$ 2,926,594</u>	<u>\$ 4,376,533</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, 2012

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 5,001,783	\$ -	\$ 5,001,783
Licenses and permits	31,456	-	31,456
Intergovernmental	64,979	687,453	752,432
Fines and forfeitures	214,061	-	214,061
Charges for services	156,648	44,900	201,548
Other	321,595	19,431	341,026
Interest	3,970	7,986	11,956
Total revenues	<u>5,794,492</u>	<u>759,770</u>	<u>6,554,262</u>
Expenditures			
General government	1,743,629	-	1,743,629
Public safety	2,511,962	177,255	2,689,217
Public works	1,274,126	695	1,274,821
Economic development	129,992	-	129,992
Culture and recreation	643,612	8,119	651,731
Debt service:			
Principal	-	371,992	371,992
Interest	-	33,391	33,391
Capital outlay	6,415	2,025,509	2,031,924
Total expenditures	<u>6,309,736</u>	<u>2,616,961</u>	<u>8,926,697</u>
Excess of revenues over (under) expenditures	(515,244)	(1,857,191)	(2,372,435)
Other financing sources (uses)			
Proceeds from capital lease obligations	-	1,021,419	1,021,419
Transfers in	5,405,890	1,439,439	6,845,329
Transfers out	(4,978,622)	(23,338)	(5,001,960)
Total other financing sources (uses)	<u>427,268</u>	<u>2,437,520</u>	<u>2,864,788</u>
Net change in fund balances	(87,976)	580,329	492,353
Fund balances, beginning	<u>459,849</u>	<u>2,276,785</u>	<u>2,736,634</u>
Fund balances, ending	<u>\$ 371,873</u>	<u>\$ 2,857,114</u>	<u>\$ 3,228,987</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, 2012

Total fund balance - governmental funds	\$ 3,228,987
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.	6,823,193
Long-term liabilities are not due and payable in the current period and therefore are not reported in funds:	
Capital lease obligations	<u>(1,114,252)</u>
Net assets of governmental activities	<u><u>\$ 8,937,928</u></u>
Net change in fund balances – total governmental funds	\$ 492,353
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	2,003,108
Depreciation expense	(580,671)
Transfer of capital assets to Sallisaw Municipal Authority	<u>(1,258,297)</u>
	<u>164,140</u>
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.	
Proceeds from capital lease obligations	(1,021,419)
Capital lease principal payments	<u>371,992</u>
	<u>(649,427)</u>
Change in net assets of governmental activities	<u><u>\$ 7,066</u></u>

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

City of Sallisaw, Oklahoma
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Enterprise Funds		Totals
	Sallisaw Municipal Authority	Nonmajor Enterprise Funds	
Assets			
Current assets:			
Cash and cash equivalents	\$ 524,435	\$ 24,902	\$ 549,337
Investments	745,590	-	745,590
Receivables:			
Accounts (net of allowance for uncollectibles)	1,295,123	-	1,295,123
Due from other funds	489,769	213,889	703,658
Accrued interest	3,383	-	3,383
Restricted assets:			
Cash and cash equivalents	208,509	-	208,509
Investments	1,463,520	-	1,463,520
Total current assets	<u>4,730,329</u>	<u>238,791</u>	<u>4,969,120</u>
Noncurrent assets:			
Notes receivable	50,000	-	50,000
Debt issuance costs (net of accumulated amortization)	1,491,724	-	1,491,724
Capital assets (net of accumulated depreciation)	<u>38,236,362</u>	<u>1,429,662</u>	<u>39,666,024</u>
Total noncurrent assets	<u>39,778,086</u>	<u>1,429,662</u>	<u>41,207,748</u>
Total assets	<u>44,508,415</u>	<u>1,668,453</u>	<u>46,176,868</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	896,754	-	896,754
Payable from restricted assets:			
Accrued interest payable	229,903	-	229,903
Customer deposits	697,952	-	697,952
Due to other funds	650,311	213,889	864,200
Current portion of long-term obligations	<u>1,454,973</u>	<u>91,513</u>	<u>1,546,486</u>
Total current liabilities	<u>3,929,893</u>	<u>305,402</u>	<u>4,235,295</u>
Noncurrent liabilities:			
Revenue bonds payable (net of unamortized premium)	30,695,000	-	30,695,000
Notes payable	5,260,912	1,194,070	6,454,982
Deferred loss on refunding	(2,673,237)	-	(2,673,237)
Accrued landfill closure costs	1,553,701	-	1,553,701
Less: Current portion of long-term obligations	<u>(1,454,973)</u>	<u>(91,513)</u>	<u>(1,546,486)</u>
Total noncurrent liabilities	<u>33,381,403</u>	<u>1,102,557</u>	<u>34,483,960</u>
Total liabilities	<u>37,311,296</u>	<u>1,407,959</u>	<u>38,719,255</u>
Net assets			
Invested in capital assets, net of related debt	6,445,411	449,481	6,894,892
Restricted:			
Debt service	559,804	-	559,804
Capital projects/other	415,810	-	415,810
Unrestricted	<u>(223,906)</u>	<u>(188,987)</u>	<u>(412,893)</u>
Total net assets	<u>\$ 7,197,119</u>	<u>\$ 260,494</u>	<u>\$ 7,457,613</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, 2012

	Enterprise Funds		Totals
	Sallisaw Municipal Authority	Nonmajor Enterprise Funds	
Operating revenues			
Charges for services:			
Electric	\$ 9,430,763	\$ -	\$ 9,430,763
Water	1,536,776	-	1,536,776
Wastewater	507,586	-	507,586
Landfill	1,341,478	-	1,341,478
Sanitation	919,519	-	919,519
Telecommunications	2,426,850	-	2,426,850
Other	206,664	90,000	296,664
Total operating revenues	<u>16,369,636</u>	<u>90,000</u>	<u>16,459,636</u>
Operating expenses			
Administration	45,074	-	45,074
Electric	7,711,486	-	7,711,486
Water	769,079	-	769,079
Wastewater	546,218	-	546,218
Landfill	719,258	-	719,258
Sanitation	578,389	-	578,389
Telecommunications	2,117,268	-	2,117,268
Economic development	-	12,981	12,981
Depreciation and amortization	1,892,673	40,663	1,933,336
Bad debt expense	105,104	-	105,104
Total operating expenses	<u>14,484,549</u>	<u>53,644</u>	<u>14,538,193</u>
Net operating income (loss)	1,885,087	36,356	1,921,443
Nonoperating revenues (expenses)			
Miscellaneous revenues	19,202	41,399	60,601
Interest income	126,954	-	126,954
Interest expense and fiscal charges	(1,626,511)	(53,671)	(1,680,182)
Payments to hospital	(646,457)	-	(646,457)
Total nonoperating revenues (expenses)	<u>(2,126,812)</u>	<u>(12,272)</u>	<u>(2,139,084)</u>
Operating transfers			
Transfers in	7,412,450	-	7,412,450
Transfers (out)	(8,061,022)	-	(8,061,022)
Total operating transfers	<u>(648,572)</u>	<u>-</u>	<u>(648,572)</u>
Net income (loss)	(890,297)	24,084	(866,213)
Net assets, beginning, restated	<u>8,087,416</u>	<u>236,410</u>	<u>8,323,826</u>
Net assets, ending	<u>\$ 7,197,119</u>	<u>\$ 260,494</u>	<u>\$ 7,457,613</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, 2012

	Enterprise Funds		Totals
	Sallisaw Municipal Authority	Nonmajor Enterprise Funds	
Cash flows from operating activities			
Receipts from customers	\$ 16,280,035	\$ 90,000	\$ 16,370,035
Payments to suppliers	(10,912,549)	(12,981)	(10,925,530)
Payments to employees	(1,281,325)	-	(1,281,325)
Net cash provided (used) by operating activities	<u>4,086,161</u>	<u>77,019</u>	<u>4,163,180</u>
Cash flows from noncapital financing activities			
(Increase) decrease in interfund receivables/payables	376,844	-	376,844
Miscellaneous revenues/ (expenses)	(627,255)	41,399	(585,856)
Operating transfers in (out)	(648,572)	-	(648,572)
Net cash provided (used) by noncapital financing activities	<u>(898,983)</u>	<u>41,399</u>	<u>(857,584)</u>
Cash flows from capital and related financing activities			
Proceeds from long-term debt	22,502,494	-	22,502,494
Principal paid on long-term debt	(23,214,252)	(65,006)	(23,279,258)
Loss on refunding of bonds	(2,003,316)	-	(2,003,316)
Interest expense and fiscal charges	(2,149,976)	(53,671)	(2,203,647)
(Increase) decrease in restricted assets	1,957,887	-	1,957,887
(Increase) decrease in debt issuance costs	175,038	-	175,038
Acquisition/construction of capital assets	(1,344,035)	-	(1,344,035)
Net cash provided (used) by capital and related financing activities	<u>(4,076,160)</u>	<u>(118,677)</u>	<u>(4,194,837)</u>
Cash flows from investing activities			
(Increase) decrease in investments	93,426	-	93,426
Interest income	126,954	-	126,954
Net cash provided (used) by investing activities	<u>220,380</u>	<u>-</u>	<u>220,380</u>
Net increase (decrease) in cash and cash equivalents	(668,602)	(259)	(668,861)
Cash and cash equivalents, beginning	1,193,037	25,161	1,218,198
Cash and cash equivalents, ending	<u>\$ 524,435</u>	<u>\$ 24,902</u>	<u>\$ 549,337</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Net operating income (loss)	\$ 1,885,087	\$ 36,356	\$ 1,921,443
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	1,892,673	40,663	1,933,336
Changes in assets and liabilities:			
(Increase) decrease in receivables	15,504	-	15,504
Increase (decrease) in accounts payable	130,702	-	130,702
Increase (decrease) in customer deposits	42,889	-	42,889
Increase (decrease) in accrued expenses	119,306	-	119,306
Total adjustments	<u>2,201,074</u>	<u>40,663</u>	<u>2,241,737</u>
Net cash provided (used) by operating activities	<u>\$ 4,086,161</u>	<u>\$ 77,019</u>	<u>\$ 4,163,180</u>

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

City of Sallisaw, Oklahoma
Notes to Financial Statements
June 30, 2012

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 balances and net assets

Fund balances – Governmental fund balances are classified as nonspendable, restricted, committed, assigned, and unassigned as follows:

- a. *Nonspendable* – includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.
- b. *Restricted* – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. *Committed* – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city’s highest level of decision-making authority. The city’s highest level of decision-making authority is made by ordinance.
- d. *Assigned* – includes amounts that are constrained by the city’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has designated that authority.
- e. *Unassigned* – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the city’s policy to first use restricted fund balance prior to the use of unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The city’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net assets – Net assets are displayed in three components as follows:

- a. *Invested in capital assets, net of related debt* – consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any debt or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.
- b. *Restricted net assets* – consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.

- c. *Unrestricted net assets* – all other net assets that do not meet the definitions of “invested in capital assets, net of related debt” or “restricted”.

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

9. Internal and interfund balances and transfers

Interfund transfers and balances are eliminated in the government-wide financial statements to avoid grossing up the balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements. Internal transfers and balances between funds are not eliminated in the fund financial statements.

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	\$ 1,114,252
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	\$ 1,114,252

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	\$ 6,823,193
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	\$ 6,823,193

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	\$ 2,003,108
Depreciation expense	(580,671)
Transfer of capital assets to Sallisaw Municipal Authority	<u>(1,258,297)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 164,140</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	\$ (371,992)
Proceeds from capital lease obligations	<u>1,021,419</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 649,427</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 \$ 2,824,440 as of June 30, 2012, and the bank balances totaled \$ 3,091,962. 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, 2012, \$ 2,298,604 of the City's bank balances of \$ 3,091,962 was exposed to custodial credit risk as follows:

Collateral held by the pledging bank, not in the City's name	<u>\$ 2,298,604</u>
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Investments

As of June 30, 2012, the City had the following investments.

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Certificates of deposit	< 182 days	\$ 2,228,931
U.S. Treasury Mutual Funds	n/a	<u>975,514</u>
Total		<u>\$ 3,204,445</u>

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, 2012, 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 30 % and 70 %, respectively, of the City's total investments.

B. Receivables

Receivables as of June 30, 2012, 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	\$ 459,610	\$ 7,056	\$ -	\$ 466,666
Accounts	34,192	-	1,389,084	1,423,276
Due from other governments	-	59,882	-	59,882
Notes receivable	-	-	50,000	50,000
Interest	-	2,529	3,383	5,912
Gross receivables	<u>493,802</u>	<u>69,467</u>	<u>1,442,467</u>	<u>2,005,736</u>
Less: allowance for uncollectibles	-	-	(93,961)	(93,961)
Net total receivables	<u>\$ 493,802</u>	<u>\$ 69,467</u>	<u>\$ 1,348,506</u>	<u>\$ 1,911,775</u>

C. Restricted cash and investments

The Sallisaw Municipal Authority Revenue Bonds Series 2012, the Sallisaw Municipal Authority Utility System Refunding Revenue Bonds, Series 2011, 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, 2012:

	Enterprise Funds				Meter Deposit Fund	Total
	Sallisaw Municipal Authority			OWRB Note		
	Series 2010 Revenue Notes	Series 2012 Revenue Bonds	Series 2009 Revenue Bonds			
Restricted assets:						
Sinking fund	\$ 116,705	\$ 103,929	\$ 339,070	\$ 100	\$ -	\$ 559,804
Construction fund	-	-	415,810	-	-	415,810
Customer deposits	-	-	-	-	696,766	696,766
Total restricted assets	<u>\$ 116,705</u>	<u>\$ 103,929</u>	<u>\$ 754,880</u>	<u>\$ 100</u>	<u>\$ 696,766</u>	<u>\$ 1,672,380</u>

D. Capital assets

Capital asset balances and activities for the year ended June 30, 2012, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,350,193	\$ -	\$ -	\$ 1,350,193
Construction in progress	586,779	135,090	(669,193)	52,676
Total capital assets, not being depreciated	<u>1,936,972</u>	<u>135,090</u>	<u>(669,193)</u>	<u>1,402,869</u>
Capital assets, being depreciated:				
Buildings and improvements	2,710,497	-	-	2,710,497
Infrastructure and other improvements	3,319,650	845,384	-	4,165,034
Equipment and computers	2,039,721	145,510	(7,345)	2,177,886
Vehicles	2,586,247	288,018	-	2,874,265
Total capital assets, being depreciated	<u>10,656,115</u>	<u>1,278,912</u>	<u>(7,345)</u>	<u>11,927,682</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,469,684)	(88,070)	-	(1,557,754)
Infrastructure and other improvements	(1,336,612)	(201,182)	-	(1,537,794)
Equipment and computers	(1,343,851)	(124,338)	7,345	(1,460,844)
Vehicles	(1,783,887)	(167,079)	-	(1,950,966)
Total accumulated depreciation	<u>(5,934,034)</u>	<u>(580,669)</u>	<u>7,345</u>	<u>(6,507,358)</u>
Total capital assets, being depreciated, net	<u>4,722,081</u>	<u>698,243</u>	<u>-</u>	<u>5,420,324</u>
Governmental activities capital assets, net	<u>\$ 6,659,053</u>	<u>\$ 833,333</u>	<u>\$ (669,193)</u>	<u>\$ 6,823,193</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land and easements	\$ 1,471,897	\$ -	\$ -	\$ 1,471,897
Construction in progress	-	214,958	-	214,958
Total capital assets, not being depreciated	<u>1,471,897</u>	<u>214,958</u>	<u>-</u>	<u>1,686,855</u>
Capital assets, being depreciated:				
Buildings and improvements	2,300,859	-	-	2,300,859
Infrastructure and other improvements	16,044,967	9,970	-	16,054,937
Water and sewer treatment facilities	27,974,052	240,791	-	28,214,843
Equipment	3,448,629	868,949	(907,461)	3,410,117
Vehicles	1,485,816	149,230	-	1,635,046
Total capital assets, being depreciated	<u>51,254,323</u>	<u>1,268,940</u>	<u>(907,461)</u>	<u>51,615,802</u>
Less accumulated depreciation for:				
Buildings and improvements	(559,369)	(65,416)	-	(624,785)
Infrastructure and other improvements	(4,279,548)	(631,275)	-	(4,910,823)
Water and sewer treatment facilities	(4,748,587)	(748,772)	-	(5,497,359)
Equipment	(1,867,253)	(296,069)	767,597	(1,395,725)
Vehicles	(1,117,418)	(90,524)	-	(1,207,942)
Total accumulated depreciation	<u>(12,572,175)</u>	<u>(1,832,056)</u>	<u>767,597</u>	<u>(13,636,634)</u>
Total capital assets, being depreciated, net	<u>38,682,148</u>	<u>(563,116)</u>	<u>(139,864)</u>	<u>37,979,168</u>
Business-type activities capital assets, net	<u>\$ 40,154,045</u>	<u>\$ (348,158)</u>	<u>\$ (139,864)</u>	<u>\$ 39,666,023</u>

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

Governmental activities:	
General government	\$ 47,070
Public safety	150,900
Public works	331,312
Cultural and recreation	51,387
Total depreciation expense – governmental activities	<u>\$ 580,669</u>
Business-type activities:	
Electric	\$ 80,751
Water	733,099
Wastewater	241,217
Landfill	368,146
Sanitation	54,996
Telecommunications	313,184
Economic development	40,663
Total depreciation expense – business-type activities	<u>\$ 1,832,056</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, 2012, cash and investments included \$ 696,766 available for refund of customer deposits, while the liability to customers was \$ 697,952.

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:

Armstrong Bank dated December 1, 2011, in the amount of \$ 689,000, payable in monthly installments of \$ 12,683 including interest at 3.89% for two (2) landfill compactors.	\$ 614,470
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.	55,464
Armstrong Bank dated December 21, 2011, in the amount of \$ 121,250, payable in monthly installments of \$ 3,539 including interest at 3.20% for 2011 Freightliner sanitation truck.	101,814
National Bank of Sallisaw dated December 1, 2011, in the amount of \$ 211,169, payable in monthly installments of \$ 6,154 including interest at 3.20% for eight (8) police vehicles.	171,528
Armstrong Bank dated May 28, 2011, in the amount of \$ 358,312, payable in monthly installments of \$ 8,073 including interest at 3.99% for Caterpillar dozer.	<u>170,976</u>
Total capital lease obligations	<u>\$ 1,114,252</u>

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
8 police vehicles	\$ 211,169
Sports complex property	461,917
2 Landfill compactors	689,000
Freightliner sanitation truck	121,250
Caterpillar dozer	358,312
Total	1,841,648
Less: accumulated depreciation	(121,804)
Net	\$ 1,719,844

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, were as follows:

Year Ending June 30,	Governmental Activities Capital Lease Obligations
2013	\$ 421,533
2014	349,256
2015	203,721
2016	152,017
2017	61,543
Total required payments	1,188,070
Less: amount representing interest	(73,818)
Total principal payments	\$ 1,114,252

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. \$ 7,820,000

\$ 19,415,000 Sallisaw Municipal Authority Refunding Revenue Bonds, Series 2012A, due annually in amounts from \$ 215,000 to \$ 1,455,000, plus semi-annual interest from 1.00% to 4.00% with final maturity at September 1, 2035, secured by SMA water, sewer, electric, telecommunications, and garbage collection systems, and a pledge of its net revenues, proceeds used to defease the Series 2005 bonds. 19,415,000

\$ 2,935,000 Sallisaw Municipal Authority Taxable Refunding Revenue Bonds, Series 2012B, due annually in amounts from \$ 475,000 to \$ 505,000, plus semi-annual interest from 0.96% to 2.15%, with final maturity at September 1, 2018, secured by SMA water, sewer, electric, telecommunications, and garbage collection systems, and a pledge of its net revenues, proceeds used to defease the Series 2005 bonds. 2,935,000

\$ 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.	525,000
Total revenue bonds	<u>30,695,000</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.	194,310
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Note payable to Oklahoma Water Resources Board, dated March 2, 2011, 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.	4,890,712
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Note payable to First National Bank of Sallisaw, dated May 1, 2011, 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.	175,890
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Sallisaw Economic Authority:

Note payable to Sallisaw Improvement Corporation, due and payable on or before June 30, 2011, with interest at 0.00%, for the Cello foam project	48,571
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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
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Note payable to First National Bank of Sallisaw, 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.	881,610
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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>213,890</u>
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Total notes payable	<u>6,454,983</u>
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Total business-type activities	<u>37,149,983</u>
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Total long-term debt	<u>\$ 38,264,235</u>
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Long-term liabilities transactions for the year ended June 30, 2012, and changes therein were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities					
Capital leases	\$ 464,825	\$ 1,021,419	\$ (371,992)	\$ 1,114,252	\$ 386,788
Total governmental activities	464,825	1,021,419	(371,992)	1,114,252	386,788
Business-type activities					
Revenue bonds:					
Series 2005	22,295,000	-	(21,770,000)	525,000	525,000
Series 2009	8,170,000	-	(350,000)	7,820,000	370,000
Series 2012A	-	19,415,000	-	19,415,000	-
Series 2012B	-	2,935,000	-	2,935,000	-
Unamortized bond premium	551,000	-	(551,000)	-	-
Notes payable:					
National Bank of Sallisaw	305,529	-	(111,220)	194,310	116,083
OWRB	4,969,605	152,494	(231,387)	4,890,712	268,000
First National Bank of Sallisaw	376,535	-	(200,645)	175,890	175,890
Sallisaw Improvement Corporation	71,937	-	(23,366)	48,571	48,571
Sallisaw Municipal Authority	50,000	-	-	50,000	-
First National Bank of Sallisaw	899,915	-	(18,305)	881,610	19,609
CDBG/EDIF	237,223	-	(23,333)	213,890	23,333
Total business-type activities	37,926,744	22,502,494	(23,279,256)	37,149,983	1,546,486
Total long-term debt	\$ 38,391,569	\$ 23,523,913	\$ (23,651,248)	\$ 38,264,235	\$ 1,933,274

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
2013	\$ 895,000	\$ 853,862	\$ 651,427	\$ 210,923
2014	1,075,000	1,056,905	390,337	192,700
2015	1,095,000	1,036,456	313,436	181,935
2016	1,110,000	1,016,286	1,160,412	136,168
2017	1,140,000	992,122	291,333	115,553
2018–2022	6,180,000	4,437,348	1,388,611	453,948
2023–2027	7,450,000	3,143,306	1,388,610	247,588
2028–2032	6,240,000	1,694,043	870,817	50,527
2033–2037	5,510,000	450,800	-	-
Totals	\$ 30,695,000	\$ 14,681,128	\$ 6,454,983	\$ 1,589,342

G. Defeased debt

On June 1, 2012, the Sallisaw Municipal Authority issued its Series 2012 Sallisaw Municipal Authority Revenue Refunding Bonds of \$ 22,350,000 with interest rates ranging from 0.96 % to 4.00 % to advance refund its Series 2005 Revenue Bonds with interest rates from 3.80 % to 5.00 %. The Series 2005 bonds mature annually through 2035. The Series 2012 bonds were issued at a discount of \$ 269,501, and after paying issuance costs of \$ 894,875, the net proceeds were \$ 21,215,610, including accrued interest. The net proceeds, along with available cash funds from the old debt were used to purchase U.S. Government-backed

securities in the amount of \$ 23,416,761, which were deposited into an irrevocable trust with an escrow agent to provide debt service payments when due over the remaining term of the Series 2005 bonds. The advance refunding met the requirements of an in-substance debt defeasance and the Series 2005 bonds were removed from the City of Sallisaw's financial statements.

As a result of the advance refunding, the Sallisaw Municipal Authority reduced its total debt service requirements by \$ 3,588,112.

H. Debt issuance costs

Debt issuance costs, net of accumulated amortization, totaled \$ 1,394,999 as of June 30, 2012. Unamortized bond discount was \$ 96,725. Amortization during the year was \$ 92,586 for the debt issuance costs and \$ 8,693 for bond discount.

I. 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	\$ 439,699

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.

J. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2012, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General fund	Sallisaw Municipal Authority	\$ 530,668
Nonmajor governmental	Sallisaw Municipal Authority	59,822
Nonmajor governmental	General fund	9,651
Nonmajor governmental	Nonmajor governmental	23,337
Sallisaw Municipal Authority	General fund	429,947
Sallisaw water projects fund	Sallisaw Municipal Authority	59,822
Nonmajor enterprise	Nonmajor enterprise	213,888
Total		\$ 1,327,135

Interfund transactions:

	Transfers Out			Totals
	General Fund	Nonmajor Governmental	Sallisaw Municipal Authority	
Transfer in:				
General fund	\$ -	\$ -	\$ 5,405,890	\$ 5,405,890
Nonmajor governmental	292,897	23,338	1,123,205	1,439,440
Sallisaw Municipal Authority	4,685,726	-	-	4,685,726
SMA Water Projects	-	-	1,531,927	1,531,927
Totals	<u>\$ 4,978,623</u>	<u>\$ 23,338</u>	<u>\$ 8,061,022</u>	<u>\$ 13,062,983</u>

In addition to the above transfers, \$ 1,194,797 expended in governmental funds for capital projects was reclassified and transferred to the Sallisaw Municipal Authority Water Projects fund for purposes of the government-wide financial statements. These amounts are included in transfers for the proprietary fund statements.

K. 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 \$ 1,553,701 reported as other noncurrent liabilities for the accrued landfill closure cost liability as of June 30, 2012, represents the cumulative amount of such cost reported to date based on the use of approximately 56.00 % 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 \$ 1,220,765 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 2012. 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, 2012, are as follows:

Estimated closure costs	\$ 1,242,328
Estimated post-closure costs	<u>1,532,138</u>
Total estimated costs	2,774,466
Accrued closure costs	<u>1,553,701</u>
Current estimated costs charged to expense	<u>\$ 119,306</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, 2012, for employees and employer were \$ 60,516 and \$ 98,339, respectively, on covered payroll of \$ 756,455.

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, 2012, for employees and employer were \$ 17,671 and \$ 28,715, respectively, on covered payroll of \$ 220,884.

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, 2012. 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 \$ 4,978,536 at January 1, 2012, as follows:

Actuarial accrued liability	\$ 15,130,607
Net assets available for benefits (actuarial value)	10,152,071
Unfunded actuarial accrued liability	<u>\$ 4,978,536</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, 2012, employees were required to contribute 7% 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, 2012, was 18.80%. Contributions to the Plan for payroll for the year ended June 30, 2012, for employees and employer were \$ 214,769 and \$ 576,809, respectively.

For the year ended June 30, 2012, the City's covered payroll was \$ 3,095,565. 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
01/01/12	\$ 10,152,071	\$ 15,130,607	\$ 4,978,536	67.1%	\$ 3,095,565	160.8%
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 %

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, 2012, were \$ 22,000 on covered payroll of \$ 109,921.

City of Sallisaw, Oklahoma
Budgetary Comparison Schedule
General Fund
(Budgetary Basis)
Year Ended June 30, 2012

	General Fund			Variance with Final Budget Positive (Negative)
	Budget		Actual	
	Original	Final		
Fund balance, beginning	\$ 478,467	\$ 478,467	\$ 471,349	\$ (7,118)
Resources				
Taxes	4,941,200	4,941,200	4,961,514	20,314
Licenses and permits	26,820	26,820	31,456	4,636
Intergovernmental	69,200	69,200	64,979	(4,221)
Fines and forfeitures	202,100	202,100	214,061	11,961
Charges for services	77,120	77,120	138,351	61,231
Miscellaneous	112,252	112,252	321,595	209,343
Interest	6,000	6,000	3,970	(2,030)
Operating transfers	9,731,429	9,731,429	8,998,440	(732,989)
Total resources	<u>15,166,121</u>	<u>15,166,121</u>	<u>14,734,366</u>	<u>(431,755)</u>
Amounts available for appropriation	15,644,588	15,644,588	15,205,715	(438,873)
Charges to appropriations:				
Administration	600,077	697,515	696,255	1,260
Customer service	463,253	460,093	458,767	1,326
Finance	496,837	487,735	439,396	48,339
Network administration	121,541	137,892	105,190	32,702
Contingency	196,581	77,850	-	77,850
Contributions to others	252,000	233,000	182,819	50,181
Police patrol	1,578,821	1,609,575	1,606,758	2,817
Police auxiliary	434,488	412,812	410,846	1,966
Animal welfare	69,360	65,200	63,666	1,534
Municipal court	47,252	49,443	48,787	656
Fire suppression	400,359	405,280	381,904	23,376
Building development	324,509	282,785	252,893	29,892
Street	737,263	720,369	697,429	22,940
Airport	111,050	136,347	121,978	14,369
Fleet maintenance	207,828	211,241	188,960	22,281
Cemetery	13,200	14,336	10,928	3,408
Parks	641,782	638,673	593,161	45,512
Swimming pool	66,282	68,439	50,652	17,787
Electric	792,555	775,184	677,630	97,554
Water production	559,828	569,030	553,427	15,603
Water distribution	287,095	272,073	215,452	56,621
Wastewater collection	247,095	224,248	179,193	45,055
Wastewater treatment	390,317	389,198	364,818	24,380
Sanitation	403,619	476,309	469,288	7,021
Landfill	593,770	624,967	609,943	15,024
Telecommunications	571,826	568,994	534,396	34,598
Operating transfers	5,036,000	5,036,000	4,978,622	57,378
Total charges to appropriations	<u>15,644,588</u>	<u>15,644,588</u>	<u>14,893,158</u>	<u>751,430</u>
Fund balances, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 312,557</u>	<u>\$ 312,557</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, 2012

<u>Budgetary funds</u>	<u>General Fund</u>
<u>Financial statement major funds</u>	
Revenues	
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	\$ 5,735,926
Adjustments:	
<i>Budgetary</i> general fund revenues are reported on the cash basis, rather than the modified accrual basis	58,566
	58,566
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	\$ 5,794,492
Expenditures	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	\$ 9,914,536
Reclassifications:	
Utility service expenditures are included in the general fund for budgetary purposes	(3,604,147)
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	(653)
	(653)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	\$ 6,309,736
Other financing sources (uses)	
Actual amounts (budgetary basis) "other financing sources and uses" from the budgetary comparison schedules	\$ 4,019,818
Reclassifications:	
Utility services expenditures are reclassified as transfers out for GAAP reporting	(3,604,147)
Adjustments:	
Budgetary transfers are reported on the cash basis, rather than the modified accrual basis. Tax revenues accrued and transferred to other funds	11,597
	11,597
Total other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 427,268

See disclaimer in accompanying Independent Auditor's Report.

City of Sallisaw, Oklahoma
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

	Special Revenue			
	Street and Alley Fund	Library Fund	Library Trust Authority	Youth & Recreation Fund
Assets				
Cash and cash equivalents	\$ 185,461	\$ 9,836	\$ 45	\$ 110,244
Investments	-	-	83,498	-
Receivables:				
Taxes	7,056	-	-	-
Interest	-	-	229	-
Due from other funds	-	-	-	9,651
Due from other governments	-	-	-	-
Total assets	<u>\$ 192,517</u>	<u>\$ 9,836</u>	<u>\$ 83,772</u>	<u>\$ 119,895</u>
Liabilities				
Accounts payable and accrued liabilities	\$ -	\$ 76	\$ -	\$ -
Due to other funds	-	-	-	-
Total liabilities	<u>-</u>	<u>76</u>	<u>-</u>	<u>-</u>
Fund balances				
Nonspendable	-	-	-	-
Restricted	192,517	-	83,772	-
Committed	-	-	-	119,895
Assigned	-	9,760	-	-
Unassigned	-	-	-	-
Total fund balances	<u>192,517</u>	<u>9,760</u>	<u>83,772</u>	<u>119,895</u>
Total liabilities and fund balances	<u>\$ 192,517</u>	<u>\$ 9,836</u>	<u>\$ 83,772</u>	<u>\$ 119,895</u>

Special Revenue					
Police Drug Fund	Fire Department Fund	Oklahoma Highway Safety Grant	Sallisaw Reserve Fund	Police Department Fund	Cherokee Nation CNBHS
\$ 34,565	\$ 22,723	\$ -	\$ 142,239	\$ 12,736	\$ 171,428
-	-	-	788,096	-	-
-	-	-	-	-	-
-	-	-	1,952	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 34,565</u>	<u>\$ 22,723</u>	<u>\$ -</u>	<u>\$ 932,287</u>	<u>\$ 12,736</u>	<u>\$ 171,428</u>
\$ 3,803	\$ -	\$ -	\$ -	\$ -	\$ 1,549
23,338	-	-	-	-	-
<u>27,141</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,549</u>
-	-	-	-	-	-
7,424	-	-	-	-	169,879
-	-	-	-	-	-
-	22,723	-	-	12,736	-
-	-	-	932,287	-	-
<u>7,424</u>	<u>22,723</u>	<u>-</u>	<u>932,287</u>	<u>12,736</u>	<u>169,879</u>
<u>\$ 34,565</u>	<u>\$ 22,723</u>	<u>\$ -</u>	<u>\$ 932,287</u>	<u>\$ 12,736</u>	<u>\$ 171,428</u>

City of Sallisaw, Oklahoma
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

(continued)

	Special Revenue	Capital Projects		
	Police Federal Forfeiture Fund	Capital Improvements Fund	Cemetery Fund	Infrastructure Improvements Fund
Assets				
Cash and cash equivalents	\$ (6,703)	\$ 708,244	\$ 56,077	\$ 332,415
Investments	-	-	123,741	-
Receivables:				
Taxes	-	-	-	-
Interest	-	-	348	-
Due from other funds	23,338	59,822	-	-
Due from other governments	-	-	-	-
Total assets	<u>\$ 16,635</u>	<u>\$ 768,066</u>	<u>\$ 180,166</u>	<u>\$ 332,415</u>
Liabilities				
Accounts payable and accrued liabilities	\$ -	\$ 40,714	\$ -	\$ -
Due to other funds	-	-	-	-
Total liabilities	<u>-</u>	<u>40,714</u>	<u>-</u>	<u>-</u>
Fund balances				
Nonspendable	-	-	-	-
Restricted	16,635	-	180,166	-
Committed	-	-	-	-
Assigned	-	727,352	-	332,415
Unassigned	-	-	-	-
Total fund balances	<u>16,635</u>	<u>727,352</u>	<u>180,166</u>	<u>332,415</u>
Total liabilities and fund balances	<u>\$ 16,635</u>	<u>\$ 768,066</u>	<u>\$ 180,166</u>	<u>\$ 332,415</u>

Capital Projects			Total Nonmajor Governmental Funds
FAA Grant	CDBG Fund	State of Oklahoma Projects	
\$ 49,553	\$ (59,882)	\$ -	\$ 1,768,981
-	-	-	995,335
-	-	-	7,056
-	-	-	2,529
-	-	-	92,811
-	59,882	-	59,882
<u>\$ 49,553</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,926,594</u>
\$ -	\$ -	\$ -	\$ 46,142
-	-	-	23,338
-	-	-	69,480
-	-	-	-
49,553	-	-	699,946
-	-	-	119,895
-	-	-	1,104,986
-	-	-	932,287
<u>49,553</u>	<u>-</u>	<u>-</u>	<u>2,857,114</u>
<u>\$ 49,553</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,926,594</u>

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2012

	Special Revenue			
	Street and Alley Fund	Library Fund	Library Trust Authority	Youth & Recreation Fund
Revenues				
Charges for services	\$ -	\$ -	\$ -	\$ -
Intergovernmental	77,169	-	-	-
Other	-	-	-	-
Interest	-	-	627	-
Total revenues	<u>77,169</u>	<u>-</u>	<u>627</u>	<u>-</u>
Expenditures				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	8,119	-	-
Debt service:				
Principal	-	-	-	93,351
Interest	-	-	-	4,481
Capital outlay	-	-	-	-
Total expenditures	<u>-</u>	<u>8,119</u>	<u>-</u>	<u>97,832</u>
Excess of revenues over (under) expenditures	77,169	(8,119)	627	(97,832)
Other financing sources (uses)				
Proceeds from sale of bonds	-	-	-	-
Transfers in	-	-	-	103,675
Transfers (out)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>103,675</u>
Net change in fund balances	77,169	(8,119)	627	5,843
Fund balances, beginning	<u>115,348</u>	<u>17,879</u>	<u>83,145</u>	<u>114,052</u>
Fund balances, ending	<u>\$ 192,517</u>	<u>\$ 9,760</u>	<u>\$ 83,772</u>	<u>\$ 119,895</u>

Special Revenue					
Police Drug Fund	Fire Department Fund	Oklahoma Highway Safety Grant	Sallisaw Reserve Fund	Police Department Fund	Cherokee Nation CNBHS
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	38,595	14,798	-	4,503	140,000
18,000	-	-	-	-	1,431
-	-	-	5,559	-	-
<u>18,000</u>	<u>38,595</u>	<u>14,798</u>	<u>5,559</u>	<u>4,503</u>	<u>141,431</u>
-	-	-	-	-	-
563	13,692	14,798	-	7,128	140,574
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
10,013	25,983	-	-	-	-
<u>10,576</u>	<u>39,675</u>	<u>14,798</u>	<u>-</u>	<u>7,128</u>	<u>140,574</u>
7,424	(1,080)	-	5,559	(2,625)	857
-	-	-	-	-	-
-	-	-	150,000	-	-
<u>(23,338)</u>	<u>-</u>	<u>-</u>	<u>150,000</u>	<u>-</u>	<u>-</u>
(15,914)	(1,080)	-	155,559	(2,625)	857
<u>23,338</u>	<u>23,803</u>	<u>-</u>	<u>776,728</u>	<u>15,361</u>	<u>169,022</u>
<u>\$ 7,424</u>	<u>\$ 22,723</u>	<u>\$ -</u>	<u>\$ 932,287</u>	<u>\$ 12,736</u>	<u>\$ 169,879</u>

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2012

(continued)

	Special	Capital Projects		
	Revenue			
	Police	Capital	Cemetery	Infrastructure
	Forfeiture	Improvements	Fund	Improvements
	Fund	Fund	Fund	Fund
Revenues				
Charges for services	\$ -	\$ -	\$ 44,900	\$ -
Intergovernmental	-	-	-	-
Other	-	-	-	-
Interest	-	682	866	252
Total revenues	<u>-</u>	<u>682</u>	<u>45,766</u>	<u>252</u>
Expenditures				
Current:				
General government	-	-	-	-
Public safety	500	-	-	-
Public works	-	-	695	-
Culture and recreation	-	-	-	-
Debt service:				
Principal	-	278,641	-	-
Interest	-	28,910	-	-
Capital outlay	6,203	1,504,842	-	-
Total expenditures	<u>6,703</u>	<u>1,812,393</u>	<u>695</u>	<u>-</u>
Excess of revenues over (under) expenditures	(6,703)	(1,811,711)	45,071	252
Other financing sources (uses)				
Proceeds from sale of bonds	-	1,021,419	-	-
Transfers in	23,338	955,540	-	167,665
Transfers (out)	-	-	-	-
Total other financing sources (uses)	<u>23,338</u>	<u>1,976,959</u>	<u>-</u>	<u>167,665</u>
Net change in fund balances	16,635	165,248	45,071	167,917
Fund balances, beginning	<u>-</u>	<u>562,104</u>	<u>135,095</u>	<u>164,498</u>
Fund balances, ending	<u>\$ 16,635</u>	<u>\$ 727,352</u>	<u>\$ 180,166</u>	<u>\$ 332,415</u>

Capital Projects			
FAA Grant	CDBG Fund	State of Oklahoma Projects	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 44,900
100,590	165,058	146,740	687,453
-	-	-	19,431
-	-	-	7,986
<u>100,590</u>	<u>165,058</u>	<u>146,740</u>	<u>759,770</u>
-	-	-	-
-	-	-	177,255
-	-	-	695
-	-	-	8,119
-	-	-	371,992
-	-	-	33,391
166,670	165,058	146,740	2,025,509
<u>166,670</u>	<u>165,058</u>	<u>146,740</u>	<u>2,616,961</u>
(66,080)	-	-	(1,857,191)
-	-	-	1,021,419
39,221	-	-	1,439,439
-	-	-	(23,338)
<u>39,221</u>	<u>-</u>	<u>-</u>	<u>2,437,520</u>
(26,859)	-	-	580,329
76,412	-	-	2,276,785
<u>\$ 49,553</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,857,114</u>

City of Sallisaw, Oklahoma
Combining Statement of Net Assets
Sallisaw Municipal Authority
June 30, 2012

	Business-type Activities Enterprise Funds		Totals
	Sallisaw Municipal Authority	Sallisaw Water Projects Fund	
Assets			
Current assets:			
Cash and cash equivalents	\$ 433,626	\$ 90,809	\$ 524,435
Investments	745,590	-	745,590
Receivables:			
Accounts (net of allowance for uncollectibles)	1,295,123	-	1,295,123
Due from other funds	429,947	59,822	489,769
Accrued interest	3,383	-	3,383
Restricted assets:			
Cash and cash equivalents	208,409	100	208,509
Investments	1,242,887	220,633	1,463,520
Total current assets	<u>4,358,965</u>	<u>371,364</u>	<u>4,730,329</u>
Noncurrent assets:			
Notes receivable	50,000	-	50,000
Debt issuance costs (net of accumulated amortization)	473,793	1,017,931	1,491,724
Capital assets (net of accumulated depreciation)	<u>17,177,698</u>	<u>21,058,664</u>	<u>38,236,362</u>
Total noncurrent assets	<u>17,701,491</u>	<u>22,076,595</u>	<u>39,778,086</u>
Total assets	<u>22,060,456</u>	<u>22,447,959</u>	<u>44,508,415</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	896,754	-	896,754
Payable from restricted assets:			
Accrued interest payable	153,840	76,063	229,903
Customer deposits	697,952	-	697,952
Due to other funds	650,311	-	650,311
Current portion of long-term obligations	<u>661,973</u>	<u>793,000</u>	<u>1,454,973</u>
Total current liabilities	<u>3,060,830</u>	<u>869,063</u>	<u>3,929,893</u>
Noncurrent liabilities:			
Revenue bonds payable (net of unamortized premium)	7,820,000	22,875,000	30,695,000
Notes payable	370,200	4,890,712	5,260,912
Deferred loss on refunding	(629,320)	(2,043,917)	(2,673,237)
Accrued landfill closure costs	1,553,701	-	1,553,701
Less: Current portion of long-term obligations	<u>(661,973)</u>	<u>(793,000)</u>	<u>(1,454,973)</u>
Total noncurrent liabilities	<u>8,452,608</u>	<u>24,928,795</u>	<u>33,381,403</u>
Total liabilities	<u>11,513,438</u>	<u>25,797,858</u>	<u>37,311,296</u>
Net assets			
Invested in capital assets, net of related debt	10,090,611	(3,645,200)	6,445,411
Restricted:			
Debt service	339,071	220,733	559,804
Capital projects/other	415,810	-	415,810
Unrestricted	<u>(298,474)</u>	<u>74,568</u>	<u>(223,906)</u>
Total net assets	<u>\$ 10,547,018</u>	<u>\$ (3,349,899)</u>	<u>\$ 7,197,119</u>

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets –
Sallisaw Municipal Authority
Year Ended June 30, 2012

	Business-type Activities Enterprise Funds		Totals
	Sallisaw Municipal Authority	Sallisaw Water Projects Fund	
Operating revenues			
Charges for services:			
Electric	\$ 9,430,763	\$ -	\$ 9,430,763
Water	1,536,776	-	1,536,776
Wastewater	507,586	-	507,586
Landfill	1,341,478	-	1,341,478
Sanitation	919,519	-	919,519
Telecommunications	2,426,850	-	2,426,850
Other	206,664	-	206,664
Total operating revenues	<u>16,369,636</u>	<u>-</u>	<u>16,369,636</u>
Operating expenses			
Administration	45,074	-	45,074
Electric	7,711,486	-	7,711,486
Water	765,766	3,313	769,079
Wastewater	546,218	-	546,218
Landfill	719,258	-	719,258
Sanitation	578,389	-	578,389
Telecommunications	2,117,268	-	2,117,268
Depreciation and amortization	1,276,678	615,995	1,892,673
Bad debt expense	105,104	-	105,104
Total operating expenses	<u>13,865,241</u>	<u>619,308</u>	<u>14,484,549</u>
Net operating income (loss)	2,504,395	(619,308)	1,885,087
Nonoperating revenues (expenses)			
Miscellaneous revenues	19,202	-	19,202
Interest income	5,931	121,023	126,954
Interest expense and fiscal charges	(375,486)	(1,251,025)	(1,626,511)
Payments to hospital	(646,457)	-	(646,457)
Total nonoperating revenues (expenses)	<u>(996,810)</u>	<u>(1,130,002)</u>	<u>(2,126,812)</u>
Operating transfers			
Transfers in	5,880,523	1,531,927	7,412,450
Transfers (out)	(8,061,022)	-	(8,061,022)
Total operating transfers	<u>(2,180,499)</u>	<u>1,531,927</u>	<u>(648,572)</u>
Net income (loss)	(672,914)	(217,383)	(890,297)
Net assets, beginning, restated	<u>11,219,932</u>	<u>(3,132,516)</u>	<u>8,087,416</u>
Net assets, ending	<u>\$ 10,547,018</u>	<u>\$ (3,349,899)</u>	<u>\$ 7,197,119</u>

City of Sallisaw, Oklahoma
Combining Statement of Cash Flows
Sallisaw Municipal Authority
Year Ended June 30, 2012

	Business-type Activities		Totals
	Enterprise Funds		
	Sallisaw Municipal Authority	Sallisaw Water Projects Fund	
Cash flows from operating activities			
Receipts from customers	\$ 16,280,035	\$ -	\$ 16,280,035
Payments to suppliers	(10,909,236)	(3,313)	(10,912,549)
Payments to employees	(1,281,325)	-	(1,281,325)
Net cash provided (used) by operating activities	<u>4,089,474</u>	<u>(3,313)</u>	<u>4,086,161</u>
Cash flows from noncapital financing activities			
(Increase) decrease in interfund receivables/payables	382,590	(5,746)	376,844
Miscellaneous revenues/ (expenses)	(627,255)	-	(627,255)
Operating transfers in (out)	(2,180,499)	1,531,927	(648,572)
Net cash provided (used) by noncapital financing activities	<u>(2,425,164)</u>	<u>1,526,181</u>	<u>(898,983)</u>
Cash flows from capital and related financing activities			
Proceeds from long-term debt	-	22,502,494	22,502,494
Principal paid on long-term debt	(661,865)	(22,552,387)	(23,214,252)
Loss on refunding of bonds	40,601	(2,043,917)	(2,003,316)
Interest expense and fiscal charges	(384,236)	(1,765,740)	(2,149,976)
(Increase) decrease in restricted assets	(51,606)	2,009,493	1,957,887
(Increase) decrease in debt issuance costs	-	175,038	175,038
Acquisition/construction of capital assets	(1,194,797)	(149,238)	(1,344,035)
Net cash provided (used) by capital and related financing activities	<u>(2,251,903)</u>	<u>(1,824,257)</u>	<u>(4,076,160)</u>
Cash flows from investing activities			
(Increase) decrease in investments	93,426	-	93,426
Interest income	5,931	121,023	126,954
Net cash provided (used) by investing activities	<u>99,357</u>	<u>121,023</u>	<u>220,380</u>
Net increase (decrease) in cash and cash equivalents	<u>(488,236)</u>	<u>(180,366)</u>	<u>(668,602)</u>
Cash and cash equivalents, beginning	921,862	271,175	1,193,037
Cash and cash equivalents, ending	<u>\$ 433,626</u>	<u>\$ 90,809</u>	<u>\$ 524,435</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Net operating income (loss)	\$ 2,504,395	\$ (619,308)	\$ 1,885,087
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	1,276,678	615,995	1,892,673
Changes in assets and liabilities:			
(Increase) decrease in receivables	15,504	-	15,504
Increase (decrease) in accounts payable	130,702	-	130,702
Increase (decrease) in customer deposits	42,889	-	42,889
Increase (decrease) in accrued expenses	119,306	-	119,306
Total adjustments	<u>1,585,079</u>	<u>615,995</u>	<u>2,201,074</u>
Net cash provided (used) by operating activities	<u>\$ 4,089,474</u>	<u>\$ (3,313)</u>	<u>\$ 4,086,161</u>

City of Sallisaw, Oklahoma
Combining Statement of Net Assets –
Nonmajor Proprietary Funds
June 30, 2012

	Enterprise		Total Nonmajor Enterprise Funds
	Sallisaw Economic Authority	Sallisaw Industrial Finance Authority	
Assets			
Current assets:			
Cash and cash equivalents	\$ 24,902	\$ -	\$ 24,902
Due from other funds	-	213,889	213,889
Total current assets	<u>24,902</u>	<u>213,889</u>	<u>238,791</u>
Noncurrent assets:			
Capital assets (net of accumulated depreciation)	1,429,662	-	1,429,662
Total noncurrent assets	<u>1,429,662</u>	<u>-</u>	<u>1,429,662</u>
Total assets	<u>1,454,564</u>	<u>213,889</u>	<u>1,668,453</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	-	-	-
Due to other funds	213,889	-	213,889
Current portion of long-term obligations	68,180	23,333	91,513
Total current liabilities	<u>282,069</u>	<u>23,333</u>	<u>305,402</u>
Noncurrent liabilities:			
Notes payable	980,181	213,889	1,194,070
Less: current portion	(68,180)	(23,333)	(91,513)
Total noncurrent liabilities	<u>912,001</u>	<u>190,556</u>	<u>1,102,557</u>
Total liabilities	<u>1,194,070</u>	<u>213,889</u>	<u>1,407,959</u>
Net assets			
Invested in capital assets, net of related debt	449,481	-	449,481
Restricted:			
Debt service	-	-	-
Unrestricted	(188,987)	-	(188,987)
Total net assets	<u>\$ 260,494</u>	<u>\$ -</u>	<u>\$ 260,494</u>

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenses, and Changes in Net Assets -
Nonmajor Proprietary Funds
Year Ended June 30, 2012

	Enterprise		Total Nonmajor Enterprise Funds
	Sallisaw Economic Authority	Sallisaw Industrial Finance Authority	
Operating revenues			
Charges for services:			
Other	\$ 90,000	\$ -	\$ 90,000
Total operating revenues	<u>90,000</u>	<u>-</u>	<u>90,000</u>
Operating expenses			
Economic development	12,981	-	12,981
Depreciation	40,663	-	40,663
Total operating expenses	<u>53,644</u>	<u>-</u>	<u>53,644</u>
Net operating income (loss)	36,356	-	36,356
Nonoperating revenues (expenses)			
Miscellaneous	41,399	-	41,399
Interest and fiscal charges	(53,671)	-	(53,671)
Total nonoperating revenues (expenses)	<u>(12,272)</u>	<u>-</u>	<u>(12,272)</u>
Operating transfers			
Transfers in	-	-	-
Transfers out	-	-	-
Total operating transfers	<u>-</u>	<u>-</u>	<u>-</u>
Net income (loss)	24,084	-	24,084
Net assets, beginning	<u>236,410</u>	<u>-</u>	<u>236,410</u>
Net assets, ending	<u>\$ 260,494</u>	<u>\$ -</u>	<u>\$ 260,494</u>

City of Sallisaw, Oklahoma
Combining Statement of Cash Flows –
Nonmajor Proprietary Funds
Year Ended June 30, 2012

	Enterprise		Total Nonmajor Enterprise Funds
	Sallisaw Economic Authority	Sallisaw Industrial Finance Authority	
Cash flows from operating activities			
Receipts from customers	\$ 90,000	\$ -	\$ 90,000
Payments to suppliers	(12,981)	-	(12,981)
Net cash provided (used) by operating activities	<u>77,019</u>	<u>-</u>	<u>77,019</u>
Cash flows from noncapital financing activities			
(Increase) decrease in interfund receivables/payables	(25,279)	25,279	-
Miscellaneous revenues	41,399	-	41,399
Net cash provided (used) by noncapital financing activities	<u>16,120</u>	<u>25,279</u>	<u>41,399</u>
Cash flows from capital and related financing activities			
Principal paid on long-term debt	(41,671)	(23,335)	(65,006)
Interest expense and fiscal charges	(53,671)	-	(53,671)
Net cash provided (used) by capital and related financing activities	<u>(95,342)</u>	<u>(23,335)</u>	<u>(118,677)</u>
Cash flows from investing activities			
Net cash provided (used) by investing activities	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(2,203)	1,944	(259)
Cash and cash equivalents, beginning	<u>27,105</u>	<u>(1,944)</u>	<u>25,161</u>
Cash and cash equivalents, ending	<u>\$ 24,902</u>	<u>\$ -</u>	<u>\$ 24,902</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Net operating income (loss)	\$ 36,356	\$ -	\$ 36,356
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>\$ 77,019</u>	<u>\$ -</u>	<u>\$ 77,019</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*

November 1, 2012

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, 2012, which collectively comprise the City of Sallisaw's basic financial statements, and have issued our report thereon dated November 1, 2012. 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

Management of the City of Sallisaw is responsible for establishing and maintaining effective 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 previously.

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*.

We noted certain matters that we reported to management of the City of Sallisaw in a separate letter dated November 1, 2012.

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
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.