

City of Sallisaw, Oklahoma
Report on Audit of Financial Statements
Fiscal Year End June 30, 2013



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Shannon Vann

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Roena Poindexter, Ward 2
Bryan Warner, Ward 3
Julia Ferguson, Ward 4

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City of Sallisaw, Oklahoma
Report on Audit of Financial Statements
June 30, 2013
Table of Contents

	<u>Pages</u>
Independent Auditor’s Report	1–3
Required Supplementary Information –	
Management’s Discussion and Analysis	4–14
Basic Financial Statements	
Government – Wide Financial Statements	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements	
Governmental Funds –	
Balance Sheet	17
Statement of Revenues, Expenditures, and Changes in Fund Balances	18
Reconciliation of Governmental Funds and Government-Wide Financial Statements	19
Proprietary Funds –	
Statement of Net Position	20
Statement of Revenues, Expenses, and Changes in Net Position	21
Statement of Cash Flows	22
Notes to Financial Statements	23–42
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund (Budgetary Basis)	43
Reconciliation of Budgetary Comparison Schedule on a Budgetary Basis with Fund Financial Statements on a GAAP Basis	44
Notes to Required Supplementary Information – Budgetary Comparison Schedule	45
Other Supplementary Information	
Combining Financial Statements	
Nonmajor Governmental Funds	
Balance Sheet	46–47
Statement of Revenues, Expenditures, and Changes in Fund Balances	48–49

City of Sallisaw, Oklahoma
Report on Audit of Financial Statements
June 30, 2013
Table of Contents

Other Supplementary Information (continued)	<u>Pages</u>
Sallisaw Municipal Authority	
Statement of Net Position	50
Statement of Revenues, Expenses, and Changes in Net Position	51
Statement of Cash Flows	52
Nonmajor Proprietary Funds	
Statement of Net Position	53
Statement of Revenues, Expenses, and Changes in Net Position	54
Statement of Cash Flows	55
Compliance and Internal Control	
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
Single Audit	
Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133	58–59
Schedule of Expenditures of Federal Awards	60
Notes to Schedules of Expenditures of Federal Awards	61
Summary Schedule of Prior Audit Findings	62
Schedule of Findings and Questioned Costs	63–64



Ronald C. Cottrell, CPA

Independent Auditor's Report

City Commissioners
City of Sallisaw
Sallisaw, Oklahoma

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City of Sallisaw's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sallisaw as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the managements' discussion and analysis and budgetary comparison information on pages 4-14 and 43-45 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 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.

Other Information

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 combining financial statements and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying combining financial statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic 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 financial statements and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2013, on our consideration of 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 internal control over financial reporting or on compliance.

Ronald C. Cottrell, CPA

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Sallisaw's internal control over financial reporting and compliance.

Ronald C. Cottrell, CPA

Ronald C. Cottrell, CPA
Kansas, Oklahoma
November 9, 2013

Required Supplementary Information

City of Sallisaw, Oklahoma
Management's Discussion and Analysis
June 30, 2013

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, 2013. Please read it in conjunction with the City's financial statements, which begin on page 15.

Financial Highlights

- ❖ The assets of the City of Sallisaw exceeded its liabilities at the close of the most recent fiscal year by \$ 16,186,916 (net position). Of this amount, \$ 1,330,778 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- ❖ During the year, the government's total net position decreased by \$ 224,404.
- ❖ As of the close of the current fiscal year, the City of Sallisaw's governmental funds reported combined ending fund balances of \$ 3,380,414, a decrease of \$ (304,049) in comparison with the prior year. Approximately \$ 1,540,551 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 \$ 607,080, or 10% of total general fund expenditures.
- ❖ The City of Sallisaw's total debt decreased \$ 364,687 during the current fiscal year.
- ❖ Net capital assets decreased \$ 1,199,666 after deducting depreciation of \$ 2,466,423.

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 position presents information on all of the City of Sallisaw's assets and liabilities, with the difference between the two reported as net position. 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 position changed during the most recent fiscal year. All changes in net position 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 15–16 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 nineteen (19) 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 which is considered to be a major fund. Data from the other eighteen 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 fund (major fund) to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 17–19 of this report.

Proprietary funds. There are 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.

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. 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 20–22 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 23–42 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City’s actual revenues and expenditures on a budgetary basis compared with the original and final budgets for the general fund. Required supplementary information can be found on pages 45–46 of this report.

The combining statements referred to earlier in connection with non-major governmental funds, Sallisaw Municipal Authority, and non-major proprietary funds are presented immediately following the required supplementary information on budget and actual revenues and expenditures for the general fund. 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 \$ 16,186,916 at the close of the most recent fiscal year.

One portion of the City’s net position (\$ 12,215,565 or 75%) 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 Position
June 30, 2013 and 2012

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Current assets	\$ 3,493,052	\$ 3,913,597	\$ 4,656,162	\$ 4,104,920	\$ 8,149,214	\$ 8,018,517
Capital and other noncurrent assets	7,078,603	6,823,193	39,707,913	41,207,748	46,786,516	48,030,941
Total assets	10,571,655	10,736,790	44,364,075	45,312,668	54,935,730	56,049,458
Current liabilities	534,044	1,071,398	3,391,864	3,371,095	3,925,908	4,442,493
Long-term liabilities	956,070	727,464	33,866,836	34,483,960	34,822,906	35,211,424
Total liabilities	1,490,114	1,798,862	37,258,700	37,855,055	38,748,814	39,653,917
Net position:						
Invested in capital assets, net of related debt	6,144,687	5,708,941	6,070,878	6,894,892	12,215,565	12,603,833
Restricted	1,356,236	1,478,538	1,284,337	975,614	2,640,573	2,454,150
Unrestricted	1,580,618	1,766,230	(249,840)	(412,893)	1,330,778	1,353,337
Total net position	\$ 9,081,541	\$ 8,953,709	\$ 7,105,375	\$ 7,457,613	\$ 16,186,916	\$ 16,411,320

An additional portion of the City's net position (\$ 2,640,573 or 16%) 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 position (\$ 1,330,778) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net position decreased by \$ 224,404 during the current fiscal year. This is mainly attributed to:

- A decrease in total liabilities of \$ 905,103.
- A net decrease in restricted and unrestricted assets of \$ 208,625.
- A decrease in long term liabilities of \$ 617,124.

City of Sallisaw
Statement of Activities
Years Ended June 30, 2013 and 2012

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	\$ 411,303	\$ 461,111	\$ 16,965,033	\$ 16,459,636	\$ 17,376,336	\$ 16,920,747
Grants/contributions	787,026	633,684	18,000	18,000	805,026	651,684
General revenues	5,421,977	5,459,469	14,933	169,555	5,436,910	5,629,024
Total revenues	6,620,306	6,554,264	16,997,966	16,647,191	23,618,272	23,201,455

See disclaimer in accompanying Independent Auditor's Report.

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Expenses:						
General government	1,868,934	1,790,700	-	-	1,868,934	1,790,700
Public safety	2,977,683	2,840,117	-	-	2,977,683	2,840,117
Public works	1,844,290	1,698,452	-	-	1,844,290	1,698,452
Culture and recreation	711,771	703,118	-	-	711,771	703,118
Economic development	119,999	129,992	-	-	119,999	129,992
Electric	-	-	7,516,068	7,846,481	7,516,068	7,846,481
Water	-	-	2,654,842	2,852,672	2,654,842	2,852,672
Wastewater	-	-	781,751	790,580	781,751	790,580
Landfill	-	-	1,124,130	1,120,913	1,124,130	1,120,913
Sanitation	-	-	564,033	638,897	564,033	638,897
Telecommunications	-	-	2,836,374	2,816,443	2,836,374	2,816,443
Administration/other	40,138	33,391	802,663	798,846	842,801	832,237
Total expenses	<u>7,562,815</u>	<u>7,195,770</u>	<u>16,279,861</u>	<u>16,864,832</u>	<u>23,842,676</u>	<u>24,060,602</u>
Increase (decrease) in net position before transfers	(942,509)	(641,506)	718,105	(217,641)	(224,404)	(859,147)
Transfers, net	<u>1,070,343</u>	<u>648,572</u>	<u>(1,070,343)</u>	<u>(648,572)</u>	-	-
Increase in net position	127,834	7,066	(352,238)	(866,213)	(224,404)	(859,147)
Net position, beginning, restated	<u>8,953,707</u>	<u>8,946,631</u>	<u>7,457,613</u>	<u>8,323,826</u>	<u>16,411,320</u>	<u>17,270,467</u>
Net position, ending	<u>\$ 9,081,541</u>	<u>\$ 8,953,707</u>	<u>\$ 7,105,375</u>	<u>\$ 7,457,613</u>	<u>\$ 16,186,916</u>	<u>\$ 16,411,320</u>

Governmental activities. Governmental activities increased the City's net position by \$ 127,834. Key elements of this increase are as follows:

- An increase in program revenues of \$ 103,534.
- A decrease in total expenses of \$ 217,926.
- An increase in net transfers of \$ 421,771.

City of Sallisaw
Governmental Activities
Years Ended June 30, 2013 and 2012

	Program Revenues		Cost of Services	
	2013	2012	2013	2012
General government	\$ 26,154	\$ 46,459	\$ 1,868,934	\$ 1,790,700
Public safety	543,608	439,861	2,977,683	2,840,117
Public works	588,871	574,043	1,844,290	1,698,452
Culture and recreation	39,696	34,432	711,771	703,118
Economic development	-	-	119,999	129,992
Interest on long-term debt	-	-	40,138	33,391
Total governmental activities	<u>\$ 1,198,329</u>	<u>\$ 1,094,795</u>	<u>\$ 7,562,815</u>	<u>\$ 7,195,770</u>

See disclaimer in accompanying Independent Auditor's Report.

Business-type activities. Business-type activities decreased the City's net position by \$ 352,238. The key elements in this decrease are:

- A decrease in the re-stated net position of \$ 866,213.
- An increase in program revenues of \$ 505,397.
- A decrease in the cost of services of \$ 584,971.

City of Sallisaw
Business-Type Activities
Years Ended June 30, 2013 and 2012

	<u>Program Revenues</u>		<u>Cost of Services</u>	
	2013	2012	2013	2012
Electric	\$ 9,617,274	\$ 9,430,763	\$ 7,516,068	\$ 7,846,481
Water	1,743,843	1,536,776	2,654,842	2,852,672
Wastewater	646,090	507,586	781,751	790,580
Sanitation	986,122	919,519	564,033	638,897
Landfill	1,178,910	1,341,478	1,124,130	1,120,913
Telecommunications	2,505,155	2,426,850	2,836,374	2,816,443
Administration/other	305,639	314,664	802,663	798,846
Total business-type activities	<u>\$ 16,983,033</u>	<u>\$ 16,477,636</u>	<u>\$ 16,279,861</u>	<u>\$ 16,864,832</u>

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 3,380,414, a decrease of \$ 304,049 in comparison with the prior year. Approximately 46% of this total amount (\$ 1,540,551) 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 \$ 607,080. 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 10% of total general fund expenditures. General fund revenues of \$ 5,576,054 represented a decrease of \$ 218,438 over the prior year, due mainly to a decrease in various tax revenues of \$ 18,640, a decrease in revenues for fines and forfeitures of \$ 36,100 and a decrease in other revenues of \$ 155,633. Expenditures of \$ 6,352,703 were \$ 42,967 more than the prior year due to the recognition of pension costs for police and fire paid by the State of Oklahoma on-behalf of the City in the amount of \$ 159,610.

See disclaimer in accompanying Independent Auditor's Report.

The other governmental funds have total fund balances of \$ 2,674,164, of which \$ 1,740,693 is restricted, committed, or assigned. The net decrease in fund balance during the current year in the other governmental funds was \$ 198,727.

This was the result of:

- An increase in the fund balance of the Street and Alley fund of \$ 78,805.
- A decrease in total assets of \$ 196,324.

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 position of the Sallisaw Municipal Authority at the end of the year amounted to \$ (100,710). The total decrease in net position was \$ 333,731. Operating revenues showed an increase of \$ 527,897 due to increases in electric, water, sanitation and telecommunications revenue.

Operating expenses decreased by \$ 342,491, mainly due to a decrease in depreciation and amortization expense and a decrease in amounts written off as bad debts.

Budgetary Highlights of Major Governmental Funds

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

During the year, revenues of \$ 5,625,092 were higher than budgetary estimates by \$ 137,622. This was primarily due to higher than estimated sales tax collections and charges for services at Brushy Lake Park.

Expenditures of \$ 9,939,324 were \$ 850,437 less than budget appropriations of \$ 10,789,761, due to budget constraints and efforts of all city employees to save funds.

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, 2013, amounts to \$ 45,289,551 (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:

- Purchase of property for a new animal shelter, \$ 65,925.
- For the street department, purchase of a new street sweeper and a new Caterpillar D4 dozer, total purchase of \$ 282,362.
- Airport drainage project, \$ 329,155.
- Rock Branch sewer line project, \$ 472,755.
- Equipment upgrades at the wastewater treatment plant, \$ 52,747.
- Installation of three new storm sirens, \$ 59,700.
- Purchase of two lawn mowers for the parks department, \$ 20,125.

City of Sallisaw
Capital Assets
June 30, 2013 and 2012
(net of depreciation)

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Land and easements	\$ 1,416,118	\$ 1,350,193	\$ 1,474,397	\$ 1,471,897	\$ 2,890,515	\$ 2,822,090
Construction in progress	127,592	52,676	-	214,958	127,592	267,634
Buildings and improvements	1,065,110	1,152,743	1,610,659	1,676,074	2,675,769	2,828,817
Infrastructure and improvements	2,747,812	2,627,240	11,015,612	11,144,114	13,763,424	13,771,354
Equipment and computers	830,726	717,042	1,765,452	2,014,392	2,596,178	2,731,434
Water and sewer facilities	-	-	22,001,461	22,717,484	22,001,461	22,717,484
Vehicles	891,245	923,299	343,367	427,104	1,234,612	1,350,403
Capital assets, net	<u>\$ 7,078,603</u>	<u>\$ 6,823,193</u>	<u>\$ 38,210,948</u>	<u>\$ 39,666,023</u>	<u>\$ 45,289,551</u>	<u>\$ 46,489,216</u>

Additional information of the City's capital assets can be found in Note V.D. on pages 32–33 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$ 34,671,506. This represents bonds secured solely by specified revenue sources (i.e., revenue bonds and notes) totaling \$ 32,549,154, other notes payable to banks and other governmental entities of \$ 1,188,436, and \$ 933,916 in capital lease obligations.

The City's total debt decreased \$ 3,592,729 during the current fiscal year. The key factors in this decrease were the payoff of existing lease purchase agreements and the reduction of principal amounts owed on other long term debt.

City of Sallisaw
Outstanding Debt
June 30, 2013 and 2012

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Capital lease obligations	\$ 933,916	\$ 1,114,252	\$ -	\$ -	\$ 933,916	\$ 1,114,252
Revenue bonds	-	-	30,325,000	30,695,000	30,325,000	30,695,000
Unamortized premium on bonds	-	-	(2,545,845)	-	(2,545,845)	-
Notes payable	-	-	5,958,435	6,454,983	5,958,435	6,454,983
Total outstanding debt	<u>\$ 933,916</u>	<u>\$ 1,114,252</u>	<u>\$ 33,737,590</u>	<u>\$ 37,149,983</u>	<u>\$ 34,671,506</u>	<u>\$ 38,264,235</u>

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

Economic Factors and Next Year's Budgets and Rates

Economic conditions of Sallisaw and the surrounding area stabilized 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 2014 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:

- Adjustments to electric and water rates charged to city customers.
- Electric rate increases passed to the city by its power provider, Grand River Dam Authority.
- Completion of an electric rate study to allocate electric costs to the residential and commercial customer classes it serves.
- Potential increases in employee health insurance during the next year.
- Flat sales tax revenue.

Items of note included in the FY 2014 budget include:

- An increase in electric and water rates.
- An increase in telecommunication rates due to rising programming costs.
- Transfers from SMA to the Capital Improvement Fund to fund needed equipment purchases and building maintenance costs.
- There are no cost of living increases budgeted for employees for FY 2014.
- General Fund revenues and expenses for FY 2014 are budgeted with limited increases.
- Construction of a new sports complex using the proceeds of a recently approved 1/2 cent sales tax.

Sales Tax Revenues:

For fiscal year 2014, revenues related to sales tax receipts are expected to remain stable with little increase. For the last three years, sales tax has averaged \$4,600,574 per year, or \$383,381 per month.

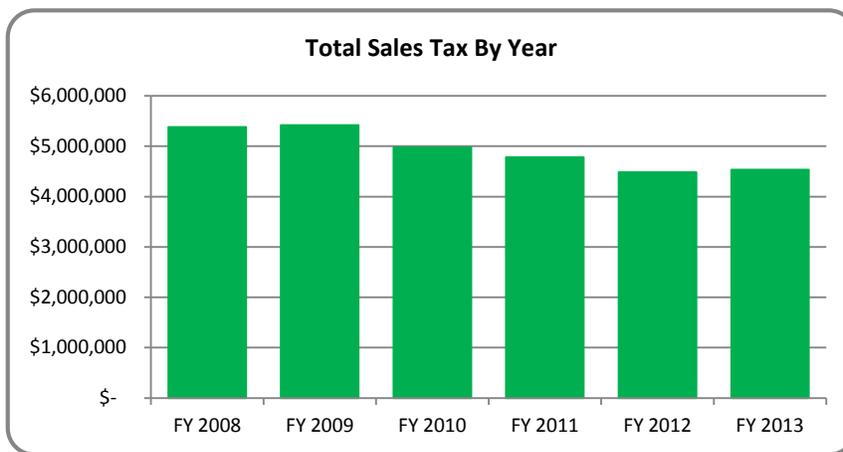
As of June 30, 2012 the sales tax rate within the city limits of Sallisaw was 9.417%, with 3.5% going to the City of Sallisaw. As of October 1, 2013, a new half-cent sales tax will go into effect increasing the total sales tax rate in Sallisaw to 9.917%, with 4.0% going to the City of Sallisaw. This new half-cent sales tax will be dedicated to the new 10 year debt of the new sports complex.

<u>Sales Tax Within Sallisaw</u>		<u>City Sales Tax Distribution</u>	
City Sales Tax	3.500%	City General Fund	1.00%
State of OK Sales Tax	4.500%	Capital Improvement	0.50%
Seq County Fire Sales Tax	0.250%	Sallisaw Municipal Authority	1.00%
Seq County Sales Tax-Roads	0.500%	Water Projects SMA	0.50%
Seq County Jail	0.167%	<u>Seq Hospital Authority</u>	<u>0.50%</u>
Seq County Jail/Sheriff	0.500%	Total City Sales Tax	3.50%
Total Tax within City Limits	9.417%		

See disclaimer in accompanying Independent Auditor's Report.

Total Sales Tax Receipts FY 2008 to FY 2013

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
JULY	\$ 460,256	\$ 494,566	\$ 437,314	\$ 417,743	\$ 378,525	\$ 418,751
AUG	\$ 464,635	\$ 446,494	\$ 431,652	\$ 435,587	\$ 397,852	\$ 375,011
SEPT	\$ 431,691	\$ 487,440	\$ 425,231	\$ 415,590	\$ 383,073	\$ 370,784
OCT	\$ 469,234	\$ 429,559	\$ 404,703	\$ 432,627	\$ 375,940	\$ 384,282
NOV	\$ 402,673	\$ 410,372	\$ 380,379	\$ 376,781	\$ 348,732	\$ 345,170
DEC	\$ 416,547	\$ 434,508	\$ 414,440	\$ 397,419	\$ 341,076	\$ 362,252
JAN	\$ 481,771	\$ 532,868	\$ 366,548	\$ 428,379	\$ 379,166	\$ 401,756
FEB	\$ 484,262	\$ 462,727	\$ 491,612	\$ 454,929	\$ 399,669	\$ 402,297
MAR	\$ 436,208	\$ 464,421	\$ 404,430	\$ 340,664	\$ 357,159	\$ 353,684
APR	\$ 440,800	\$ 435,059	\$ 398,642	\$ 372,625	\$ 391,107	\$ 378,594
MAY	\$ 433,945	\$ 408,380	\$ 404,895	\$ 372,365	\$ 385,879	\$ 374,132
JUNE	\$ 457,716	\$ 411,235	\$ 418,854	\$ 339,047	\$ 346,797	\$ 366,277
TOTAL	\$ 5,379,738	\$ 5,417,630	\$ 4,978,700	\$ 4,783,756	\$ 4,484,975	\$ 4,532,990



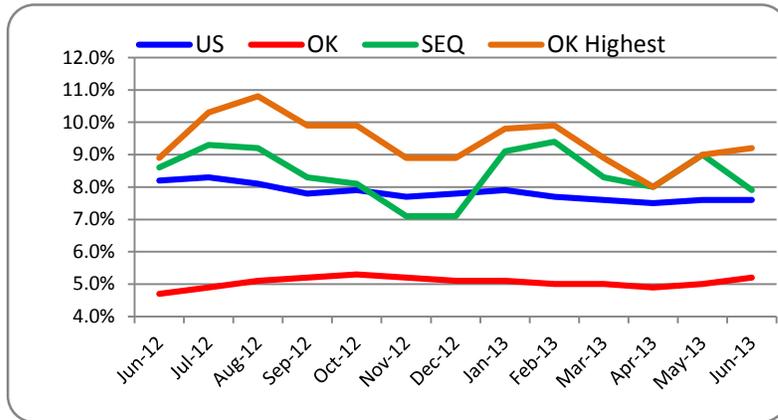
Sales Tax Collections Based on 1%

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
JULY	\$ 115,064	\$ 123,642	\$ 109,329	\$ 104,436	\$ 108,150	\$ 119,643
AUG	\$ 116,159	\$ 111,624	\$ 107,913	\$ 108,897	\$ 113,672	\$ 107,146
SEPT	\$ 107,923	\$ 121,860	\$ 106,308	\$ 103,898	\$ 109,449	\$ 105,938
OCT	\$ 117,309	\$ 107,390	\$ 101,176	\$ 108,157	\$ 107,411	\$ 109,795
NOV	\$ 100,668	\$ 102,593	\$ 95,095	\$ 94,195	\$ 99,638	\$ 98,620
DEC	\$ 104,137	\$ 108,627	\$ 103,610	\$ 99,355	\$ 97,450	\$ 103,501
JAN	\$ 120,443	\$ 133,217	\$ 91,637	\$ 107,095	\$ 108,333	\$ 114,787
FEB	\$ 121,066	\$ 115,682	\$ 122,903	\$ 113,732	\$ 114,191	\$ 114,942
MAR	\$ 109,052	\$ 116,105	\$ 101,108	\$ 97,333	\$ 102,045	\$ 101,053
APR	\$ 110,200	\$ 108,765	\$ 99,661	\$ 106,464	\$ 111,745	\$ 108,170
MAY	\$ 108,486	\$ 102,095	\$ 101,224	\$ 106,390	\$ 110,251	\$ 106,895
JUNE	\$ 114,429	\$ 102,809	\$ 104,714	\$ 96,871	\$ 99,085	\$ 104,651
TOTAL	\$ 1,344,935	\$ 1,354,407	\$ 1,244,675	\$ 1,246,821	\$ 1,281,421	\$ 1,295,140

*Sales tax receipts based on 1% show FY 2013 ended at 96% of FY 2009 levels.

See disclaimer in accompanying Independent Auditor's Report.

Unemployment: As of June 2013, the unemployment rate for Sequoyah County was at 7.9%, compared to 5.2% for Oklahoma and 7.6% for the United States.



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."

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.

Basic Financial Statements

City of Sallisaw, Oklahoma
Statement of Net Position
June 30, 2013

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,841,527	\$ 474,850	\$ 2,316,377
Investments	1,049,368	547,302	1,596,670
Receivables (net of allowance for uncollectibles):			
Accounts	42,795	1,230,364	1,273,159
Taxes	442,625	-	442,625
Due from other governments	37,200	-	37,200
Internal balances	(19,633)	19,633	-
Prepaid expenses	99,170	-	99,170
Restricted assets:			
Cash and investments	-	2,384,013	2,384,013
Total current assets	<u>3,493,052</u>	<u>4,656,162</u>	<u>8,149,214</u>
Noncurrent assets:			
Notes receivable	-	90,000	90,000
Debt issuance costs (net of accumulated amortization)	-	1,406,965	1,406,965
Capital assets (net of accumulated depreciation)	7,078,603	38,210,948	45,289,551
Total noncurrent assets	<u>7,078,603</u>	<u>39,707,913</u>	<u>46,786,516</u>
Total assets	<u>10,571,655</u>	<u>44,364,075</u>	<u>54,935,730</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	112,638	754,953	867,591
Payable from restricted assets:			
Accrued interest	-	448,335	448,335
Customer deposits	-	652,877	652,877
Current portion of long-term obligations	421,406	1,535,699	1,957,105
Total current liabilities	<u>534,044</u>	<u>3,391,864</u>	<u>3,925,908</u>
Noncurrent liabilities:			
Capital lease obligations	933,916	-	933,916
Revenue bonds and notes payable	-	33,737,590	33,737,590
Accrued compensated absences	443,560	-	443,560
Accrued landfill closure costs	-	1,664,945	1,664,945
Less: current portion of long-term obligation	(421,406)	(1,535,699)	(1,957,105)
Total noncurrent liabilities	<u>956,070</u>	<u>33,866,836</u>	<u>34,822,906</u>
Total liabilities	<u>1,490,114</u>	<u>37,258,700</u>	<u>38,748,814</u>
Net position			
Net investment in capital assets	6,144,687	6,070,878	12,215,565
Restricted for:			
Enabling legislation	528,563	-	528,563
Statutes	505,978	-	505,978
Debt service	-	868,484	868,484
Contractual agreement	321,695	415,853	737,548
Unrestricted	1,580,618	(249,840)	1,330,778
Total net position	<u>\$ 9,081,541</u>	<u>\$ 7,105,375</u>	<u>\$ 16,186,916</u>

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

City of Sallisaw, Oklahoma
Statement of Activities
Year Ended June 30, 2013

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 1,868,934	\$ 26,154	\$ -	\$ -
Public safety	2,977,683	182,509	361,099	-
Public works	1,844,290	165,444	-	423,427
Culture and recreation	711,771	37,196	2,500	-
Economic development	119,999	-	-	-
Interest on long-term debt	40,138	-	-	-
Total governmental activities	<u>7,562,815</u>	<u>411,303</u>	<u>363,599</u>	<u>423,427</u>
Business-type activities:				
Administration	52,779	-	-	-
Electric	7,516,068	9,617,274	-	-
Water	2,654,842	1,743,843	-	-
Wastewater	781,751	646,090	-	-
Landfill	1,124,130	1,178,910	-	-
Sanitation	564,033	986,122	-	-
Telecommunications	2,836,374	2,505,155	-	-
Other	749,884	287,639	18,000	-
Total business-type activities	<u>16,279,861</u>	<u>16,965,033</u>	<u>18,000</u>	<u>-</u>
Total primary government	<u>\$ 23,842,676</u>	<u>\$ 17,376,336</u>	<u>\$ 381,599</u>	<u>\$ 423,427</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 position, beginning, restated

Net position, ending

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

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (1,842,780)	\$ -	\$ (1,842,780)
(2,434,075)	-	(2,434,075)
(1,255,419)	-	(1,255,419)
(672,075)	-	(672,075)
(119,999)	-	(119,999)
(40,138)	-	(40,138)
<u>(6,364,486)</u>	<u>-</u>	<u>(6,364,486)</u>
-	(52,779)	(52,779)
-	2,101,206	2,101,206
-	(910,999)	(910,999)
-	(135,661)	(135,661)
-	54,780	54,780
-	422,089	422,089
-	(331,219)	(331,219)
-	(444,245)	(444,245)
-	<u>703,172</u>	<u>703,172</u>
<u>(6,364,486)</u>	<u>703,172</u>	<u>(5,661,314)</u>
4,732,289	-	4,732,289
119,462	-	119,462
296,138	-	296,138
3,083	2,369	5,452
271,005	12,564	283,569
<u>1,070,343</u>	<u>(1,070,343)</u>	<u>-</u>
<u>6,492,320</u>	<u>(1,055,410)</u>	<u>5,436,910</u>
127,834	(352,238)	(224,404)
<u>8,953,707</u>	<u>7,457,613</u>	<u>16,411,320</u>
<u>\$ 9,081,541</u>	<u>\$ 7,105,375</u>	<u>\$ 16,186,916</u>

City of Sallisaw, Oklahoma
Fund Balance Sheet
Governmental Funds
June 30, 2013

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 265,636	\$ 1,575,891	\$ 1,841,527
Investments	-	1,049,368	1,049,368
Receivables:			
Accounts	42,795	-	42,795
Taxes	435,973	6,652	442,625
Due from other governments	-	37,200	37,200
Due from other funds	328,707	61,159	389,866
Prepaid expenses	99,170	-	99,170
Total assets	<u>\$ 1,172,281</u>	<u>\$ 2,730,270</u>	<u>\$ 3,902,551</u>
Cash and cash equivalents			
Liabilities:			
Accounts payable and accrued liabilities	\$ 56,532	\$ 56,106	\$ 112,638
Due to other funds	409,499	-	409,499
Total liabilities	<u>466,031</u>	<u>56,106</u>	<u>522,137</u>
Fund balances:			
Nonspendable	99,170	-	99,170
Restricted	-	765,830	765,830
Committed	-	73,920	73,920
Assigned	-	900,943	900,943
Unassigned	607,080	933,471	1,540,551
Total fund balances	<u>706,250</u>	<u>2,674,164</u>	<u>3,380,414</u>
Total liabilities and fund balances	<u>\$ 1,172,281</u>	<u>\$ 2,730,270</u>	<u>\$ 3,902,551</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, 2013

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 4,983,143	\$ -	\$ 4,983,143
Licenses and permits	25,785	-	25,785
Intergovernmental	60,797	667,457	728,254
Fines and forfeitures	177,961	-	177,961
Charges for services	161,525	35,064	196,589
Other	165,962	145,915	311,877
Interest	881	2,202	3,083
Total revenues	<u>5,576,054</u>	<u>850,638</u>	<u>6,426,692</u>
Expenditures			
General government	1,810,242	-	1,810,242
Public safety	2,484,586	160,027	2,644,613
Public works	1,259,301	2,214	1,261,515
Economic development	119,999	-	119,999
Culture and recreation	655,063	7,800	662,863
Debt service:			
Principal	-	462,698	462,698
Interest	-	40,138	40,138
Capital outlay	23,512	1,405,712	1,429,224
Total expenditures	<u>6,352,703</u>	<u>2,078,589</u>	<u>8,431,292</u>
Excess of revenues over (under) expenditures	(776,649)	(1,227,951)	(2,004,600)
Other financing sources (uses)			
Proceeds from capital lease obligations	-	282,362	282,362
Sale of surplus equipment	34,003	-	34,003
Transfers in	5,484,254	784,944	6,269,198
Transfers out	(4,846,930)	(38,082)	(4,885,012)
Total other financing sources (uses)	<u>671,327</u>	<u>1,029,224</u>	<u>1,700,551</u>
Net change in fund balances	(105,322)	(198,727)	(304,049)
Fund balances, beginning, restated	<u>811,572</u>	<u>2,872,891</u>	<u>3,684,463</u>
Fund balances, ending	<u>\$ 706,250</u>	<u>\$ 2,674,164</u>	<u>\$ 3,380,414</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, 2013

Total fund balance - governmental funds	\$	3,380,414
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.		7,078,603
Long-term liabilities are not due and payable in the current period and therefore are not reported in funds:		
Capital lease obligations		(933,916)
Accrued compensated absences		(443,560)
		(1,377,476)
Net assets of governmental activities	\$	9,081,541
Net change in fund balances – total governmental funds	\$	(304,049)
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		882,609
Depreciation expense		(627,201)
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		(282,362)
Capital lease principal payments		462,698
Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported in governmental funds.		
Accrued compensated absences, net change		(3,861)
Change in net assets of governmental activities	\$	127,834

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

City of Sallisaw, Oklahoma
Statement of Net Position
Proprietary Funds
June 30, 2013

	Enterprise Funds		Totals
	Sallisaw Municipal Authority	Nonmajor Enterprise Funds	
Assets			
Current assets:			
Cash and cash equivalents	\$ 433,425	\$ 41,425	\$ 474,850
Investments	547,302	-	547,302
Receivables:			
Accounts (net of allowance for uncollectibles)	1,230,364	-	1,230,364
Due from other funds	458,160	192,500	650,660
Restricted assets:			
Cash and cash equivalents	163,434	-	163,434
Investments	2,220,579	-	2,220,579
Total current assets	<u>5,053,264</u>	<u>233,925</u>	<u>5,287,189</u>
Noncurrent assets:			
Notes receivable	90,000	-	90,000
Debt issuance costs (net of accumulated amortization)	1,406,965	-	1,406,965
Capital assets (net of accumulated depreciation)	36,821,949	1,388,999	38,210,948
Total noncurrent assets	<u>38,318,914</u>	<u>1,388,999</u>	<u>39,707,913</u>
Total assets	<u>43,372,178</u>	<u>1,622,924</u>	<u>44,995,102</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	754,953	-	754,953
Payable from restricted assets:			
Accrued interest payable	448,335	-	448,335
Customer deposits	652,877	-	652,877
Due to other funds	438,527	192,500	631,027
Current portion of long-term obligations	1,446,194	89,505	1,535,699
Total current liabilities	<u>3,740,886</u>	<u>282,005</u>	<u>4,022,891</u>
Noncurrent liabilities:			
Revenue bonds and notes payable	32,549,153	1,188,437	33,737,590
Accrued landfill closure costs	1,664,945	-	1,664,945
Less: Current portion of long-term obligations	(1,446,194)	(89,505)	(1,535,699)
Total noncurrent liabilities	<u>32,767,904</u>	<u>1,098,932</u>	<u>33,866,836</u>
Total liabilities	<u>36,508,790</u>	<u>1,380,937</u>	<u>37,889,727</u>
Net position			
Net investment in capital assets	5,679,761	391,117	6,070,878
Restricted:			
Debt service	868,484	-	868,484
Capital projects/other	415,853	-	415,853
Unrestricted	(100,710)	(149,130)	(249,840)
Total net position	<u>\$ 6,863,388</u>	<u>\$ 241,987</u>	<u>\$ 7,105,375</u>

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

City of Sallisaw, Oklahoma
Statement of Revenues, Expenses, and Changes in Net Position –
Proprietary Funds
Year Ended June 30, 2013

	Enterprise Funds		Totals
	Sallisaw Municipal Authority	Nonmajor Enterprise Funds	
Operating revenues			
Charges for services:			
Electric	\$ 9,617,274	\$ -	\$ 9,617,274
Water	1,743,843	-	1,743,843
Wastewater	646,090	-	646,090
Landfill	1,178,910	-	1,178,910
Sanitation	986,122	-	986,122
Telecommunications	2,505,155	-	2,505,155
Other	220,139	67,500	287,639
Total operating revenues	<u>16,897,533</u>	<u>67,500</u>	<u>16,965,033</u>
Operating expenses			
Administration	52,779	-	52,779
Electric	7,389,589	-	7,389,589
Water	803,716	-	803,716
Wastewater	513,840	-	513,840
Landfill	735,960	-	735,960
Sanitation	509,436	-	509,436
Telecommunications	2,167,333	-	2,167,333
Economic development	-	13,667	13,667
Depreciation and amortization	1,886,836	40,663	1,927,499
Bad debt expense	82,569	-	82,569
Total operating expenses	<u>14,142,058</u>	<u>54,330</u>	<u>14,196,388</u>
Net operating income (loss)	2,755,475	13,170	2,768,645
Nonoperating revenues (expenses)			
Miscellaneous revenues	9,345	21,219	30,564
Interest income	2,369	-	2,369
Interest expense and fiscal charges	(1,387,919)	(52,896)	(1,440,815)
Payments to hospital	(642,658)	-	(642,658)
Total nonoperating revenues (expenses)	<u>(2,018,863)</u>	<u>(31,677)</u>	<u>(2,050,540)</u>
Operating transfers			
Transfers in	6,651,146	-	6,651,146
Transfers (out)	(7,721,489)	-	(7,721,489)
Total operating transfers	<u>(1,070,343)</u>	<u>-</u>	<u>(1,070,343)</u>
Net income (loss)	(333,731)	(18,507)	(352,238)
Net position, beginning	<u>7,197,119</u>	<u>260,494</u>	<u>7,457,613</u>
Net position, ending	<u>\$ 6,863,388</u>	<u>\$ 241,987</u>	<u>\$ 7,105,375</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, 2013

	Enterprise Funds		Totals
	Sallisaw Municipal Authority	Nonmajor Enterprise Funds	
Cash flows from operating activities			
Net operating income (loss)	\$ 2,755,475	\$ 13,170	\$ 2,768,645
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	1,886,836	40,663	1,927,499
(Increase) decrease in assets:			
Accounts receivable	64,759	-	64,759
Increase (decrease) in liabilities:			
Accounts payable	(141,801)	-	(141,801)
Customer deposits	(45,075)	-	(45,075)
Accrued landfill closure costs	111,244	-	111,244
Net cash provided (used) by operating activities	<u>4,631,438</u>	<u>53,833</u>	<u>4,685,271</u>
Cash flows from noncapital financing activities			
(Increase) decrease in interfund receivables/payables	(180,175)	-	(180,175)
(Increase) decrease in notes receivables	(40,000)	-	(40,000)
Miscellaneous revenues/ (expenses)	(633,313)	21,219	(612,094)
Operating transfers in (out)	<u>(1,070,343)</u>	<u>-</u>	<u>(1,070,343)</u>
Net cash provided (used) by noncapital financing activities	<u>(1,923,831)</u>	<u>21,219</u>	<u>(1,902,612)</u>
Cash flows from capital and related financing activities			
Proceeds from long-term debt	525,000	40,000	565,000
Principal paid on long-term debt	(1,385,913)	(45,633)	(1,431,546)
Loss on refunding of bonds	127,392	-	127,392
Interest expense and fiscal charges	(1,173,005)	(52,896)	(1,225,901)
(Increase) decrease in restricted assets	(711,984)	-	(711,984)
Acquisition/construction of capital assets	<u>(384,147)</u>	<u>-</u>	<u>(384,147)</u>
Net cash provided (used) by capital and related financing activities	<u>(3,002,657)</u>	<u>(58,529)</u>	<u>(3,061,186)</u>
Cash flows from investing activities			
(Increase) decrease in investments	198,288	-	198,288
Interest income	5,752	-	5,752
Net cash provided (used) by investing activities	<u>204,040</u>	<u>-</u>	<u>204,040</u>
Net increase (decrease) in cash and cash equivalents	(91,010)	16,523	(74,487)
Cash and cash equivalents, beginning	524,435	24,902	549,337
Cash and cash equivalents, ending	<u>\$ 433,425</u>	<u>\$ 41,425</u>	<u>\$ 474,850</u>

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

City of Sallisaw, Oklahoma
Notes to Financial Statements
June 30, 2013

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 position – Net position is displayed in three components as follows:

- a. *Net investment in capital assets* – 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* – 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 and accrued compensated absences 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	\$ 933,916
Accrued compensated absences	<u>443,560</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 1,377,476</u>

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

Capital assets, net of accumulated depreciation	<u>\$ 7,078,603</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 7,078,603</u>

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

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

The details of this difference are as follows:

Capital outlay expenditures	\$ 882,609
Depreciation expense	<u>(627,201)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 255,408</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	\$ 462,698
Proceeds from capital lease obligations	(282,362)
Accrued compensated absences, net change	<u>(3,861)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 176,475</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 \$ 2,476,111 as of June 30, 2013, and the bank balances totaled \$ 2,653,323. 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, 2013, \$ 1,903,323 of the City's bank balances of \$ 2,653,323 was exposed to custodial credit risk as follows:

Collateral held by the pledging bank, not in the City's name	<u>\$ 1,903,323</u>
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Investments

As of June 30, 2013, the City had the following investments.

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Certificates of deposit	< 182 days	\$ 2,084,676
U.S. Treasury Mutual Funds	n/a	<u>1,732,572</u>
Total		<u>\$ 3,817,248</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, 2013, 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 45 % and 55 %, respectively, of the City's total investments.

B. Receivables

Receivables as of June 30, 2013, 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	\$ 435,973	\$ 6,652	\$ -	\$ 442,625
Accounts	42,795	-	1,324,325	1,367,120
Due from other governments	-	37,200	-	37,200
Notes receivable	-	-	90,000	90,000
Gross receivables	478,768	43,852	1,414,325	1,936,945
Less: allowance for uncollectibles	-	-	(93,961)	(93,961)
Net total receivables	<u>\$ 478,768</u>	<u>\$ 43,852</u>	<u>\$ 1,320,364</u>	<u>\$ 1,842,984</u>

C. Restricted cash and investments

The Sallisaw Municipal Authority Revenue Bonds Series 2009, the Sallisaw Municipal Authority Utility System Refunding Revenue Bonds, Series 2012, and the Sallisaw Municipal Authority Sales Tax Revenue Notes, Series 2010 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. Additionally, customer meter deposits are set aside in separate bank accounts and investments for future refund to utility customers.

The following is a summary of the restricted asset account balances as of June 30, 2013:

	Enterprise Funds				Total
	Sallisaw Municipal Authority			Meter Deposit Fund	
	Series 2010 Revenue Bonds	Series 2012 Revenue Bonds	Series 2009 Revenue Bonds		
Restricted assets:					
Sinking fund	\$ 119,265	\$ 860,132	\$ 337,321	\$ -	\$ 1,316,718
Construction fund	-	-	415,853	-	415,853
Customer deposits	-	-	-	651,342	651,342
Total restricted assets	<u>\$ 119,265</u>	<u>\$ 860,132</u>	<u>\$ 753,174</u>	<u>\$ 651,342</u>	<u>\$ 2,383,913</u>

D. Capital assets

Capital asset balances and activities for the year ended June 30, 2013, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,350,193	\$ 65,925	\$ -	\$ 1,416,118
Construction in progress	52,676	127,592	(52,676)	127,592
Total capital assets, not being depreciated	<u>1,402,869</u>	<u>193,517</u>	<u>(52,676)</u>	<u>1,543,710</u>
Capital assets, being depreciated:				
Buildings and improvements	2,710,497	-	-	2,710,497
Infrastructure and other improvements	4,165,034	329,155	-	4,494,189
Equipment and computers	2,177,886	255,000	-	2,432,886
Vehicles	2,874,265	157,614	(31,790)	3,000,089
Total capital assets, being depreciated	<u>11,927,682</u>	<u>741,769</u>	<u>(31,790)</u>	<u>12,637,661</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,557,753)	(87,632)	-	(1,645,385)
Infrastructure and other improvements	(1,537,794)	(208,583)	-	(1,746,377)
Equipment and computers	(1,460,844)	(141,319)	-	(1,602,163)
Vehicles	(1,950,966)	(189,667)	31,790	(2,108,843)
Total accumulated depreciation	<u>(6,507,357)</u>	<u>(627,201)</u>	<u>31,790</u>	<u>(7,102,768)</u>
Total capital assets, being depreciated, net	<u>5,420,325</u>	<u>114,568</u>	<u>-</u>	<u>5,534,893</u>
Governmental activities capital assets, net	<u>\$ 6,823,194</u>	<u>\$ 308,085</u>	<u>\$ (52,676)</u>	<u>\$ 7,078,603</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land and easements	\$ 1,471,898	\$ 2,500	\$ -	\$ 1,474,398
Construction in progress	214,958	-	(214,958)	-
Total capital assets, not being depreciated	<u>1,686,856</u>	<u>2,500</u>	<u>(214,958)</u>	<u>1,474,398</u>
Capital assets, being depreciated:				
Buildings and improvements	2,300,859	-	-	2,300,859
Infrastructure and other improvements	16,054,937	520,695	(2,500)	16,573,132
Water and sewer treatment facilities	28,214,843	56,066	-	28,270,909
Equipment	3,410,117	30,500	-	3,440,617
Vehicles	1,635,046	-	-	1,635,046
Total capital assets, being depreciated	<u>51,615,802</u>	<u>607,261</u>	<u>(2,500)</u>	<u>52,220,563</u>
Less accumulated depreciation for:				
Buildings and improvements	(624,785)	(65,415)	-	(690,200)
Infrastructure and other improvements	(4,910,823)	(646,712)	-	(5,557,535)
Water and sewer treatment facilities	(5,497,359)	(763,918)	(8,157)	(6,269,434)
Equipment	(1,395,725)	(279,440)	-	(1,675,165)
Vehicles	(1,207,942)	(83,737)	-	(1,291,679)
Total accumulated depreciation	<u>(13,636,634)</u>	<u>(1,839,222)</u>	<u>(8,157)</u>	<u>(15,484,013)</u>
Total capital assets, being depreciated, net	<u>37,979,168</u>	<u>(1,231,961)</u>	<u>(10,657)</u>	<u>36,736,550</u>
Business-type activities capital assets, net	<u>\$ 39,666,024</u>	<u>\$ (1,229,461)</u>	<u>\$ (225,615)</u>	<u>\$ 38,210,948</u>

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

Governmental activities:	
General government	\$ 54,831
Public safety	173,460
Public works	350,003
Cultural and recreation	48,908
Total depreciation expense – governmental activities	<u>\$ 627,202</u>
Business-type activities:	
Electric	\$ 79,486
Water	734,785
Wastewater	264,773
Landfill	358,031
Sanitation	49,808
Telecommunications	311,676
Economic development	40,663
Total depreciation expense – business-type activities	<u>\$ 1,839,222</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, 2013, cash and investments included \$ 651,341 available for refund of customer deposits, while the liability to customers was \$ 652,877.

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, 2012, in the amount of \$ 689,000, payable in monthly installments of \$ 12,683 including interest at 3.89% for two (2) landfill compactors.	\$ 483,830
Armstrong Bank dated December 21, 2012, in the amount of \$ 121,250, payable in monthly installments of \$ 3,539 including interest at 3.20% for 2012 Freightliner sanitation truck.	61,989
National Bank of Sallisaw dated December 1, 2012, in the amount of \$ 211,169, payable in monthly installments of \$ 6,154 including interest at 3.20% for eight (8) police vehicles.	102,154
Armstrong Bank dated May 28, 2012, in the amount of \$ 358,312, payable in monthly installments of \$ 8,073 including interest at 3.99% for Caterpillar dozer.	78,516
Armstrong Bank dated July 24, 2012, in the amount of \$ 124,749, payable in monthly installments of \$ 3,641 including interest at 3.24% for Caterpillar dozer.	87,800

Armstrong Bank dated September 6, 2012, in the amount of \$ 157,613, payable in monthly installments of \$ 4,605 including interest at 3.19% for street sweeper. 119,627

Total capital lease obligations \$ 933,916

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
8 police vehicles	\$ 211,169
2 Landfill compactors	689,000
Freightliner sanitation truck	121,250
2010 Caterpillar dozer	358,312
2011 Caterpillar dozer	124,749
Tymco street sweeper	<u>157,613</u>
Total	1,662,093
Less: accumulated depreciation	<u>(297,230)</u>
Net	<u>\$ 1,364,863</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2013, were as follows:

Year Ending June 30,	Governmental Activities Capital Lease Obligations
2014	\$ 448,213
2015	302,742
2016	169,151
2017	61,325
2018	-
Total required payments	<u>981,431</u>
Less: amount representing interest	<u>(47,515)</u>
Total principal payments	<u>\$ 933,916</u>

Revenue bonds and notes payable

Business-type activities

Sallisaw Municipal Authority

Revenue bonds:

\$ 8,475,000 Sallisaw Municipal Authority Utility System Refunding Revenue Bonds, Series 2009, due annually in amounts from \$ 305,000 to \$ 645,000 plus semi-annual interest of 4.45%, with final maturity at January 1, 2028 secured by a first mortgage on the leasehold of the telecommunications system and, subject to the mortgage securing the Series 2002 bonds, a second mortgage on the leasehold of the water, sanitary sewer, electric, and garbage collection systems. \$ 7,450,000

\$ 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
\$ 470,000 Sallisaw Municipal Authority Refunding Revenue Bonds, Series 2012C, due annually in amounts from \$30,000 to \$ 45,000, plus semi-annual interest of 4.00%, with final maturity at September 1, 2027, secured by Sallisaw Municipal Authority utility system facilities and a pledge of its net revenues..	470,000
\$ 55,000 Sallisaw Municipal Authority Taxable Revenue Refunding Bonds, Series 2012D, due annually in amounts from \$ 25,000 to \$ 30,000 plus semi-annual interest of 3.00% with final maturity at September 1, 2014, secured by the Sallisaw Municipal Authority water, sewer, and electric systems and facilities, and a pledge of its net revenues.	55,000
Less: deferred loss on refunding of bonds	<u>(2,545,845)</u>
Total revenue bonds	<u>27,779,155</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.	78,194
Note payable to Oklahoma Water Resources Board, dated March 2, 2010, authorized in the amount of \$ 5,360,000, due and payable in semi-annual installments of \$ 15,747 including interest at 2.58%, plus an administrative fee of .05%, secured by water system.	4,691,805
Sallisaw Economic Authority:	
Note payable to Sallisaw Improvement Corporation, due and payable on or before June 30, 2012, with interest at 0.00%, for the Cello foam project	45,352
Note payable to Sallisaw Municipal Authority, dated January 26, 2008, in the amount of \$ 90,000 due and payable on or before January 31, 2016.	90,000
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.	862,528
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>190,556</u>
Total notes payable	<u>5,958,435</u>
Total business-type activities	<u>33,737,590</u>
Total long-term debt	<u>\$ 34,671,506</u>

Long-term liabilities transactions for the year ended June 30, 2013, and changes therein were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities					
Capital leases	\$ 1,114,252	\$ 282,362	\$ (462,698)	\$ 933,916	\$ 421,406
Total governmental activities	1,114,252	282,362	(462,698)	933,916	421,406
Business-type activities					
Revenue bonds:					
Series 2005	525,000	-	(525,000)	-	-
Series 2009	7,820,000	-	(370,000)	7,450,000	385,000
Series 2013A	19,415,000	-	-	19,415,000	215,000
Series 2013B	2,935,000	-	-	2,935,000	475,000
Series 2013C	-	470,000	-	470,000	-
Series 2013D	-	55,000	-	55,000	25,000
Deferred loss on bond refunding	(2,673,237)	-	127,392	(2,545,845)	-
Notes payable:					
National Bank of Sallisaw	194,310	-	(116,116)	78,194	78,194
OWRB	4,890,712	-	(198,907)	4,691,805	268,000
First National Bank of Sallisaw	175,890	-	(175,890)	-	-
Sallisaw Improvement Corporation	48,571	-	(3,219)	45,352	45,353
Sallisaw Municipal Authority	50,000	40,000	-	90,000	-
First National Bank of Sallisaw	881,610	-	(19,082)	862,528	20,819
CDBG/EDIF	213,889	-	(23,333)	190,556	23,333
Total business-type activities	34,476,745	565,000	(1,304,155)	33,737,590	1,535,699
Total long-term debt	\$ 35,590,997	\$ 847,362	\$ (1,766,853)	\$ 34,671,506	\$ 1,957,105

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
2014	\$ 1,100,000	\$ 1,074,780	\$ 434,667	\$ 194,861
2015	1,125,000	1,053,506	313,402	184,098
2016	1,140,000	1,032,473	1,201,007	138,302
2017	1,170,000	1,007,484	291,333	117,681
2018	1,190,000	979,546	291,333	109,426
2019–2023	6,570,000	4,271,133	1,413,890	423,316
2024–2028	7,950,000	2,867,972	1,340,000	216,956
2029–2033	5,875,000	1,443,595	671,803	31,093
2034–2038	4,205,000	256,500	-	-
Totals	\$ 30,325,000	\$ 13,986,989	\$ 5,957,435	\$ 1,415,733

G. Defeased debt

On June 1, 2013, the Sallisaw Municipal Authority issued its Series 2012 Sallisaw Municipal Authority Revenue Refunding Bonds of \$ 22,875,000 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 \$ 21,741,066, 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 \$ 1,319,034 as of June 30, 2013. Unamortized bond discount was \$ 87,931. Amortization during the year was \$ 75,965 for the debt issuance costs and \$ 8,794 for bond discount.

I. Compensated absences

Full-time employees with at least one year of service earn vacation of five to twenty hours per year depending on years of service completed. Employees may carry over up to 480 hours. 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:	
Accrued compensated absences	\$ <u>443,560</u>

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. Upon retirement, employees will be compensated for hours accrued in excess of 1,000 up to a maximum of 2,500 hours at a rate of \$ 2,500 for the first 1,000 hours and \$ 5.00/hour for the next 1,500 hours. Otherwise, employees are not compensated for unused sick leave upon their termination of employment.

J. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2013, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General fund	Sallisaw Municipal Authority	\$ 328,707
Nonmajor governmental	Sallisaw Municipal Authority	54,910
Nonmajor governmental	General fund	6,249
Sallisaw Municipal Authority	General fund	403,250
Sallisaw water projects fund	Sallisaw Municipal Authority	54,910
Nonmajor enterprise	Nonmajor enterprise	192,500
Total		\$ 1,040,526

Interfund transactions:

	Transfers Out			Totals
	General Fund	Nonmajor Governmental	Sallisaw Municipal Authority	
Transfer in:				
General fund	\$ -	\$ 38,082	\$ 5,446,172	\$ 5,484,254
Nonmajor governmental	142,286	-	642,658	784,944
Sallisaw Municipal Authority	4,704,644	-	-	4,704,644
SMA Water Projects	-	-	1,632,658	1,632,658
Totals	\$ 4,846,930	\$ 38,082	\$ 7,721,488	\$ 12,606,500

In addition to the above transfers, \$ 313,844 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 \$ 1,664,945 reported as other noncurrent liabilities for the accrued landfill closure cost liability as of June 30, 2013, represents the cumulative amount of such cost reported to date based on the use of approximately 59.00 % 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 \$ 1,156,996 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 2013. 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, 2013, are as follows:

Estimated closure costs	\$ 1,255,963
Estimated post-closure costs	1,565,978
Total estimated costs	2,821,941
Accrued closure costs	1,664,945
Current estimated costs charged to expense	\$ 111,244

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, 2013, for employees and employer were \$ 63,777 and \$ 103,638, respectively, on covered payroll of \$ 797,212. The State of Oklahoma made on-behalf payments to OPPRS totaling \$ 96,364 during the year. These on-behalf payments were recognized as both revenue and expense in the accompanying government-wide financial statements.

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, 2013, for employees and employer were \$ 16,865 and \$ 27,408, respectively, on covered payroll of \$ 210,818. The State of Oklahoma made on-behalf payments to OFPRS totaling \$ 63,246 during the year. These on-behalf payments were recognized as both revenue and expense in the accompanying government-wide financial statements.

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, 2013. 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 \$ 5,069,585 at January 1, 2013, as follows:

Actuarial accrued liability	\$ 15,792,836
Net assets available for benefits (actuarial value)	10,723,251
Unfunded actuarial accrued liability	<u>\$ 5,069,585</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, 2013, 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, 2013, was 18.65%. Contributions to the Plan for payroll for the year ended June 30, 2013, for employees and employer were \$ 219,814 and \$ 585,644, respectively.

For the year ended June 30, 2013, the City's covered payroll was \$ 3,167,633. 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
01/01/13	\$ 10,723,251	\$ 15,792,836	\$ 5,069,585	67.9%	\$ 3,026,209	167.5 %
01/01/12	10,152,071	15,130,607	4,978,536	67.1%	2,910,637	171.0 %
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 %

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, 2013, were \$ 22,000 on covered payroll of \$ 114,383.

D. Subsequent events

On August 1, 2013, the Sallisaw Municipal Authority issued its Sallisaw Municipal Authority Sales Tax Revenue Bonds, Series 2013, in the amount of \$ 5,325,000, to be used for construction of a sports complex. The bonds will be due and payable annually beginning August 1, 2014, in amounts ranging from \$ 500,000 to \$ 585,000, plus interest at 2.25 % to 4.00 %. The bonds are secured by a pledge of utility system revenues and a one-half cent (1/2 cent) sales tax.

Management has evaluated subsequent events through November 9, 2013, the date which the financial statements were available to be issued.

Required Supplementary Information

City of Sallisaw, Oklahoma
Budgetary Comparison Schedule
General Fund
(Budgetary Basis)
Year Ended June 30, 2013

	General Fund			Variance with Final Budget Positive (Negative)
	Budget		Actual	
	Original	Final		
Fund balance, beginning	\$ 480,851	\$ 480,851	\$ 312,557	\$ (168,294)
Resources				
Taxes	4,935,800	4,935,800	5,006,780	70,980
Licenses and permits	23,620	23,620	25,785	2,165
Intergovernmental	65,600	65,600	60,797	(4,803)
Fines and forfeitures	202,000	202,000	177,961	(24,039)
Charges for services	109,650	109,650	161,525	51,875
Miscellaneous	146,000	146,000	191,363	45,363
Interest	4,800	4,800	881	(3,919)
Operating transfers	9,604,440	9,604,440	9,086,391	(518,049)
Total resources	<u>15,091,910</u>	<u>15,091,910</u>	<u>14,711,483</u>	<u>(380,427)</u>
Amounts available for appropriation	15,572,761	15,572,761	15,024,040	(548,721)
Charges to appropriations:				
Administration	624,369	680,002	665,650	14,352
Customer service	491,276	514,632	498,087	16,545
Finance	508,572	508,750	446,034	62,716
Information services	168,319	194,019	144,239	49,780
Contingency	160,000	79,546	-	79,546
Sundry	108,000	114,600	83,529	31,071
Contributions to others	120,000	120,000	119,999	1
Police patrol	1,668,693	1,630,812	1,600,427	30,385
Police auxiliary	427,389	440,002	389,949	50,053
Animal welfare	70,663	72,439	58,296	14,143
Municipal court	61,215	61,201	57,578	3,623
Fire suppression	412,128	411,518	378,336	33,182
Building development	311,943	303,891	234,539	69,352
Street	754,695	759,360	675,262	84,098
Airport	134,675	163,640	142,872	20,768
Fleet maintenance	190,192	202,071	194,914	7,157
Cemetery	13,800	8,841	6,645	2,196
Parks	626,727	634,763	611,915	22,848
Swimming pool	62,282	52,882	43,148	9,734
Electric	752,916	750,849	716,826	34,023
Water production	544,994	553,354	530,622	22,732
Water distribution	271,576	266,913	240,419	26,494
Wastewater collection	222,548	199,229	183,657	15,572
Wastewater treatment	383,061	351,794	326,342	25,452
Sanitation	439,963	463,680	458,686	4,994
Landfill	675,965	669,711	620,656	49,055
Telecommunications	583,800	581,262	510,697	70,565
Operating transfers	4,783,000	4,783,000	4,846,930	(63,930)
Total charges to appropriations	<u>15,572,761</u>	<u>15,572,761</u>	<u>14,786,254</u>	<u>786,507</u>
Fund balances, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 237,786</u>	<u>\$ 237,786</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, 2013

<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	\$ 5,625,092
Adjustments:	
<i>Budgetary</i> general fund revenues are reported on the cash basis, rather than the modified accrual basis	(15,035)
Sale of surplus equipment reported as "other financing sources and uses" for GAAP purposes	<u>(34,003)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u><u>\$ 5,576,054</u></u>
Expenditures	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	\$ 9,939,324
Reclassifications:	
Utility service expenditures are included in the general fund for budgetary purposes	(3,587,905)
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	<u>1,284</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u><u>\$ 6,352,703</u></u>
Other financing sources (uses)	
Actual amounts (budgetary basis) "other financing sources and uses" from the budgetary comparison schedules	\$ 4,239,461
Reclassifications:	
Utility services expenditures are reclassified as transfers out for GAAP reporting	(3,587,905)
Adjustments:	
Budgetary transfers are reported on the cash basis, rather than the modified accrual basis. Tax revenues accrued and transferred to other funds	(14,232)
Sale of surplus equipment reported as "other financing sources and uses" for GAAP purposes	<u>34,003</u>
Total other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u><u>\$ 671,327</u></u>

See disclaimer in accompanying Independent Auditor's Report.

City of Sallisaw, Oklahoma
Notes to Budgetary Comparison Schedules
Year Ended June 30, 2013

Budgetary Accounting: The annual operating budgets are prepared and presented on the modified accrual basis of accounting. The City of Sallisaw utilizes encumbrance accounting during the year on a limited basis for certain purchase orders and other commitments for the expenditure of funds which are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at year-end, therefore, encumbrances outstanding at year-end are not considered expenditures for budgetary purposes, as the City of Sallisaw will provide for supplemental appropriations in the following budget year.

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Other Supplementary Information

City of Sallisaw, Oklahoma
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013

	Special Revenue			
	Street and Alley Fund	Library Fund	Library Trust Authority	Youth & Recreation Fund
Assets				
Cash and cash equivalents	\$ 264,670	\$ 1,985	\$ 45	\$ 69,891
Investments	-	-	83,802	-
Receivables:				
Taxes	6,652	-	-	-
Due from other funds	-	-	-	6,249
Due from other governments	-	-	-	-
Total assets	<u>\$ 271,322</u>	<u>\$ 1,985</u>	<u>\$ 83,847</u>	<u>\$ 76,140</u>
Liabilities				
Accounts payable and accrued liabilities	\$ -	\$ 25	\$ -	\$ 2,220
Total liabilities	<u>-</u>	<u>25</u>	<u>-</u>	<u>2,220</u>
Fund balances				
Nonspendable	-	-	-	-
Restricted	271,322	-	83,847	-
Committed	-	-	-	73,920
Assigned	-	1,960	-	-
Unassigned	-	-	-	-
Total fund balances	<u>271,322</u>	<u>1,960</u>	<u>83,847</u>	<u>73,920</u>
Total liabilities and fund balances	<u>\$ 271,322</u>	<u>\$ 1,985</u>	<u>\$ 83,847</u>	<u>\$ 76,140</u>

Special Revenue					
Police Drug Fund	Fire Department Fund	Oklahoma Highway Safety Grant	Sallisaw Reserve Fund	Police Department Fund	Sallisaw NOW
\$ 31,494	\$ 50,807	\$ -	\$ 92,239	\$ 12,431	\$ 127,064
-	-	-	841,232	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 31,494</u>	<u>\$ 50,807</u>	<u>\$ -</u>	<u>\$ 933,471</u>	<u>\$ 12,431</u>	<u>\$ 127,064</u>
\$ -	\$ 1,395	\$ -	\$ -	\$ -	\$ -
-	1,395	-	-	-	-
-	-	-	-	-	-
31,494	-	-	-	-	127,064
-	-	-	-	-	-
-	49,412	-	-	12,431	-
-	-	-	933,471	-	-
<u>31,494</u>	<u>49,412</u>	<u>-</u>	<u>933,471</u>	<u>12,431</u>	<u>127,064</u>
<u>\$ 31,494</u>	<u>\$ 50,807</u>	<u>\$ -</u>	<u>\$ 933,471</u>	<u>\$ 12,431</u>	<u>\$ 127,064</u>

City of Sallisaw, Oklahoma
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013
(continued)

	Special Revenue		Capital Projects	
	Police Federal Forfeiture Fund	Department of Justice Grants	Capital Improvements Fund	Cemetery Fund
Assets				
Cash and cash equivalents	\$ 16,635	\$ -	\$ 481,862	\$ 78,828
Investments	-	-	-	124,334
Receivables:				
Taxes	-	-	-	-
Due from other funds	-	-	54,910	-
Due from other governments	-	-	-	-
Total assets	\$ 16,635	\$ -	\$ 536,772	\$ 203,162
Liabilities				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 8,209	\$ -
Total liabilities	-	-	8,209	-
Fund balances				
Nonspendable	-	-	-	-
Restricted	16,635	-	-	203,162
Committed	-	-	-	-
Assigned	-	-	528,563	-
Unassigned	-	-	-	-
Total fund balances	16,635	-	528,563	203,162
Total liabilities and fund balances	\$ 16,635	\$ -	\$ 536,772	\$ 203,162

Capital Projects				
Infrastructure Improvements Fund	FAA Grant	CDBG Fund	FEMA/Okla Emergency Management Fund	Total Nonmajor Governmental Funds
\$ 308,577	\$ 39,363	\$ -	\$ -	\$ 1,575,891
-	-	-	-	1,049,368
-	-	-	-	6,652
-	-	-	-	61,159
-	37,200	-	-	37,200
<u>\$ 308,577</u>	<u>\$ 76,563</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,730,270</u>
\$ -	\$ 44,257	\$ -	\$ -	\$ 56,106
-	44,257	-	-	56,106
-	-	-	-	-
-	32,306	-	-	765,830
-	-	-	-	73,920
308,577	-	-	-	900,943
-	-	-	-	933,471
<u>308,577</u>	<u>32,306</u>	<u>-</u>	<u>-</u>	<u>2,674,164</u>
<u>\$ 308,577</u>	<u>\$ 76,563</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,730,270</u>

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2013

	Special Revenue			
	Street and Alley Fund	Library Fund	Library Trust Authority	Youth & Recreation Fund
Revenues				
Charges for services	\$ -	\$ -	\$ -	\$ -
Intergovernmental	78,805	-	-	-
Other	-	-	-	-
Interest	-	-	75	-
Total revenues	<u>78,805</u>	<u>-</u>	<u>75</u>	<u>-</u>
Expenditures				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	7,800	-	-
Debt service:				
Principal	-	-	-	55,464
Interest	-	-	-	658
Capital outlay	-	-	-	82,420
Total expenditures	<u>-</u>	<u>7,800</u>	<u>-</u>	<u>138,542</u>
Excess of revenues over (under) expenditures	78,805	(7,800)	75	(138,542)
Other financing sources (uses)				
Proceeds from lease purchase agreements	-	-	-	-
Transfers in	-	-	-	92,567
Transfers (out)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,567</u>
Net change in fund balances	78,805	(7,800)	75	(45,975)
Fund balances, beginning, restated	<u>192,517</u>	<u>9,760</u>	<u>83,772</u>	<u>119,895</u>
Fund balances, ending	<u>\$ 271,322</u>	<u>\$ 1,960</u>	<u>\$ 83,847</u>	<u>\$ 73,920</u>

Special Revenue					
Police Drug Fund	Fire Department Fund	Oklahoma Highway Safety Grant	Sallisaw Reserve Fund	Police Department Fund	Sallisaw NOW
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	35,712	816	-	4,745	83,640
28,159	1,500	-	-	-	-
-	-	-	1,184	-	-
<u>28,159</u>	<u>37,212</u>	<u>816</u>	<u>1,184</u>	<u>4,745</u>	<u>83,640</u>
-	-	-	-	-	-
4,089	23,617	816	-	5,050	126,455
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	2,683	-	-	-	-
<u>4,089</u>	<u>26,300</u>	<u>816</u>	<u>-</u>	<u>5,050</u>	<u>126,455</u>
24,070	10,912	-	1,184	(305)	(42,815)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
24,070	10,912	-	1,184	(305)	(42,815)
7,424	38,500	-	932,287	12,736	169,879
<u>\$ 31,494</u>	<u>\$ 49,412</u>	<u>\$ -</u>	<u>\$ 933,471</u>	<u>\$ 12,431</u>	<u>\$ 127,064</u>

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2013
(continued)

	<u>Special Revenue</u>		<u>Capital Projects</u>	
	Police Federal Forfeiture Fund	Department of Justice Grants	Capital Improvements Fund	Cemetery Fund
Revenues				
Charges for services	\$ -	\$ -	\$ -	\$ 35,064
Intergovernmental	-	312	-	-
Other	-	-	-	-
Interest	-	-	535	246
Total revenues	<u>-</u>	<u>312</u>	<u>535</u>	<u>35,310</u>
Expenditures				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	2,214
Culture and recreation	-	-	-	-
Debt service:				
Principal	-	-	407,234	-
Interest	-	-	39,480	-
Capital outlay	-	312	677,630	10,100
Total expenditures	<u>-</u>	<u>312</u>	<u>1,124,344</u>	<u>12,314</u>
Excess of revenues over (under) expenditures	-	-	(1,123,809)	22,996
Other financing sources (uses)				
Proceeds from lease purchase agreements	-	-	282,362	-
Transfers in	-	-	642,658	-
Transfers (out)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>925,020</u>	<u>-</u>
Net change in fund balances	-	-	(198,789)	22,996
Fund balances, beginning, restated	<u>16,635</u>	<u>-</u>	<u>727,352</u>	<u>180,166</u>
Fund balances, ending	<u>\$ 16,635</u>	<u>\$ -</u>	<u>\$ 528,563</u>	<u>\$ 203,162</u>

Capital Projects				
Infrastructure Improvements Fund	FAA Grant	CDBG Fund	FEMA/Okla Emergency Management Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 35,064
-	288,486	134,941	40,000	667,457
-	-	116,256	-	145,915
162	-	-	-	2,202
<u>162</u>	<u>288,486</u>	<u>251,197</u>	<u>40,000</u>	<u>850,638</u>
-	-	-	-	-
-	-	-	-	160,027
-	-	-	-	2,214
-	-	-	-	7,800
-	-	-	-	462,698
-	-	-	-	40,138
24,000	297,670	251,197	59,700	1,405,712
<u>24,000</u>	<u>297,670</u>	<u>251,197</u>	<u>59,700</u>	<u>2,078,589</u>
(23,838)	(9,184)	-	(19,700)	(1,227,951)
-	-	-	-	282,362
-	30,019	-	19,700	784,944
-	<u>(38,082)</u>	-	-	<u>(38,082)</u>
-	<u>(8,063)</u>	-	<u>19,700</u>	<u>1,029,224</u>
(23,838)	(17,247)	-	-	(198,727)
332,415	49,553	-	-	2,872,891
<u>\$ 308,577</u>	<u>\$ 32,306</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,674,164</u>

City of Sallisaw, Oklahoma
Combining Statement of Net Position
Sallisaw Municipal Authority
June 30, 2013

	Business-type Activities		Totals
	Enterprise Funds		
	Sallisaw Municipal Authority	Sallisaw Water Projects Fund	
Assets			
Current assets:			
Cash and cash equivalents	\$ 409,531	\$ 23,894	\$ 433,425
Investments	547,302	-	547,302
Receivables:			
Accounts (net of allowance for uncollectibles)	1,230,364	-	1,230,364
Due from other funds	403,250	54,910	458,160
Restricted assets:			
Cash and cash equivalents	163,334	100	163,434
Investments	1,241,181	979,398	2,220,579
Total current assets	<u>3,994,962</u>	<u>1,058,302</u>	<u>5,053,264</u>
Noncurrent assets:			
Notes receivable	90,000	-	90,000
Debt issuance costs (net of accumulated amortization)	430,720	976,245	1,406,965
Capital assets (net of accumulated depreciation)	16,331,997	20,489,952	36,821,949
Total noncurrent assets	<u>16,852,717</u>	<u>21,466,197</u>	<u>38,318,914</u>
Total assets	<u>20,847,679</u>	<u>22,524,499</u>	<u>43,372,178</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	754,953	-	754,953
Payable from restricted assets:			
Accrued interest payable	144,590	303,745	448,335
Customer deposits	652,877	-	652,877
Due to other funds	438,527	-	438,527
Current portion of long-term obligations	463,194	983,000	1,446,194
Total current liabilities	<u>2,454,141</u>	<u>1,286,745</u>	<u>3,740,886</u>
Noncurrent liabilities:			
Revenue bonds payable	7,450,000	22,875,000	30,325,000
Notes payable	78,193	4,691,805	4,769,998
Deferred loss on refunding	(588,719)	(1,957,126)	(2,545,845)
Accrued landfill closure costs	1,664,945	-	1,664,945
Less: Current portion of long-term obligations	(463,194)	(983,000)	(1,446,194)
Total noncurrent liabilities	<u>8,141,225</u>	<u>24,626,679</u>	<u>32,767,904</u>
Total liabilities	<u>10,595,366</u>	<u>25,913,424</u>	<u>36,508,790</u>
Net position			
Net investment in capital assets	9,823,243	(4,143,482)	5,679,761
Restricted:			
Debt service	192,731	675,753	868,484
Capital projects/other	415,853	-	415,853
Unrestricted	(179,514)	78,804	(100,710)
Total net position	<u>\$ 10,252,313</u>	<u>\$ (3,388,925)</u>	<u>\$ 6,863,388</u>

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenses, and Changes in Net Position –
Sallisaw Municipal Authority
Year Ended June 30, 2013

	Business-type Activities		Totals
	Enterprise Funds		
	Sallisaw Municipal Authority	Sallisaw Water Projects Fund	
Operating revenues			
Charges for services:			
Electric	\$ 9,617,274	\$ -	\$ 9,617,274
Water	1,743,843	-	1,743,843
Wastewater	646,090	-	646,090
Landfill	1,178,910	-	1,178,910
Sanitation	986,122	-	986,122
Telecommunications	2,505,155	-	2,505,155
Other	220,139	-	220,139
Total operating revenues	<u>16,897,533</u>	<u>-</u>	<u>16,897,533</u>
Operating expenses			
Administration	52,779	-	52,779
Electric	7,389,589	-	7,389,589
Water	803,716	-	803,716
Wastewater	513,840	-	513,840
Landfill	735,960	-	735,960
Sanitation	509,436	-	509,436
Telecommunications	2,167,333	-	2,167,333
Depreciation and amortization	1,277,743	609,093	1,886,836
Bad debt expense	82,569	-	82,569
Total operating expenses	<u>13,532,965</u>	<u>609,093</u>	<u>14,142,058</u>
Net operating income (loss)	3,364,568	(609,093)	2,755,475
Nonoperating revenues (expenses)			
Miscellaneous revenues	9,345	-	9,345
Interest income	2,330	39	2,369
Interest expense and fiscal charges	(325,289)	(1,062,630)	(1,387,919)
Payments to hospital	(642,658)	-	(642,658)
Total nonoperating revenues (expenses)	<u>(956,272)</u>	<u>(1,062,591)</u>	<u>(2,018,863)</u>
Operating transfers			
Transfers in	5,018,488	1,632,658	6,651,146
Transfers (out)	(7,721,489)	-	(7,721,489)
Total operating transfers	<u>(2,703,001)</u>	<u>1,632,658</u>	<u>(1,070,343)</u>
Net income (loss)	(294,705)	(39,026)	(333,731)
Net position, beginning	<u>10,547,018</u>	<u>(3,349,899)</u>	<u>7,197,119</u>
Net position, ending	<u>\$ 10,252,313</u>	<u>\$ (3,388,925)</u>	<u>\$ 6,863,388</u>

City of Sallisaw, Oklahoma
Combining Statement of Cash Flows
Sallisaw Municipal Authority
Year Ended June 30, 2013

	Business-type Activities		Totals
	Enterprise Funds		
	Sallisaw Municipal Authority	Sallisaw Water Projects Fund	
Cash flows from operating activities			
Net operating income (loss)	\$ 3,364,568	\$ (609,093)	\$ 2,755,475
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	1,277,743	609,093	1,886,836
(Increase) decrease in assets:			
Accounts receivable	64,759	-	64,759
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	(141,801)	-	(141,801)
Customer deposits	(45,075)	-	(45,075)
Accrued landfill closure costs	111,244	-	111,244
Net cash provided (used) by operating activities	<u>4,631,438</u>	<u>-</u>	<u>4,631,438</u>
Cash flows from noncapital financing activities			
(Increase) decrease in interfund receivables/payables	(185,087)	4,912	(180,175)
(Increase) decrease in notes receivables	(40,000)	-	(40,000)
Miscellaneous revenues/ (expenses)	(633,313)	-	(633,313)
Operating transfers in (out)	<u>(2,703,001)</u>	<u>1,632,658</u>	<u>(1,070,343)</u>
Net cash provided (used) by noncapital financing activities	<u>(3,561,401)</u>	<u>1,637,570</u>	<u>(1,923,831)</u>
Cash flows from capital and related financing activities			
Proceeds from long-term debt	-	525,000	525,000
Principal paid on long-term debt	(662,006)	(723,907)	(1,385,913)
Loss on refunding of bonds	40,601	86,791	127,392
Interest expense and fiscal charges	(334,539)	(838,466)	(1,173,005)
(Increase) decrease in restricted assets	46,781	(758,765)	(711,984)
(Increase) decrease in debt issuance costs	-	-	-
Acquisition/construction of capital assets	<u>(388,970)</u>	<u>4,823</u>	<u>(384,147)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,298,133)</u>	<u>(1,704,524)</u>	<u>(3,002,657)</u>
Cash flows from investing activities			
(Increase) decrease in investments	198,288	-	198,288
Interest income	5,713	39	5,752
Net cash provided (used) by investing activities	<u>204,001</u>	<u>39</u>	<u>204,040</u>
Net increase (decrease) in cash and cash equivalents	(24,095)	(66,915)	(91,010)
Cash and cash equivalents, beginning	<u>433,626</u>	<u>90,809</u>	<u>524,435</u>
Cash and cash equivalents, ending	<u>\$ 409,531</u>	<u>\$ 23,894</u>	<u>\$ 433,425</u>

City of Sallisaw, Oklahoma
Combining Statement of Net Position –
Nonmajor Proprietary Funds
June 30, 2013

	Enterprise		Total Nonmajor Enterprise Funds
	Sallisaw Economic Authority	Sallisaw Industrial Finance Authority	
Assets			
Current assets:			
Cash and cash equivalents	\$ 43,370	\$ (1,945)	\$ 41,425
Due from other funds	-	192,500	192,500
Total current assets	<u>43,370</u>	<u>190,555</u>	<u>233,925</u>
Noncurrent assets:			
Capital assets (net of accumulated depreciation)	1,388,999	-	1,388,999
Total noncurrent assets	<u>1,388,999</u>	<u>-</u>	<u>1,388,999</u>
Total assets	<u>1,432,369</u>	<u>190,555</u>	<u>1,622,924</u>
Liabilities			
Current liabilities:			
Due to other funds	192,500	-	192,500
Current portion of long-term obligations	66,172	23,333	89,505
Total current liabilities	<u>258,672</u>	<u>23,333</u>	<u>282,005</u>
Noncurrent liabilities:			
Notes payable	997,882	190,555	1,188,437
Less: current portion	(66,172)	(23,333)	(89,505)
Total noncurrent liabilities	<u>931,710</u>	<u>167,222</u>	<u>1,098,932</u>
Total liabilities	<u>1,190,382</u>	<u>190,555</u>	<u>1,380,937</u>
Net position			
Net investment in capital assets	391,117	-	391,117
Restricted:			
Debt service	-	-	-
Unrestricted	(149,130)	-	(149,130)
Total net position	<u>\$ 241,987</u>	<u>\$ -</u>	<u>\$ 241,987</u>

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenses, and Changes in Net Position -
Nonmajor Proprietary Funds
Year Ended June 30, 2013

	Enterprise		Total Nonmajor Enterprise Funds
	Sallisaw Economic Authority	Sallisaw Industrial Finance Authority	
Operating revenues			
Charges for services:			
Other	\$ 67,500	\$ -	\$ 67,500
Total operating revenues	<u>67,500</u>	<u>-</u>	<u>67,500</u>
Operating expenses			
Economic development	13,667	-	13,667
Depreciation	40,663	-	40,663
Total operating expenses	<u>54,330</u>	<u>-</u>	<u>54,330</u>
Net operating income (loss)	13,170	-	13,170
Nonoperating revenues (expenses)			
Miscellaneous	21,219	-	21,219
Interest and fiscal charges	(52,896)	-	(52,896)
Total nonoperating revenues (expenses)	<u>(31,677)</u>	<u>-</u>	<u>(31,677)</u>
Operating transfers			
Total operating transfers	<u>-</u>	<u>-</u>	<u>-</u>
Net income (loss)	(18,507)	-	(18,507)
Net position, beginning	<u>260,494</u>	<u>-</u>	<u>260,494</u>
Net position, ending	<u>\$ 241,987</u>	<u>\$ -</u>	<u>\$ 241,987</u>

City of Sallisaw, Oklahoma
Combining Statement of Cash Flows –
Nonmajor Proprietary Funds
Year Ended June 30, 2013

	Enterprise		Total Nonmajor Enterprise Funds
	Sallisaw Economic Authority	Sallisaw Industrial Finance Authority	
Cash flows from operating activities			
Net operating income (loss)	\$ 13,170	\$ -	\$ 13,170
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	40,663	-	40,663
Net cash provided (used) by operating activities	<u>53,833</u>	<u>-</u>	<u>53,833</u>
Cash flows from noncapital financing activities			
(Increase) decrease in interfund receivables/payables	(21,389)	21,389	-
Miscellaneous revenues	21,219	-	21,219
Net cash provided (used) by noncapital financing activities	<u>(170)</u>	<u>21,389</u>	<u>21,219</u>
Cash flows from capital and related financing activities			
Proceeds from long-term debt	40,000	-	40,000
Principal paid on long-term debt	(22,299)	(23,334)	(45,633)
Interest expense and fiscal charges	(52,896)	-	(52,896)
Net cash provided (used) by capital and related financing activities	<u>(35,195)</u>	<u>(23,334)</u>	<u>(58,529)</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	18,468	(1,945)	16,523
Cash and cash equivalents, beginning	24,902	-	24,902
Cash and cash equivalents, ending	<u>\$ 43,370</u>	<u>\$ (1,945)</u>	<u>\$ 41,425</u>

Compliance and Internal Control



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

City Commissioners
City of Sallisaw
Sallisaw, Oklahoma

We have audited, in accordance with the 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 of the United States, 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, 2013 and the related notes to the financial statements, which collectively comprise City of Sallisaw's basic financial statements, and have issued our report thereon dated November 9, 2013. We did not audit management's discussion and analysis and the budgetary comparison information which is required supplementary information, and therefore expressed no opinions on it.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Sallisaw's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Sallisaw's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Sallisaw's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2013-1 and 2013-2 that we consider to be significant deficiencies.

Ronald C. Cottrell, CPA

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Sallisaw's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

Ronald C. Cottrell, CPA

Ronald C. Cottrell, CPA
Kansas, Oklahoma
November 9, 2013

Single Audit



Ronald C. Cottrell, CPA

Independent Auditor's Report on Compliance for Each Major Federal Program and On Internal Control Over Compliance Required by OMB Circular A-133

City Commissioners
City of Sallisaw, Oklahoma
Sallisaw, Oklahoma

Report on Compliance for Each Major Program

We have audited City of Sallisaw, Oklahoma's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Sallisaw's major federal programs for the year ended June 30, 2013. The City of Sallisaw's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on City of Sallisaw's compliance.

Ronald C. Cottrell, CPA

Opinion on Each Major Federal Program

In our opinion, the City of Sallisaw complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Ronald C. Cottrell, CPA

Ronald C. Cottrell, CPA
Grove, Oklahoma
November 9, 2013

City of Sallisaw
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
U.S. Dept of Housing and Urban Development			
Pass-Through Program From:			
OK Dept. of Commerce/Office of Comm. Development			
Community Development Block Grants	14.228	14797-CDBG-11	\$ 134,941
Total U.S. Dept of Housing and Urban Development			<u>134,941</u>
U.S. Dept of Transportation			
Direct Program:			
Airport Improvement Program	20.106	3-40-0083-008-2010	38,082
		3-40-0083-009-2011	5,195
		3-40-0083-010-2012	245,209
		3-40-0083-011-2013	19,056
			<u>307,542</u>
Pass-Through Program From:			
Oklahoma Highway Safety Office (OHSO)			
State and Community Highway Safety	20.600	OHSOK812033704	816
Total U.S. Dept of Transportation			<u>308,358</u>
U.S. Dept. of Human Services			
Pass-Through Program From:			
Cherokee Nation Health Services			
Community Anti-Drug Network	93.243	PR#75628	35,000
Total U.S. Dept. of Human Services			<u>35,000</u>
U. S. Department of Homeland Security			
Pass-Through Program From:			
Hazard Mitigation Grant Program (HMGP)	97.039	FEMA-1989-DR-OK	40,000
Total U.S. Dept. of Homeland Security			<u>40,000</u>
Total Expenditures of Federal Awards			<u>\$ 518,299</u>

The accompanying notes are an integral part of this schedule.

City of Sallisaw, Oklahoma
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

I. Basis of accounting

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

II. Expenditures

Expenditures represent current year federal grant/contract portion only.

III. Noncash awards

City of Sallisaw expended no form of noncash assistance during the year ended June 30, 2013, which are required by OMB Circular A-133 to be included in the schedule of expenditures of federal awards.

IV. Subrecipients

No proceeds from federal awards were passed through to subrecipients.

City of Sallisaw, Oklahoma
Summary Schedule of Prior Audit Findings

Financial Statement Findings

There were no matters reported.

Federal Award Findings and Questioned Costs

There were no matters reported.

**City of Sallisaw, Oklahoma
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Type of auditors report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of major programs:

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

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

Section II - Financial Statement Findings

2013-1 Police Department Cash Account

Criteria – Proper controls over receipt, disbursement, and recording of cash funds help ensure that all such funds received are properly recorded and deposited, and that all expenditures of such funds are properly recorded, supported, and made for allowable items.

Condition – Proper procedures and controls over the handling and documentation of the cash fund in the police department were not in place, as noted in our interim agreed-upon procedures in March 2013. Receipt book receipts did not reconcile with amounts deposited. Cash received was not properly documented, and receipts were not deposited in a timely manner.

Ronald C. Cottrell, CPA

Cause and Effect – Lack of proper oversight by police department and city finance personnel may have resulted in the unreconciled differences. Without proper documentation and reconciliation procedures there is no assurance that all funds received are recorded or deposited.

Recommendation – Procedures and controls over the handling of the police department cash fund should be established and implemented to ensure all funds received are properly recorded and deposited in a timely manner.

Management's Response – We have implemented procedures and controls over the cash fund in the police department.

2013-2 Police Department Evidence Room

Criteria – Proper controls over the police department evidence room help ensure that all evidence is properly documented and received for use in court proceedings.

Condition – Evidence obtained during traffic stops and arrests by Sallisaw police officers was not always documented properly as to location, description, or disposition. Additionally, some evidence recorded in inventory was not located in the evidence room.

Cause and Effect – Actions taken regarding evidence were not always properly documented. Access to the evidence room was not always restricted. Without proper recording of evidence obtained and disposed, such evidence could be lost or destroyed.

Recommendation – Procedures and controls should be established to properly document evidence obtained and on hand. Access to the evidence should be restricted and properly documented. Periodic physical inventories should be made and reconciled with the inventory listings.

Management's Response – We have implemented procedures and controls over police department evidence.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.