

SALLISAW, OK

**City of Sallisaw, Oklahoma
Report on Audit of Financial Statements
June 30, 2015**



2015

City of Sallisaw
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City of Sallisaw, Oklahoma
Report on Audit of Financial Statements
June 30, 2015

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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, 2015, 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.

Ronald C. Cottrell, CPA

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, 2015, 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.

Emphasis of a Matter

As described in Note IV.E. to the financial statements, the City of Sallisaw restated its beginning net position in the government-wide financial statements and proprietary fund financial statement to record the effects of adopting a new accounting principle as promulgated by the Governmental Accounting Standards Board. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension plan schedules of changes in net pension liability and related ratios and employer contributions on pages 4-13 and 52-60 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

Supplementary and 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 debt service coverage 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 debt service coverage are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic 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 debt service coverage are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Ronald C. Cottrell, CPA

The sales tax information, U.S. Census Data, and unemployment information presented as other information on pages 79 – 81 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2015, 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. 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
December 8, 2015

Required Supplementary Information

City of Sallisaw, Oklahoma
Management's Discussion and Analysis
June 30, 2015

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, 2015. Please read it in conjunction with the City's financial statements, which begin on page 14.

Financial Highlights

- ❖ The assets and deferred outflows of resources of the City of Sallisaw exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$ 11,006,461 (net position). Of this amount, (\$ 2,135,925) (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 increased by \$ 807,558, in relation to the restated beginning balance of net position.
- ❖ As of the close of the current fiscal year, the City of Sallisaw's governmental funds reported combined ending fund balances of \$ 3,898,836, an increase of \$ 86,442 in comparison with the prior year. Approximately \$ 3,034,545 is available for spending at the government's discretion (assigned and unassigned fund balance).
- ❖ At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 1,752,336, or 14% of total general fund expenditures and transfers out.
- ❖ The City of Sallisaw's total debt decreased \$ 5,181,092 during the current fiscal year.
- ❖ Net capital assets decreased \$ 102,139 after deducting depreciation of \$ 2,392,388.

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, deferred outflows and inflows, and liabilities, with the net reported as net position. Over time, increases or decreases in net position 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).

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, culture and recreation, and economic development. 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 14–15 of this report.

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

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

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

The City maintains eighteen (18) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and capital improvements fund which are considered to be major funds. Data from the other sixteen 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 16–18 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 19–21 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 22–51 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, and a schedule of funding progress for the pension plan. Required supplementary information can be found on pages 52–60 of this report.

The combining and individual fund statements referred to earlier in connection with the general fund, non-major governmental funds, Sallisaw Municipal Authority, and non-major proprietary funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 61–72 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets plus deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$ 11,006,461 at the close of the most recent fiscal year.

One portion of the City’s net position (\$ 10,340,022 or 94%) 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, 2015 and 2014

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
		**		**		**
Current assets	\$ 4,215,368	\$ 3,933,817	\$ 7,907,152	\$ 11,031,926	\$ 12,122,520	\$ 14,965,743
Capital and other noncurrent assets	6,556,814	6,719,641	37,550,282	37,398,595	44,107,096	44,118,236
Total assets	10,772,182	10,653,458	45,457,434	48,430,521	56,229,616	59,083,979
Deferred outflows	644,241	-	2,455,077	2,418,453	3,099,318	2,418,453
Current liabilities	654,492	537,562	3,829,945	4,026,328	4,484,437	4,563,890
Non-current liabilities	4,412,232	925,790	38,111,755	40,250,229	42,523,987	41,176,019
Total liabilities	5,066,724	1,463,352	41,941,700	44,276,557	47,008,424	45,739,909
Deferred inflows	1,109,547	-	204,502	-	1,314,049	-
Net position:						
Net investment in capital assets	5,890,489	5,842,193	4,449,533	4,923,622	10,340,022	10,765,815
Restricted	1,401,854	1,820,324	1,400,510	1,356,161	2,802,364	3,176,485
Unrestricted	(2,052,191)	1,527,589	(83,734)	292,634	(2,135,925)	1,820,223
Total net position	\$ 5,240,152	\$ 9,190,106	\$ 5,766,309	\$ 6,572,417	\$ 11,006,461	\$ 15,762,523

** - Prior year amounts not restated for MD&A purposes.

An additional portion of the City's net position (\$ 2,802,364 or 25%) 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 (\$ 2,135,925) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net position increased by \$ 807,558 during the current fiscal year. This is mainly attributed to:

- Net change in governmental activities of \$ 539,055.
- Net income of business type activities increased net position by \$ 268,503.

City of Sallisaw
Statement of Activities
Years Ended June 30, 2015 and 2014

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Program revenues:		**		**		**
Charges for services	\$ 499,451	\$ 522,072	\$ 18,267,099	\$ 18,144,857	\$ 18,766,550	\$ 18,666,929
Grants/contributions	701,945	417,820	18,000	18,000	719,945	435,820
General revenues	6,257,591	6,219,830	(257,053)	2,526	6,000,538	6,222,356
Total revenues	7,458,987	7,159,722	18,028,046	18,165,383	25,487,033	25,325,105

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Expenses:						
General government	2,070,096	1,961,542	-	-	2,070,096	1,961,542
Public safety	2,861,670	2,996,743	-	-	2,861,670	2,996,743
Public works	2,142,661	1,918,922	-	-	2,142,661	1,918,922
Culture and recreation	753,516	749,868	-	-	753,516	749,868
Economic development	120,000	120,000	309,531	387,329	429,531	507,329
Electric	-	-	8,092,557	8,217,975	8,092,557	8,217,975
Water	-	-	2,542,995	2,534,426	2,542,995	2,534,426
Wastewater	-	-	875,916	826,500	875,916	826,500
Landfill	-	-	858,848	1,071,611	858,848	1,071,611
Sanitation	-	-	621,412	615,079	621,412	615,079
Telecommunications	-	-	2,640,489	2,748,599	2,640,489	2,748,599
Administration/other	20,652	31,951	769,132	729,877	789,784	761,828
Total expenses	7,968,595	7,779,026	16,710,880	17,131,396	24,679,475	24,910,422
Increase (decrease) in net position before transfers	(509,608)	(619,304)	1,317,166	1,033,987	807,558	414,683
Transfers, net	1,048,663	727,869	(1,048,663)	(727,869)	-	-
Increase in net position	539,055	108,565	268,503	306,118	807,558	414,683
Net position, beginning	4,701,097	9,081,541	5,497,806	6,266,299	10,198,903	15,347,840
Net position, ending	\$ 5,240,152	\$ 9,190,106	\$ 5,766,309	\$ 6,572,417	\$ 11,006,461	\$ 15,762,523

** - Prior year amounts not restated for MD&A purposes.

Governmental activities. Governmental activities increased the City's net position by \$ 539,055. Key elements of this increase are as follows:

- Increase in revenues attributed to grants of \$ 284,125.
- Increase in total revenues of \$ 299,265.
- Increase in net transfers of \$ 320,794.

City of Sallisaw
Governmental Activities
Years Ended June 30, 2015 and 2014

	Program Revenues		Cost of Services	
	2015	2014	2015	2014
		**		**
General government	\$ 7,205	\$ 5,419	\$ 2,070,096	\$ 1,961,542
Public safety	544,477	469,022	2,861,670	2,996,743
Public works	607,086	427,485	2,142,661	1,918,922
Culture and recreation	42,628	37,966	753,516	749,868
Economic development	-	-	120,000	120,000
Interest on long-term debt	-	-	20,652	31,951
Total governmental activities	\$ 1,201,396	\$ 939,892	\$ 7,968,595	\$ 7,779,026

Business-type activities. Business-type activities increased the City's net position by \$ 268,503. The key elements in this increase are:

- Increases in revenues related to charges for services of \$ 122,242.
- Decrease in total expenses of \$ 420,516.
- Decrease in total liabilities of \$ 2,334,857.

City of Sallisaw
Business-Type Activities
Years Ended June 30, 2015 and 2014

	Program Revenues		Cost of Services	
	2015	2014	2015	2014
		**		**
Electric	\$ 10,578,851	\$ 10,699,116	\$ 8,092,557	\$ 8,217,975
Water	1,780,141	1,807,770	2,542,995	2,534,426
Wastewater	750,460	704,041	875,916	826,500
Sanitation	1,168,255	967,539	621,412	615,079
Landfill	1,170,711	1,174,676	858,848	1,071,611
Telecommunications	2,572,267	2,557,919	2,640,489	2,748,599
Administration/other	264,414	233,796	1,078,663	1,117,206
Total business-type activities	<u>\$ 18,285,099</u>	<u>\$ 18,144,857</u>	<u>\$ 16,710,880</u>	<u>\$ 17,131,396</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 \$ 3,898,836, an increase of \$ 86,442 in comparison with the prior year. Approximately 45% of this total amount (\$ 1,752,336) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is restricted to indicate that it is not available for new spending because it has already been spent or is restricted by various outside sources, or committed or assigned 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 \$ 1,752,336. 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 14% of total general fund expenditures and transfers out. General fund revenues of \$ 6,846,799 represented an increase of \$ 144,007 over the prior year, due mainly to an increase in tax revenues of \$ 387,515.

Expenditures of \$ 7,096,451 were \$ 421,004 more than the prior year due to increases in general government expenditures of \$ 202,927 and increases in expenditures related to public safety of \$ 177,602.

The other governmental funds have total fund balances of \$ 2,143,723, all of which is restricted, committed, or assigned. The net decrease in fund balance during the current year in the other governmental funds was \$ 115.

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 \$ (91,450). This was due in part to the implementation of GASB 68 to recognize the Sallisaw Municipal Authority's share of the net pension liability. The total increase in net position was \$ 428,017. Operating revenues showed an increase of \$ 131,323 due to minor increases in the various utility revenues, mainly sanitation revenue.

Operating expenses decreased by \$ 89,578, mainly due to various decreases in daily operations cost of the utility departments, mainly landfill services.

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, resources of \$ 16,524,147 were higher than budgetary estimates by \$ 55,576. This was primarily due to increased tax revenues.

Charges to appropriations of \$ 16,413,180 were \$ 296,055 less than budget appropriations of \$ 16,709,235, due to budget constraints and efforts of city employees to control costs and produce savings.

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, 2015, amounts to \$ 44,013,092 (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 four (4) police pursuit vehicles, \$ 141,087.
- Purchase of three (3) work trucks, total of \$ 92,993.
- Purchase of new meter reading handheld computers, \$ 26,089.
- Purchase of capacitors for the electric system, \$ 41,342.
- Replacement of roof on city building located at Elm and Choctaw, \$ 46,342.
- Relocation of water line on Highway 64 east for future ODOT project, \$ 106,242.

City of Sallisaw
Capital Assets
June 30, 2015 and 2014
(net of depreciation)

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Land and easements	\$ 1,417,612	\$ 1,417,612	\$ 1,286,784	\$ 1,386,784	\$ 2,704,396	\$ 2,804,396
Construction in progress	234,715	214,976	3,404,117	429,595	3,638,832	644,571
Buildings and improvements	944,227	980,396	406,648	1,545,243	1,350,875	2,525,639
Infrastructure and improvements	2,294,062	2,520,938	10,097,047	10,720,418	12,391,109	13,241,356
Equipment and computers	797,104	864,973	1,238,863	1,410,740	2,035,967	2,275,713
Water and sewer facilities	-	-	20,494,286	21,236,404	20,494,286	21,236,404
Vehicles	775,090	720,744	622,538	669,414	1,397,628	1,390,158
Capital assets, net	<u>\$ 6,462,810</u>	<u>\$ 6,719,639</u>	<u>\$ 37,550,283</u>	<u>\$ 37,398,598</u>	<u>\$ 44,013,093</u>	<u>\$ 44,118,237</u>

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

Long-term liabilities. At the end of the current fiscal year, the City had total long-term liabilities of \$ 44,689,682. This represents bonds secured solely by specified revenue sources (i.e., revenue bonds and notes) totaling \$ 37,200,015, other notes payable to banks of \$ 80,826; and \$ 572,321 in capital lease obligations. Other non-current liabilities were the landfill closure and post-closure liability of \$ 1,759,868, net pension liability of \$ 4,620,922, and \$ 455,730 for accrued compensated absences.

The City's total debt decreased \$ 5,181,092 during the current fiscal year. The key factors in this decrease were:

- Reduction of principal on the Series 2009, 2012, and 2014 revenue bonds.
- Final payoff of debt associated with landfill property.
- Selling of facility in the industrial park.

City of Sallisaw
Long-Term Liabilities
June 30, 2015 and 2014

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Capital lease obligations	\$ 572,321	\$ 877,448	\$ -	\$ -	\$ 572,321	\$ 877,448
Revenue bonds	-	-	32,925,000	34,550,000	32,925,000	34,550,000
Notes payable	-	-	4,355,841	5,867,735	4,355,841	5,867,735
Landfill closure & post closure liability	-	-	1,759,868	1,796,985	1,759,868	1,796,985
Accrued compensated absences	455,730	488,313	-	-	455,730	488,313
Net pension liability	3,651,968	-	968,954	-	4,620,922	-
Total outstanding debt	<u>\$ 4,680,019</u>	<u>\$ 1,365,761</u>	<u>\$ 40,009,663</u>	<u>\$ 42,214,720</u>	<u>\$ 44,689,682</u>	<u>\$ 43,580,481</u>

Additional information on the City's long-term liabilities can be found in Note III.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 2016 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:

- City employee compensation and benefits.
- Location and construction of a new animal shelter.
- Operations of the new sports complex.
- Future capital outlays for Highway 59 North utility re-location and North Substation.
- Overall budget and debt service requirements.

Items of note included in the FY 2016 budget include:

- \$ 489,541 in appropriations for on-going lease purchase agreements.
- Street Department, \$ 62,000 for purchase of an asphalt compactor.
- Street Department, \$ 42,000 for a water truck.
- Electric Department, \$ 165,000 for purchase of a mini derrick.
- Funding of approximately \$ 300,000 for the re-location of the leachate lagoon at the landfill facility.

For fiscal year 2016, revenues related to sales tax receipts are expected to show some growth as the economy slowly improves.

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.



Basic Financial Statements

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City of Sallisaw, Oklahoma
Statement of Net Position
June 30, 2015

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 2,449,142	\$ 937,315	\$ 3,386,457
Investments	1,222,471	449,677	1,672,148
Receivables (net of allowance for uncollectibles)	580,036	1,939,665	2,519,701
Internal balances	(135,451)	135,451	-
Prepaid expenses	99,170	-	99,170
Restricted assets:			
Cash and investments	-	4,445,044	4,445,044
Capital assets (net of accumulated depreciation)	6,462,810	37,550,282	44,013,092
Net pension asset	94,004	-	94,004
Total assets	<u>10,772,182</u>	<u>45,457,434</u>	<u>56,229,616</u>
Deferred outflows of resources			
Loss on refunding of debt	-	2,291,061	2,291,061
Deferred amounts related to pensions	644,241	164,016	808,257
Total deferred outflows of resources	<u>644,241</u>	<u>2,455,077</u>	<u>3,099,318</u>
Liabilities			
Accounts payable and accrued liabilities	292,701	773,999	1,066,700
Payable from restricted assets:			
Accrued interest	-	489,808	489,808
Customer deposits	-	668,230	668,230
Long-term liabilities:			
Due within one year	361,791	1,897,908	2,259,699
Due in more than one year	4,412,232	38,111,755	42,523,987
Total liabilities	<u>5,066,724</u>	<u>41,941,700</u>	<u>47,008,424</u>
Deferred inflows of resources			
Deferred amounts related to pensions	1,109,547	204,502	1,314,049
Total deferred inflows of resources	<u>1,109,547</u>	<u>204,502</u>	<u>1,314,049</u>
Net position			
Net investment in capital assets	5,890,489	4,449,533	10,340,022
Restricted for:			
Enabling legislation	774,359	-	774,359
Statutes	487,486	-	487,486
Debt service	-	1,400,510	1,400,510
Contractual agreement	140,009	-	140,009
Unrestricted	(2,052,191)	(83,734)	(2,135,925)
Total net position	<u>\$ 5,240,152</u>	<u>\$ 5,766,309</u>	<u>\$ 11,006,461</u>

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

City of Sallisaw, Oklahoma
Statement of Activities
Year Ended June 30, 2015

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 2,070,096	\$ 7,205	\$ -	\$ -
Public safety	2,861,670	198,564	336,043	9,870
Public works	2,142,661	258,554	-	348,532
Culture and recreation	753,516	35,128	7,500	-
Economic development	120,000	-	-	-
Interest on long-term debt	20,652	-	-	-
Total governmental activities	<u>7,968,595</u>	<u>499,451</u>	<u>343,543</u>	<u>358,402</u>
Business-type activities:				
Administration	87,614	246,414	-	-
Electric	8,092,557	10,578,851	-	-
Water	2,542,995	1,780,141	-	-
Wastewater	875,916	750,460	-	-
Landfill	858,848	1,170,711	-	-
Sanitation	621,412	1,168,255	-	-
Telecommunications	2,640,489	2,572,267	-	-
Economic development	309,531	-	18,000	-
Other	681,518	-	-	-
Total business-type activities	<u>16,710,880</u>	<u>18,267,099</u>	<u>18,000</u>	<u>-</u>
Total primary government	<u>\$ 24,679,475</u>	<u>\$ 18,766,550</u>	<u>\$ 361,543</u>	<u>\$ 358,402</u>

General revenues:

Taxes:

Sales and use

Franchise

Other

Interest income

Miscellaneous

Gain (loss) on disposition of assets

Transfers – internal activity

Total general revenues and transfers

Change in net position

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
\$ (2,062,891)	\$ -	\$ (2,062,891)
(2,317,193)	-	(2,317,193)
(1,535,575)	-	(1,535,575)
(710,888)	-	(710,888)
(120,000)	-	(120,000)
(20,652)	-	(20,652)
<u>(6,767,199)</u>	<u>-</u>	<u>(6,767,199)</u>
-	158,800	158,800
-	2,486,294	2,486,294
-	(762,854)	(762,854)
-	(125,456)	(125,456)
-	311,863	311,863
-	546,843	546,843
-	(68,222)	(68,222)
-	(291,531)	(291,531)
-	(681,518)	(681,518)
<u>-</u>	<u>1,574,219</u>	<u>1,574,219</u>
<u>(6,767,199)</u>	<u>1,574,219</u>	<u>(5,192,980)</u>
5,680,876	-	5,680,876
135,373	-	135,373
350,711	-	350,711
5,269	753	6,022
93,937	4,456	98,393
(8,575)	(262,262)	(270,837)
<u>1,048,663</u>	<u>(1,048,663)</u>	<u>-</u>
<u>7,306,254</u>	<u>(1,305,716)</u>	<u>6,000,538</u>
539,055	268,503	807,558
<u>4,701,097</u>	<u>5,497,806</u>	<u>10,198,903</u>
<u>\$ 5,240,152</u>	<u>\$ 5,766,309</u>	<u>\$ 11,006,461</u>

City of Sallisaw, Oklahoma
Fund Balance Sheet
Governmental Funds
June 30, 2015

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 593,625	\$ 1,855,517	\$ 2,449,142
Investments	992,875	229,596	1,222,471
Receivables:			
Accounts	22,628	-	22,628
Taxes	517,304	6,379	523,683
Due from other governments	-	8,992	8,992
Municipal court fines	24,453	-	24,453
Accrued interest	162	118	280
Due from other funds	283,888	72,042	355,930
Prepaid expenses	99,170	-	99,170
Total assets	<u>\$ 2,534,105</u>	<u>\$ 2,172,644</u>	<u>\$ 4,706,749</u>
 Liabilities, deferred inflows and fund balances:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 263,780	\$ 28,921	\$ 292,701
Due to other funds	491,380	-	491,380
Total liabilities	<u>755,160</u>	<u>28,921</u>	<u>784,081</u>
Deferred inflows of resources:			
Unearned revenue	23,832	-	23,832
Total deferred inflows of resources	<u>23,832</u>	<u>-</u>	<u>23,832</u>
Fund balances:			
Nonspendable	-	-	-
Restricted	-	627,495	627,495
Committed	2,777	259,649	262,426
Assigned	-	1,256,579	1,256,579
Unassigned	1,752,336	-	1,752,336
Total fund balances	<u>1,755,113</u>	<u>2,143,723</u>	<u>3,898,836</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,534,105</u>	<u>\$ 2,172,644</u>	<u>\$ 4,706,749</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, 2015

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 5,991,537	\$ -	\$ 5,991,537
Licenses and permits	42,414	-	42,414
Intergovernmental	252,520	613,263	865,783
Fines and forfeitures	189,186	-	189,186
Charges for services	238,033	29,819	267,852
Other	129,440	6,000	135,440
Interest	3,669	1,599	5,268
Total revenues	<u>6,846,799</u>	<u>650,681</u>	<u>7,497,480</u>
Expenditures			
General government	2,074,281	-	2,074,281
Public safety	2,815,421	174,250	2,989,671
Public works	1,362,174	6,587	1,368,761
Culture and recreation	709,893	7,604	717,497
Economic development	120,000	-	120,000
Debt service:			
Principal	-	451,010	451,010
Interest	-	20,652	20,652
Capital outlay	14,682	849,030	863,712
Total expenditures	<u>7,096,451</u>	<u>1,509,133</u>	<u>8,605,584</u>
Excess of revenues over (under) expenditures	(249,652)	(858,452)	(1,108,104)
Other financing sources (uses)			
Proceeds from capital lease obligations	-	145,883	145,883
Transfers in	6,153,370	1,178,641	7,332,011
Transfers out	(5,817,161)	(466,187)	(6,283,348)
Total other financing sources (uses)	<u>336,209</u>	<u>858,337</u>	<u>1,194,546</u>
Net change in fund balances	86,557	(115)	86,442
Fund balances, beginning	<u>1,668,556</u>	<u>2,143,838</u>	<u>3,812,394</u>
Fund balances, ending	<u>\$ 1,755,113</u>	<u>\$ 2,143,723</u>	<u>\$ 3,898,836</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, 2015

Total fund balance - governmental funds	\$ 3,898,836
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,462,810
Long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:	
Unearned revenue	23,832
Pension related deferred outflows	644,241
Net pension asset	94,004
Long-term liabilities are not due and payable in the current period and therefore are not reported in funds:	
Capital lease obligations	(572,321)
Accrued compensated absences	(455,730)
Net pension liability	(3,745,972)
Pension related deferred inflows	(1,109,547)
Net position of governmental activities	<u><u>\$ 5,240,153</u></u>
Net change in fund balances – total governmental funds	\$ 86,442
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 capitalized	340,921
Depreciation expense	(589,177)
Net book value of disposals	(8,575)
In the statement of activities, the cost of pension benefits earned net of employee contributions is reported as an element of pension expense. The fund financial statements report pension contributions as expenditures.	401,649
Revenues in the fund financial statements that are not reported as revenues in the statement of activities:	
On-behalf pension revenues	(29,915)
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	(145,883)
Capital lease principal payments	451,010
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	32,583
Change in net position of governmental activities	<u><u>\$ 539,055</u></u>

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

City of Sallisaw, Oklahoma
Statement of Net Position
Proprietary Funds
June 30, 2015

	Enterprise Funds		Totals
	Sallisaw Municipal Authority	Nonmajor Enterprise Funds	
Assets			
Cash and cash equivalents	\$ 929,599	\$ 7,716	\$ 937,315
Investments	449,677	-	449,677
Receivables:			
Accounts (net of allowance for uncollectibles)	1,939,320	-	1,939,320
Accrued interest	345	-	345
Due from other funds	533,170	-	533,170
Restricted assets:			
Cash and investments	4,445,044	-	4,445,044
Capital assets (net of accumulated depreciation)	37,550,282	-	37,550,282
Total assets	<u>45,847,437</u>	<u>7,716</u>	<u>45,855,153</u>
Deferred outflows of resources			
Loss on refunding of debt	2,291,061	-	2,291,061
Deferred amounts related to pensions	164,016	-	164,016
Total deferred outflows of resources	<u>2,455,077</u>	<u>-</u>	<u>2,455,077</u>
Liabilities			
Accounts payable and accrued liabilities	773,999	-	773,999
Payable from restricted assets:			
Accrued interest payable	489,808	-	489,808
Customer deposits	668,230	-	668,230
Due to other funds	397,719	-	397,719
Noncurrent liabilities:			
Due within one year	1,897,908	-	1,897,908
Due in more than one year	38,111,755	-	38,111,755
Total liabilities	<u>42,339,419</u>	<u>-</u>	<u>42,339,419</u>
Deferred inflows of resources			
Deferred amounts related to pensions	204,502	-	204,502
Total deferred inflows of resources	<u>204,502</u>	<u>-</u>	<u>204,502</u>
Net position			
Net investment in capital assets	4,449,533	-	4,449,533
Restricted:			
Expendable	1,400,510	-	1,400,510
Unrestricted	(91,450)	7,716	(83,734)
Total net position	<u>\$ 5,758,593</u>	<u>\$ 7,716</u>	<u>\$ 5,766,309</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, 2015

	Enterprise Funds		Totals
	Sallisaw Municipal Authority	Nonmajor Enterprise Funds	
Operating revenues			
Charges for services:			
Electric	\$ 10,578,851	\$ -	\$ 10,578,851
Water	1,780,141	-	1,780,141
Wastewater	750,460	-	750,460
Landfill	1,170,711	-	1,170,711
Sanitation	1,168,255	-	1,168,255
Telecommunications	2,572,267	-	2,572,267
Other	247,743	18,000	265,743
Total operating revenues	<u>18,268,428</u>	<u>18,000</u>	<u>18,286,428</u>
Operating expenses			
Administration	87,614	-	87,614
Electric	7,938,367	-	7,938,367
Water	729,818	-	729,818
Wastewater	602,539	-	602,539
Landfill	507,918	-	507,918
Sanitation	550,615	-	550,615
Telecommunications	2,034,730	-	2,034,730
Economic development	-	11,225	11,225
Depreciation	1,803,212	-	1,803,212
Bad debt expense	381,373	-	381,373
Total operating expenses	<u>14,636,186</u>	<u>11,225</u>	<u>14,647,411</u>
Net operating income (loss)	3,632,242	6,775	3,639,017
Nonoperating revenues (expenses)			
Miscellaneous revenues	-	263,760	263,760
Interest income	753	-	753
Gain (loss) on disposal of assets	(127,392)	(395,503)	(522,895)
Interest expense and fiscal charges	(1,347,405)	(34,546)	(1,381,951)
Payments to hospital	(681,518)	-	(681,518)
Total nonoperating revenues (expenses)	<u>(2,155,562)</u>	<u>(166,289)</u>	<u>(2,321,851)</u>
Operating transfers			
Transfers in	7,837,682	-	7,837,682
Transfers (out)	(8,886,345)	-	(8,886,345)
Total operating transfers	<u>(1,048,663)</u>	<u>-</u>	<u>(1,048,663)</u>
Net income (loss)	428,017	(159,514)	268,503
Net position, beginning, restated	<u>5,330,576</u>	<u>167,230</u>	<u>5,497,806</u>
Net position, ending	<u>\$ 5,758,593</u>	<u>\$ 7,716</u>	<u>\$ 5,766,309</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, 2015

	Enterprise Funds		Totals
	Sallisaw Municipal Authority	Nonmajor Enterprise Funds	
Cash flows from operating activities			
Net operating income (loss)	\$ 3,632,242	\$ 6,775	\$ 3,639,017
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	1,803,212	-	1,803,212
(Increase) decrease in assets:			
Accounts receivable and accrued liabilities	(65,304)	-	(65,304)
Increase (decrease) in liabilities:			
Accounts payable	(125,630)	-	(125,630)
Customer deposits	14,446	-	14,446
Accrued landfill closure costs	(37,117)	-	(37,117)
Pension liability	(65,171)	-	(65,171)
Net cash provided (used) by operating activities	<u>5,156,678</u>	<u>6,775</u>	<u>5,163,453</u>
Cash flows from noncapital financing activities			
(Increase) decrease in interfund receivables/payables	(32,472)	-	(32,472)
(Increase) decrease in notes receivable	208,760	-	208,760
Miscellaneous revenues/ (expenses)	(681,518)	3,127	(678,391)
Operating transfers in (out)	(1,048,663)	-	(1,048,663)
Net cash provided (used) by noncapital financing activities	<u>(1,553,893)</u>	<u>3,127</u>	<u>(1,550,766)</u>
Cash flows from capital and related financing activities			
Forgiveness of debt	-	263,760	263,760
Principal paid on long-term debt	(1,875,798)	(1,261,097)	(3,136,895)
Interest expense and fiscal charges	(1,366,022)	(34,546)	(1,400,568)
(Increase) decrease in restricted assets	3,135,746	-	3,135,746
(Acquisition) disposition of capital assets	(3,303,236)	949,707	(2,353,529)
Net cash provided (used) by capital and related financing activities	<u>(3,409,310)</u>	<u>(82,176)</u>	<u>(3,491,486)</u>
Cash flows from investing activities			
(Increase) decrease in investments	(1,054)	-	(1,054)
Interest income	753	-	753
Net cash provided (used) by investing activities	<u>(301)</u>	<u>-</u>	<u>(301)</u>
Net increase (decrease) in cash and cash equivalents	193,174	(72,274)	120,900
Cash and cash equivalents, beginning	<u>736,425</u>	<u>79,990</u>	<u>816,415</u>
Cash and cash equivalents, ending	<u>\$ 929,599</u>	<u>\$ 7,716</u>	<u>\$ 937,315</u>

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

City of Sallisaw, Oklahoma
Notes to Financial Statements
June 30, 2015

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 units, entities 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. In determining the financial reporting entity, the City follows the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, "The Financial Reporting Entity: Omnibus," and includes all component units for which the City is financially accountable.

Blended component units. The Sallisaw Municipal Authority (SMA) was created as a public trust pursuant to Title 60 of the Oklahoma Statutes to finance, develop, and operate the electric, water, wastewater, solid waste, and telecommunications activities of the City. SMA 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. SMA does not issue separate financial statements.

The Sallisaw Economic Authority (SEA) and Sallisaw Industrial Finance Authority (SIFA) were also created as public trusts pursuant to Title 60 of the Oklahoma Statutes to finance and pursue economic development activities within the City of Sallisaw. The City Commissioners serve on the boards of each entity. Both SEA and SIFA are reported as nonmajor enterprise funds in the accompanying financial statements.

The Sallisaw Library Trust Authority was organized as a public trust to help promote the library system in the City.

B. Government-wide and fund financial statements

1. Government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. 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.

2. Fund financial statements

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.

The City reports the following major governmental funds:

General Fund – 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.

Capital Improvements Fund – The capital improvements fund accounts for all financial resources, including transfers from other funds, to be used for capital outlay expenditures, and debt service payments on the City’s capital lease obligation debt.

The City reports the following major proprietary funds:

Sallisaw Municipal Authority – SMA accounts for the revenues generated by the City’s utility systems and the expenditures related to the operations and financing of such utilities. This includes the electric, water, wastewater, landfill, sanitation, and telecommunication services.

The City reports no fiduciary activities.

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured, such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary 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.

In proprietary funds, operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services in connection with the principle ongoing operations of the fund. All revenues and expenses not meeting this definition are reported as non-operating items.

Non-exchange transactions, in which the City receives (or gives) value without directly giving (or receiving) equal value in exchange, include sales, use, and other taxes; grants and donations. Recognition standards are based on the characteristics and classes on non-exchange transactions. Sales, use, and other taxes, franchise fees, licenses and permits, and fines and forfeitures are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Grants, entitlements, and donations are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as deferred revenue.

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. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments are recorded only when payment is due.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oklahoma Police Pension and Retirement System (OPPRS) and the Oklahoma Firefighters’ Pension and Retirement System (OFPRS) and additions to /deductions from OPPRS and OFPRS fiduciary net position have been determined on the same basis as they are reported by OPPRS and OFPRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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. New accounting pronouncements

The Governmental Accounting Standards Board (GASB) has issued several new accounting pronouncements, which will be effective in the current and subsequent years. The following is a description of the new accounting pronouncements and the fiscal year they are effective.

Fiscal Year Ended June 30, 2015:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The purpose of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. The City of Sallisaw made adjustments to decrease its beginning net position by \$ 5,563,621 as a result of implementing this standard.

GASB Statement No. 69, *Government Combinations and Disposals of Operations*. The purpose of GASB 69 is to improve accounting and financial reporting for state and local government combinations and disposals of government operations. This pronouncement had no effect on the financial statements of the City.

GASB Statement No. 71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date*. The purpose of GASB 71 is to improve financial accounting and reporting by addressing an issue regarding application of GASB 68 concerning transition provisions related to certain pension contributions made to defined benefit plans prior to implementation of GASB 68 by employers and non-employer contributing entities. This pronouncement had no effect on the financial statements of the City.

Fiscal Year Ending June 30, 2016:

GASB Statement No. 72, *Fair Value Measurement and Application*. The purpose of GASB 72 is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurement.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The purpose of GASB 73 is to improve the usefulness of information about pensions included in external financial reports of state and local governments for making decisions and assessing accountability.

GASB Statement No 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of GASB 76 is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles.

Fiscal Year Ending June 30, 2017:

GASB Statement No 74, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*. The purpose of GASB 74 is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

Fiscal Year Ending June 30, 2018:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The purpose of GASB 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions.

E. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from these estimates.

F. Assets, liabilities, and net position 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.

City policy is that deposits can only be made in financial institutions insured by the Federal Deposit Insurance Corporation. The City invests its funds in an effort to ensure preservation of capital, remain sufficiently liquid and attain a reasonable market rate of return, while remaining within the guidelines as provided by the City's investment policy.

Investments for the City, as well as for its component units, 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."

Receivables in governmental funds and governmental activities include tax accruals and intergovernmental revenues such as grant requests, since they are both measurable and available. Revenue from non-exchange transactions collectible but not available are deferred.

Proprietary fund and business-type activities receivables include revenues earned at year end but not yet received. Utility accounts receivable, both billed and unbilled, comprise the majority of the receivables.

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. The cost of prepaid items is recorded as expense/expenditures when consumed rather than when purchased.

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. Funds received from utility customers for water meter deposits are maintained in separate accounts and held for refund to the customer upon their discontinuance of service, provided all outstanding balances are paid.

5. *Capital assets*

Capital assets, which include property, plant, equipment and vehicles, 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the asset constructed.

Property, plant, and equipment of the primary government, as well as the component units, 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*

All full-time City employees earn vacation at varying rates depending upon years of eligible service. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Vacation leave which is unused and vested to the employee in good standing, is payable upon termination. Except as described below, employees are not compensated for unused sick leave upon their termination of employment. In governmental funds, amounts accrued are expected to be liquidated with available financial resources and are reported as an expenditure. For governmental activities, compensated absences are generally liquidated by the general fund.

Full-time employees with at least one year of service earn vacation of five (5) to twenty (20) days per year depending on years of service completed. Employees may carry over up to 480 hours of unused vacation. Full-time employees are granted sick leave at a rate of 4.615 hours per pay period, with no limitation on the amount that can be accrued or carried over. Upon

retirement, employees will be compensated for hours accrued in excess of 1,000 hours, 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.

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 position. Debt premiums and discounts 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.

8. Fund balances and net position

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* – consists of net position 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 position that does not meet the definitions of “net investment in capital assets” or “restricted”.

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

10. 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 re-appropriated and honored during the subsequent year.

III. Detailed notes on all funds

A. Deposits and investments

Deposits

The City’s carrying amount of deposits was \$ 3,558,001 as of June 30, 2015, and the bank balances totaled \$ 3,587,766. 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, 2015, none of the City’s bank balances of \$ 3,587,766 was exposed to custodial credit risk.

Investments

As of June 30, 2015, the City had the following investments.

Investment	Maturities	Fair Value
Certificates of deposit	< 182 days	\$ 2,161,032
U.S. Treasury Mutual Funds	n/a	3,779,318
Total		<u>\$ 5,940,350</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, 2015, 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 64 % and 36 %, respectively, of the City's total investments.

B. Receivables

Receivables as of June 30, 2015, 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	\$ 517,304	\$ 6,379	\$ -	\$ 523,683
Accounts	22,628	-	2,045,884	2,068,512
Due from other governments	-	8,992	-	8,992
Accrued interest	162	118	345	625
Municipal court fines	30,566	-	-	30,566
Gross receivables	570,660	15,489	2,046,229	2,632,378
Less: allowance for uncollectibles	(6,113)	-	(106,564)	(112,677)
Net total receivables	<u>\$ 564,547</u>	<u>\$ 15,489</u>	<u>\$ 1,939,665</u>	<u>\$ 2,519,701</u>

C. Restricted cash and investments

The Sallisaw Municipal Authority Revenue Bonds Series 2009, the Sallisaw Municipal Authority Utility System Refunding Revenue Bonds, Series 2014, 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, 2015:

	Enterprise Funds Sallisaw Municipal Authority				Meter Deposit Fund	Total
	Series 2009 Revenue Bonds	Series 2010 OWRB Note	Series 2012 Revenue Bonds	Series 2014 Revenue Bonds		
Restricted assets:						
Sinking fund	\$ 337,586	\$ 119,286	\$ 867,022	\$ 566,424	\$ -	\$ 1,890,318
Construction fund	346,158	-	-	1,542,843	-	1,889,001
Customer deposits	-	-	-	-	665,725	665,725
Total restricted assets	<u>\$ 683,744</u>	<u>\$ 119,286</u>	<u>\$ 867,022</u>	<u>\$ 2,109,267</u>	<u>\$ 665,725</u>	<u>\$ 4,445,044</u>

D. Capital assets

Capital asset balances and activities for the year ended June 30, 2015, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,417,612	\$ -	\$ -	\$ 1,417,612
Construction in progress	214,976	19,739	-	234,715
Total capital assets, not being depreciated	<u>1,632,588</u>	<u>19,739</u>	<u>-</u>	<u>1,652,327</u>
Capital assets, being depreciated:				
Buildings and improvements	2,688,689	46,342	-	2,735,031
Infrastructure and other improvements	4,494,189	-	-	4,494,189
Equipment and computers	2,564,297	66,812	(40,266)	2,590,843
Vehicles	2,939,226	208,028	(253,836)	2,893,418
Total capital assets, being depreciated	<u>12,686,401</u>	<u>321,182</u>	<u>(294,102)</u>	<u>12,713,481</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,708,293)	(82,511)	-	(1,790,804)
Infrastructure and other improvements	(1,973,252)	(226,875)	-	(2,200,127)
Equipment and computers	(1,699,324)	(134,681)	40,266	(1,793,739)
Vehicles	(2,218,483)	(145,110)	245,265	(2,118,328)
Total accumulated depreciation	<u>(7,599,352)</u>	<u>(589,177)</u>	<u>285,531</u>	<u>(7,902,998)</u>
Total capital assets, being depreciated, net	<u>5,087,049</u>	<u>(267,995)</u>	<u>(8,571)</u>	<u>4,810,483</u>
Governmental activities capital assets, net	<u>\$ 6,719,637</u>	<u>\$ (248,256)</u>	<u>\$ (8,571)</u>	<u>\$ 6,462,810</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land and easements	\$ 1,386,784	\$ -	\$ (100,000)	\$ 1,286,784
Construction in progress	429,595	2,987,082	(12,560)	3,404,117
Total capital assets, not being depreciated	<u>1,816,379</u>	<u>2,987,082</u>	<u>(112,560)</u>	<u>4,690,901</u>
Capital assets, being depreciated:				
Buildings and improvements	2,296,359	-	(1,374,480)	921,879
Infrastructure and other improvements	17,351,698	222,158	(176,976)	17,396,880
Water and sewer treatment facilities	28,270,904	22,554	-	28,293,458
Equipment	2,934,768	57,001	(52,549)	2,939,220
Vehicles	2,060,263	52,553	(26,561)	2,086,255
Total capital assets, being depreciated	<u>52,913,992</u>	<u>354,266</u>	<u>(1,630,566)</u>	<u>51,637,692</u>
Less accumulated depreciation for:				
Buildings and improvements	(751,115)	(31,734)	267,618	(515,231)
Infrastructure and other improvements	(6,631,264)	(704,072)	35,503	(7,299,833)
Water and sewer treatment facilities	(7,037,522)	(759,300)	(2,350)	(7,799,172)
Equipment	(1,524,026)	(208,676)	32,345	(1,700,357)
Vehicles	(1,390,849)	(99,429)	26,561	(1,463,717)
Total accumulated depreciation	<u>(17,334,776)</u>	<u>(1,803,211)</u>	<u>359,677</u>	<u>(18,778,310)</u>
Total capital assets, being depreciated, net	<u>35,579,216</u>	<u>(1,448,945)</u>	<u>(1,270,889)</u>	<u>32,859,382</u>
Business-type activities capital assets, net	<u>\$ 37,395,595</u>	<u>\$ 1,538,137</u>	<u>\$ (1,383,449)</u>	<u>\$ 37,550,283</u>

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

Governmental activities:	
General government	\$ 49,482
Public safety	146,741
Public works	348,220
Cultural and recreation	44,734
Total depreciation expense – governmental activities	<u>\$ 589,177</u>
Business-type activities:	
Electric	\$ 94,258
Water	731,415
Wastewater	269,090
Landfill	344,281
Sanitation	64,235
Telecommunications	299,932
Total depreciation expense – business-type activities	<u>\$ 1,803,211</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, 2015, cash and investments included \$ 665,725 available for refund of customer deposits, while the liability to customers was \$ 668,230.

F. Non-current liabilities

Governmental activities

Compensated absences	\$ 455,730
Net pension liability (asset)	<u>3,651,968</u>

Capital Leases

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

Armstrong Bank dated December 1, 2011, in the amount of \$ 689,000, payable in monthly installments of \$ 12,683 including interest at 3.89% for two (2) landfill compactors.	207,714
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.	13,597
National Bank of Sallisaw dated August 28, 2013, in the amount of \$ 167,689, payable in monthly installments of \$ 4,798 including interest at 1.95% for an electric bucket truck.	66,268
National Bank of Sallisaw dated October 22, 2013, in the amount of \$ 204,971, payable in monthly installments of \$ 5,881 including interest at 2.15% for a front load sanitation truck.	92,673
National Bank of Sallisaw dated May 29, 2014, in the amount of \$ 83,600, payable in monthly installments of \$ 2,391 including interest at 1.95% for a tractor and flail mower.	53,948
National Bank of Sallisaw dated April 6, 2015, in the amount of \$ 145,883, payable in monthly installments of \$ 4,199 including interest for five (5) vehicles.	<u>138,121</u>
Total capital lease obligations	572,321
Total governmental activities	<u>\$ 4,680,019</u>

Business-type activities

Sallisaw Municipal Authority

Landfill closure and post-closure liability	\$ 1,759,868
Net pension liability	<u>968,954</u>

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.	6,665,000
\$ 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.	18,985,000
\$ 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.	1,980,000
\$ 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
\$ 5,325,000 Sallisaw Municipal Authority Sales Tax Revenue Bonds, Series 2014, due annually in amounts from \$ 500,000 to \$ 585,000 plus semi-annual interest of 4.00% with final maturity at August 1, 2023, secured by ½ cent sales tax, proceeds used for construction of sports complex.	4,825,000
Total revenue bonds	<u>32,925,000</u>

Notes payable:

Note payable to the National Bank of Sallisaw, dated June 24, 2014, in the amount of \$ 120,000, due and payable in monthly installments of \$ 3,446 including interest at 2.19% secured by the sports complex property.	80,826
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.	<u>4,275,015</u>
Total notes payable	<u>4,355,841</u>
Total business-type activities	<u>40,009,663</u>
Total non-current liabilities	<u>\$ 44,689,682</u>

Non-current liabilities transactions for the year ended June 30, 2015, and changes therein were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities					
Compensated absences	\$ 488,313	\$ -	\$ (32,583)	\$ 455,730	\$ -
Net pension liability (asset)	5,064,932	-	(1,412,964)	3,651,968	-
Capital leases	877,448	145,883	(451,010)	572,321	361,791
Total governmental activities	<u>6,430,693</u>	<u>145,883</u>	<u>(1,896,557)</u>	<u>4,680,019</u>	<u>361,791</u>
Business-type activities					
Landfill closure & post-closure liability	1,796,985	-	(37,117)	1,759,868	-
Net pension liability	1,225,361	-	(256,407)	968,954	-
Revenue bonds:					
Series 2009	7,065,000	-	(400,000)	6,665,000	410,000
Series 2012A	19,200,000	-	(215,000)	18,985,000	215,000
Series 2012B	2,460,000	-	(480,000)	1,980,000	485,000
Series 2012C	470,000	-	-	470,000	30,000
Series 2012D	30,000	-	(30,000)	-	-
Series 2014	5,325,000	-	(500,000)	4,825,000	500,000
Notes payable:					
National Bank of Sallisaw	120,000	-	(39,174)	80,826	39,981
OWRB	4,486,638	-	(211,623)	4,275,015	217,927
Sallisaw Improvement Corporation	43,352	-	(43,352)	-	-
Sallisaw Municipal Authority	208,760	55,000	(263,760)	-	-
Firststar Bank of Sallisaw	841,761	-	(841,761)	-	-
CDBG/EDIF	167,224	-	(167,224)	-	-
Total business-type activities	<u>43,440,081</u>	<u>55,000</u>	<u>(3,485,418)</u>	<u>40,009,663</u>	<u>1,897,908</u>
Total long-term debt	<u>\$ 49,870,774</u>	<u>\$ 200,883</u>	<u>\$ (5,381,975)</u>	<u>\$ 44,689,682</u>	<u>\$ 2,259,699</u>

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

Year Ending June 30,	Governmental Activities	
	Capital Leases	
	Principal	Interest
2016	\$ 361,791	\$ 11,136
2017	168,946	2,535
2018	41,584	440
2019	-	-
2020	-	-
Totals	<u>\$ 572,321</u>	<u>\$ 14,111</u>

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
2016	\$ 1,640,000	\$ 1,176,073	\$ 257,909	\$ 133,557
2017	1,675,000	1,136,009	265,986	125,459
2018	1,705,000	1,092,771	232,228	117,886
2019	1,745,000	1,048,153	239,536	110,578
2020	1,790,000	995,049	246,798	103,316
2021–2025	9,340,000	3,918,271	1,356,784	393,787
2026–2030	7,120,000	2,248,547	1,584,255	166,316
2031–2035	6,455,000	959,555	172,344	2,713
2036–2040	1,455,000	29,100	-	-
Totals	<u>\$ 32,925,000</u>	<u>\$ 12,603,528</u>	<u>\$ 4,355,840</u>	<u>\$ 1,153,612</u>

G. Defeased debt

On June 1, 2012, 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. Compensated absences

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>\$ 455,730</u>

I. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2015, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General fund	Sallisaw Municipal Authority	\$ 283,887
Nonmajor governmental	Sallisaw Municipal Authority	56,916
Nonmajor governmental	General fund	15,126
Sallisaw Municipal Authority	General fund	476,254
Sallisaw water projects fund	Sallisaw Municipal Authority	56,916
Total		<u>\$ 889,099</u>

Interfund transactions:

	Transfers Out			Totals
	General Fund	Nonmajor Governmental	Sallisaw Municipal Authority	
Transfer in:				
General fund	\$ -	\$ -	\$ 6,153,370	\$ 6,153,370
Nonmajor governmental	109,785	187,399	881,458	1,178,642
Sallisaw Municipal Authority	5,707,375	278,789	-	5,986,164
SMA Water Projects	-	-	1,851,517	1,851,517
Totals	<u>\$ 5,817,160</u>	<u>\$ 466,188</u>	<u>\$ 8,886,345</u>	<u>\$ 15,169,693</u>

J. Landfill closure and post-closure liability

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

The \$ 1,759,868 reported as other noncurrent liabilities for the accrued landfill closure cost liability as of June 30, 2015, represents the cumulative amount of such cost reported to date based on the use of approximately 61.00 % 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 \$ 1,125,161 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 2015. 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, 2015, are as follows:

Estimated closure costs	\$ 1,287,145
Estimated post-closure costs	1,597,884
Total estimated costs	<u>2,885,029</u>
Accrued closure costs	1,759,868
Current estimated costs charged to expense	<u>\$ (37,117)</u>

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

IV. Revenues, expenditures and expenses

A. Sales tax

The sales tax rate in the City of Sallisaw is 9.917%. The State of Oklahoma receives 4.50%, Sequoyah County 1.417% and the City of Sallisaw 4.00%. The 4.00% for the City of Sallisaw is broken down as follows:

- 1.00% remains in the General Fund to fund City operations.
- 1.00% is transferred to the Sallisaw Municipal Authority for operations.
- 0.50% is transferred to the Sallisaw Municipal Authority for debt service on water projects.
- 0.50% is transferred to the Sallisaw Municipal Authority for debt service on the sports complex.
- 0.50% is transferred to the Capital improvements fund for capital outlay and debt service.
- 0.50% is transferred to the Sallisaw hospital.

The use tax mirrors the sales tax rate and applies to purchases by a resident or business in Sallisaw for the use, storage or consumption of goods in Oklahoma that were purchased outside of the state. All the use tax goes to the general fund.

V. 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. Employee retirement systems and pension plans

The City participates in four employee pension systems as follows:

Name of Plan/System	Type of Plan
Oklahoma Police Pension and Retirement Fund	Cost Sharing Multiple Employer – Defined Benefit Plan
Oklahoma Firefighters Pension and Retirement Fund	Cost Sharing Multiple Employer – Defined Benefit Plan
Oklahoma Municipal Retirement Fund	Agent Multiple Employer – Defined Benefit Plan
ICMA Section 457 Deferred Compensation Plan	Single Employer Deferred Compensation Plan

Cost Sharing Multiple Employer – Defined Benefit Plans:

Oklahoma Police Pension and Retirement System (OPPRS)

Plan Description – The City of Sallisaw, as the employer, participates in the Oklahoma Police Pension and Retirement Plan, a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Police Pension and Retirement System (OPPRS). Title 11 of the Oklahoma State Statutes, through the Oklahoma Legislature, grants the authority to establish and amend the benefit terms to the OPPRS. OPPRS issues a publicly available financial report that can be obtained at www.ok.gov/OPPRS

Benefits Provided – The OPPRS provides retirement, death and disability benefits to plan members and beneficiaries. The normal retirement date under the Plan is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service as a contributing participant of the Plan. No vesting occurs prior to completing 10 years of credited service. Participants' contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed 10 years of credited service may elect a vested benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the participant is entitled to a monthly retirement benefit commencing on the date the participant reaches 50 years of age or the date the participant would have had 20 years of credited service had employment continued uninterrupted, whichever is first.

Monthly retirement benefits are calculated at 2.5% of the final average salary (defined as the average paid base salary of the officer over the highest 30 consecutive months of the last 60 months of credited service) multiplied by the years of credited service, with a maximum of 30 years of credited service considered.

Monthly benefits for participants due to permanent disability incurred in the line of duty are 2.5% of the participants' final average salary multiplied by 20 years. This disability benefit is reduced by stated percentages for partial disability based on the percentage of impairment. After 10 years of credited service, participants who retire due to disability incurred from any cause are eligible for a monthly benefit based on 2.5% of their final average salary multiplied by the years of service. This disability benefit is also reduced by stated percentages for partial disability based on the percentage of impairment. Effective July 1, 1998, once a disability benefit is granted to a participant, that participant is no longer allowed to apply for an increase in the dollar amount of the benefit at a subsequent date.

Survivor's benefits are payable in full to the participant's beneficiary upon the death of a retired participant. The beneficiary of any active participant killed in the line of duty is entitled to a pension benefit.

Contributions – The contribution requirements of plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. 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. Contributions to the OPPRS for the year ended June 30, 2015, for employees and employer were \$ 63,246 and \$ 102,775, respectively, on covered payroll of \$ 790,576. The State of Oklahoma made on-behalf payments to OPPRS totaling \$ 101,169 during the year. These on-behalf payments were recognized as both revenue and expense in the accompanying general fund statement of revenues, expenditures, and changes in fund balance. In the government-wide financial statements, revenue is recognized for the State's on-behalf contributions on an accrual basis totaling \$ 87,625. These on-behalf payments did not meet the criteria of a special funding situation.

Pension liabilities, pension expense, and deferred outflows and inflows of resources related to pensions – As of June 30, 2015, the City reported an asset of \$ 94,004 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2014. The City’s proportion of the net pension asset was based on the City’s contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2014. Based upon this information, the City’s proportionate share was 0.2792 percent.

For the year ended June 30, 2015, the City recognized \$ 34,456 in pension expense. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 42,233
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	330,408
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	105,424	-
Total	<u>\$ 105,424</u>	<u>\$ 372,641</u>

Amortization of Pension Deferrals – \$ 105,424 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Amounts reported as deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30,	
2016	\$ (74,529)
2017	(74,528)
2018	(74,528)
2019	(74,528)
2020	(74,528)
	<u>\$ (372,641)</u>

Actuarial assumptions: - The total pension liability was determined by an actuarial valuation as of July 1, 2015 actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	3 %
Salary increases:	4.5 % to 17% average, including inflations
Investment rate of return:	7.5 % net of pension plan investment expense
Mortality rates:	Active employees (pre-retirement): RP-2000 Blue Collar Healthy Combined table with age set back 4 years with fully generational improvement using scale AA. Active employees (post-retirement) and nondisabled pensioners: RP-2000 Blue Collar Healthy Combined table with fully generational improvement using scale AA Disabled pensioners: RP-2000 Blue Collar Healthy Combined table with age set forward 4 years with fully generational improvement using Scale AA.

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	2.83%
Domestic equity	6.47%
International equity	6.98%
Real estate	5.50%
Private equity	5.96%
Commodities	3.08%

The current allocation policy is that approximately 60% of assets are in equity investments, including public equity, long-short hedge, venture capital, and private equity strategies; approximately 25% of assets are in fixed income, to include investment grade bonds, high-yield and non-dollar denominated bonds, convertible bonds, and low volatility hedge fund strategies; and 15% of assets are in real assets, to include real estate, commodities and other strategies.

Discount rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the City will be made at contractually required rates, determined by Oklahoma Statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 14% of the insurance premium, as established by statute. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the City, calculated using the discount rate of 7.5%, as well as what the plan’s net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City’s net pension liability (asset)	\$ 559,307	(94,004)	(644,599)

Payables to the Pension Plan – There are no payables to the pension plan for the year ended June 30, 2015.

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial report of the OPPRS; which can be located at www.ok.gov/OPPRS .

Oklahoma State Firefighters’ Pension and Retirement System (OFPRS)

Plan Description – The City of Sallisaw, as the employer, participates in the Firefighters Pension and Retirement System, a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Firefighters Pension and Retirement System (OFPRS). Title 11 of the Oklahoma State Statutes, through the Oklahoma Legislature, grants the authority to establish and amend the benefit terms to the OFPRS. OFPRS issues a publicly available financial report that can be obtained at www.ok.gov/OFPRS.

Benefits Provided – The OPPRS provides retirement, death and disability benefits to plan members. Benefits for members hired prior to November 1, 2013 are determined as 2.5% of the employee’s final average compensation times the employee’s years of service and have reached the age of 50 or have completed 20 years of service, whichever is later. For volunteer firefighters, the monthly pension benefit for normal retirement is \$ 150.60 per month. Benefits vest with 10 years or more of service.

Benefits for members hired after November 1, 2013 are determined as 2.5% of the employee’s final average compensation times the employee’s years of service and have reached the age of 50 or have completed 22 years of service, whichever is later. For volunteer firefighters, the monthly pension benefit for normal retirement is \$ 165.66 per month. Benefits vest with 11 years or more of service.

All firefighters are eligible for immediate disability benefits. For paid firefighters, the disability in-the-line-of-duty benefit for firefighters with less than 20 years of service is equal to 50% of final average monthly compensation, based on the most recent 30 months of service. For firefighters with over 20 years of service, a disability in-the-line-of-duty is calculated based on 2.5% of final average monthly compensations, based on the most recent 30 months, per year of service, with a maximum of 30 years of service. For disabilities not-in-the-line-of-duty, the benefit is limited to only those with less than 20 years of service and is 50% of final average monthly compensation, based on the most recent 60-month salary as opposed to 30 months. For volunteer firefighters, the not-in-the-line-of-duty disability is also limited to only those with less than 20 years of service and is \$ 7.53 per year of service, with a maximum of 30 years.

A \$ 5,000 lump sum death benefit is payable to the qualified spouse or designated recipient upon the participant’s death. The \$ 5,000 death benefit does not apply to members electing the vested benefit.

Contributions – The contribution requirements of plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Plan members are required to contribute 9.0% of their annual covered salary and the City of Sallisaw contributes 14.0% of annual covered payroll. Contributions to the OFPRS for the year ended June 30, 2015, for employees and employer were \$ 21,986 and \$ 34,201, respectively, on covered payroll of \$ 244,295. The State of Oklahoma made on-behalf payments to OFPRS totaling \$ 84,096 during the year. These on-behalf payments were recognized as both revenue and expense in the accompanying general fund statement of revenues, expenditures, and changes in fund balance. In the government-wide financial statements, revenue is recognized for the State’s on-behalf contributions on an accrual basis totaling \$ 69,331. These on-behalf payments did not meet the criteria of a special funding situation.

Pension liabilities, pension expense, and deferred outflows and inflows of resources related to pensions – As of June 30, 2015, the City reported a net pension liability of \$ 898,813 for its proportionate share of the net pension asset. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The City’s proportion of the net pension liability was based on the City’s contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2014. Based upon this information, the City’s proportionate share was 0.0874 percent.

For the year ended June 30, 2015, the City recognized \$ 80,725 in pension expense. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 21,415	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	136,056
City contributions subsequent to the measurement date	35,500	-
Total	<u>\$ 56,915</u>	<u>\$ 136,056</u>

Amortization of Pension Deferrals – \$ 35,500 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015. Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30,		
2016	\$	(22,929)
2017		(22,928)
2018		(22,928)
2019		(22,928)
2020		(22,928)
Total	\$	<u>(114,641)</u>

Actuarial assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2014 actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	3 %
Salary increases:	3.5 % to 9.0% average, including inflations
Investment rate of return:	7.5 % net of pension plan investment expense
Mortality rates:	Based on RP-2000 combined healthy with blue collared adjustment as appropriate, with adjustments for generational mortality improvement using scale AA for healthy lives and no mortality improvement for disabled lives.

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2014, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	5.48%
Domestic equity	9.61%
International equity	9.24%
Real estate	7.76%
Other assets	6.88%

Discount rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the City will be made at contractually required rates, determined by Oklahoma Statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 36% of the insurance premium, as established by statute. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the City, calculated using the discount rate of 7.5%, as well as what the plan’s net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City’s net pension liability (asset)	\$ 1,173,612	898,813	668,357

Payables to the Pension Plan – There are no payables to the pension plan for the year ended June 30, 2015.

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial report of the OFPRS; which can be located at www.ok.gov/FPRS.

Agent Multiple Employer – Defined Benefit Plan

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 City contributes to the OMRF for all eligible employees except for those covered by the Police and Firefighter Pension Systems. The OMRF plan issues a separate financial report and can be obtained from OMRF or from their website: www.okmrf.org/reports.html. Benefits are established or amended by the City Council in accordance with O.S. Title 11, Section 48-101-102.

Summary of Significant Accounting Policies – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City’s plan and additions to/deductions from the City’s fiduciary net position have been determined on the same basis as they are reported by OMRF. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value based on published market prices. Detailed information about the OMRP plans’ fiduciary net position is available in the separately issued OMRF financial report.

Eligibility Factors and Benefit Provisions

Provision	July 1, 2014 through June 30, 2015
Eligibility	All regular, full-time employees except police, firefighters and other employees who are covered under an approved system.
Contributions	7% of pay
Service: Credited service Vesting	The last period of continuous employment with the City Credited service plus transferred service from other OMRF employers.
Benefit eligibility	10 or more years of service
Final average compensation	Average of 5 highest consecutive years of salaries out of the last 10 years of service
Accrued benefit	Plan AAA 3% of final average compensation multiplied by the number of years of credited service
Normal retirement age	The earlier of: Age 65 with 10 or more years of vesting service Age 55 with 80 points and 10 or more years of vesting service (Points are equal to age plus completed years of service)
Normal retirement Eligibility	Termination of employment on or after normal retirement age.
Benefit	The accrued benefit payable immediately
Early retirement Eligibility	Termination after age 55 with 10 or more years of vesting service.
Benefit	The accrued benefit payable starting at normal retirement age, or the accrued benefit reduced 5% per year for commencement prior to normal retirement age
Disability retirement Eligibility	Total and permanent disability after 10 or more years of service.
Benefit	The accrued benefit is payable upon disablement without reduction for early payment.
Termination before retirement age Before vesting	Return of employee contributions, if any, with interest
After vesting	The accrued benefit payable starting at normal retirement age, or a reduced benefit payable at an early retirement age.
In-service death Before vesting	Return of employee contributions, if any, with interest.
After vesting (married participants only)	50% of the accrued benefit is payable to the spouse until death or remarriage.
After vesting (other participants)	50% of the accrued benefit is payable for 5 years certain.

Provision	July 1, 2014 through June 30, 2015
Payment options Normal form	Monthly lifetime annuity with 5 years certain.
Optional forms	Disability retirement benefits paid under normal form. Actuarially equivalent optional forms: Joint & 50% survivor annuity Joint & 66 2/3rds% last survivor annuity Joint & 100% survivor annuity
Cost of living	This plan has not elected the automatic post-retirement cost-of-living adjustments.

Employees covered by benefit terms:

Active employees	99
Deferred vested former employees	4
Disabled participants	6
Retirees or retiree beneficiaries	43
Total	152

Contribution Requirements

The City Council has the authority to set and amend contribution rates by ordinance for the OMRF defined benefit plan in accordance with O.S. Title 11, Section 48-102. The contribution rates for the current fiscal year have been made in accordance with an actuarially determined rate. The actuarially determined rate is 17.57% of covered payroll as of July 1, 2014 through June 30, 2015. For the year ended June 30, 2015, the City recognized \$ 623,071 of employer contributions to the plan which equals the actuarially determined amount based on covered payroll of \$ 3,535,797.

Actuarial assumptions

Date of last actuarial valuation	July 1, 2014
a. Actuarial cost method	Entry age normal
b. Rate of return on investments & discount rate	7.75%
c. Projected salary increase based on age	4% -7.42%
d. Post retirement cost-of-living increase	None
e. Inflation rate	3%
f. Mortality table	UP 1994, with projected mortality improvement
g. Percent of married employees	100%
h. Spouse age difference	3 years (female spouses younger)
i. Turnover	Select & ultimate rates (ultimate rates are age-related as shown) Additional rates per thousand are added during the first 5 years: Year 1: 215 Year 2: 140 Year 3: 95 Year 4: 65 Year 5: 40
j. Date of last experience study	September 2012 for fiscal years 2007 through 2011

Discount rate – The discount rate used to value benefits was the long-term expected rate of return on plan investments, 7.75% since the plan’s net fiduciary position is projected to be sufficient to make projected benefit payments.

The City has adopted a funding method that is designed to fund all benefits payable to participants over the course of their working careers. Any differences between actual and expected experience are funded over a fixed period to ensure all funds necessary to pay benefits have been contributed to the trust before those benefits are payable. Thus, the sufficiency of pension plan assets was made without a separate projection of cash flows.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.0%).

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of July 1, 2014 are summarized in the following table:

	<u>Target allocation</u>	<u>Real return</u>	<u>Weighted return</u>
Large cap stocks S&P 500	25%	5.40%	1.35%
Small/mid cap stocks Russell 2500	10%	7.50%	0.75%
Long/short equity MSCI ACWI	10%	6.10%	0.61%
International stocks MSCI EAFE	20%	5.10%	1.02%
Fixed income bonds Barclay’s Capital Aggregate	30%	2.60%	0.78%
Real estate NCREIF	5%	4.80%	0.24%
Cash equivalents 3 month Treasury	0%	0.00%	0.00%
Total	100%		
Average Real Return			4.75%
Inflation			3.0%
Long-term expected return			7.75%

Changes in Net Pension Liability – The total pension liability was determined based on an actuarial valuation performed as of July 1, 2014 which is also the measurement date. There were no changes in assumptions or changes in benefit terms that affected measurement of the total pension liability. There were also no changes between the measurement date of July 1, 2014 and the City’s report ending date of June 30, 2015, that would have had a significant impact on the net pension liability.

The following table reports the components of changes in pension liability:

	Schedule of Changes in Net Pension Liability		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a) – (b)
Balance at July 1, 2013	\$ 15,869,042	\$ 11,043,455	\$ 4,825,586
Changes for the Year:			
Service cost	366,952	-	366,952
Interest expense	1,223,894	-	1,223,894
Difference between expected and actual experience	-	-	-
Contributions – City	-	593,615	(593,615)
Contributions – members	-	228,564	(228,564)
Net investment income	-	1,805,094	(1,805,094)
Benefits paid	(904,499)	(904,499)	0
Benefit changes due to plan amendments	-	-	0
Plan administrative expenses	-	(26,721)	26,721
Other changes	-	-	0
Net Changes	<u>686,347</u>	<u>1,696,053</u>	<u>(1,009,706)</u>
Balance at July 1, 2014	<u>16,555,389</u>	<u>\$ 12,739,508</u>	<u>\$ 3,815,881</u>

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 7.75 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75 percent) or 1-percentage point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability (Asset)	\$ 18,636,577	\$ 16,555,389	\$ 14,844,104
Plan Net Fiduciary Position	12,738,508	12,739,508	12,739,508
Net Pension Liability	<u>\$ 5,897,069</u>	<u>\$ 3,815,881</u>	<u>\$ 2,104,596</u>

The City reported \$ 389,267 in pension expense for the year ended June 30, 2015. At June 30, 2015 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	805,358
City contributions subsequent to the measurement date	645,917	-
Total	<u>\$ 645,917</u>	<u>\$ 805,358</u>

\$ 645,917 will be reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,		
2016	\$	(201,339)
2017		(201,339)
2018		(201,339)
2019		(201,339)
	<u>\$</u>	<u>(805,356)</u>

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, 2015, were \$ 22,846 on covered payroll of \$ 190,521.

C. Commitments and contingencies

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.

As described in Note II.F.6., full-time employees are granted sick leave of 4.615 hours per pay period and upon retirement, will be compensated for unused hours accrued in excess of 1,000 hours, up to a maximum of 2,500 hours. The payment is \$ 2,500 for the first 1,000 hours and \$ 5.00/hour for the next 1,500 hours. No accrual has been made in the accompanying financial

statements for any such payments since the number of hours or time of retirement for any employee is not yet certain.

D. Subsequent events

Management has evaluated subsequent events through December 8, 2015, the date which the financial statements were available to be issued.

E. Prior period adjustment

An adjustment was made to beginning net position in the government-wide financial statements for governmental and business-type activities and the proprietary fund financial statements for Sallisaw Municipal Authority to reflect a change in accounting principle as a result of implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*.

	Government-Wide Financial Statements
Governmental activities	\$ 3,949,954
Business-type activities	1,074,611
	<u>5,024,565</u>

	Fund Financial Statements
Proprietary funds - SMA	\$ 1,074,611

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Required Supplementary Information

City of Sallisaw, Oklahoma
Budgetary Comparison Schedule
General Fund
(Budgetary Basis)
Year Ended June 30, 2015

	General Fund			Variance with Final Budget Positive (Negative)
	Budget		Actual	
	Original	Final		
Fund balance, beginning	\$ 240,664	\$ 240,664	\$ 145,581	\$ (95,083)
Resources				
Taxes	5,589,800	5,589,800	6,009,780	419,980
Licenses and permits	26,900	26,900	42,414	15,514
Intergovernmental	57,000	57,000	66,037	9,037
Fines and forfeitures	166,350	166,350	189,186	22,836
Charges for services	179,500	179,500	238,033	58,533
Miscellaneous	166,200	166,200	111,727	(54,473)
Interest	1,100	1,100	993	(107)
Operating transfers	10,281,721	10,281,721	9,865,977	(415,744)
Total resources	<u>16,468,571</u>	<u>16,468,571</u>	<u>16,524,147</u>	<u>55,576</u>
Amounts available for appropriation	16,709,235	16,709,235	16,669,728	(39,507)
Charges to appropriations:				
Administration	623,444	777,897	773,218	4,679
Customer service	385,005	388,699	386,916	1,783
Finance	667,250	665,436	640,662	24,774
Information services	190,419	174,741	147,825	26,916
Contingency	280,810	192,406	-	192,406
Sundry	98,500	157,856	117,928	39,928
Contributions to others	120,000	120,000	120,000	-
Police patrol	1,669,345	1,633,932	1,626,131	7,801
Police auxiliary	438,546	449,847	446,705	3,142
Animal welfare	76,630	76,251	73,392	2,859
Municipal court	60,311	61,664	61,322	342
Fire suppression	450,985	450,811	423,900	26,911
Building development	302,823	269,558	265,513	4,045
Street	765,280	757,383	752,233	5,150
Airport	155,550	133,104	124,692	8,412
Fleet maintenance	212,001	212,503	210,645	1,858
Cemetery	10,175	13,825	8,454	5,371
Parks	696,296	666,544	658,968	7,576
Swimming pool	62,532	55,779	54,697	1,082
Electric	833,416	842,761	826,607	16,154
Water production	571,955	570,637	522,405	48,232
Water distribution	276,033	273,714	210,499	63,215
Wastewater collection	230,683	238,596	230,813	7,783
Wastewater treatment	380,766	378,486	350,437	28,049
Sanitation	468,106	526,255	523,462	2,793
Landfill	654,254	595,643	551,215	44,428
Telecommunications	556,120	552,907	485,369	67,538
Operating transfers	5,472,000	5,472,000	5,819,172	(347,172)
Total charges to appropriations	<u>16,709,235</u>	<u>16,709,235</u>	<u>16,413,180</u>	<u>296,055</u>
Fund balances, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 256,548</u>	<u>\$ 256,548</u>

The accompanying notes are an integral part of this schedule.

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, 2015

<u>Budgetary funds</u>	<u>General Fund</u>
<u>Financial statement major funds</u>	
Revenues	
Actual amounts (budgetary basis) "resources" from the budgetary comparison schedules	\$ 16,524,147
Adjustments:	
<i>Budgetary</i> general fund revenues are reported on the cash basis, rather than the modified accrual basis	3,364
State on-behalf pension contributions	185,265
Operating transfers in are reported as "other financing sources and uses" for GAAP purposes	<u>(9,865,977)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u><u>\$ 6,846,799</u></u>
Expenditures	
Actual amounts (budgetary basis) "charges to appropriations" from the budgetary comparison schedules	\$ 16,413,180
Reclassifications:	
Utility service expenditures are included in the general fund for budgetary purposes	(3,700,807)
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	17,985
State of Oklahoma on-behalf pension contributions	185,265
Operating transfers out are reported as "other financing sources and uses" for GAAP purposes	<u>(5,819,172)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u><u>\$ 7,096,451</u></u>
Other financing sources (uses)	
Actual amounts (budgetary basis) from the budgetary comparison schedules - net operating transfers in/(out)	\$ 4,046,805
Reclassifications:	
Utility services expenditures are reclassified as a reduction of transfers in for GAAP reporting	(3,700,807)
Adjustments:	
Budgetary transfers are reported on the cash basis, rather than the modified accrual basis. Tax revenues accrued and transferred to other funds	<u>(9,789)</u>
Total other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u><u>\$ 336,209</u></u>

The accompanying notes are an integral part of this schedule.

City of Sallisaw, Oklahoma
Notes to Budgetary Comparison Schedules
Year Ended June 30, 2015

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.

City of Sallisaw, Oklahoma
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios

Oklahoma Municipal Retirement Fund

	2014
Total Pension Liability	
Service cost	\$ 366,952
Interest cost	1,223,894
Benefit payments, including refunds of employee contributions	(904,499)
Net change in total pension liability	686,347
Total pension liability, beginning	15,869,042
Total pension liability, ending	\$ 16,555,389
Plan Net Fiduciary Position	
Employer contributions	\$ 593,615
Employee contributions	228,564
Net investment income	1,805,094
Benefit payments, including refunds of employee contributions	(904,499)
Administrative expense	(26,721)
Net change in total pension liability	1,696,053
Plan net fiduciary position, beginning	11,043,455
Plan net fiduciary position, ending	\$ 12,739,508
Net pension liability, ending	\$ 3,815,881
Plan net fiduciary position as percentage of total pension liability	76.95%
Covered employee payroll	\$ 3,329,223
Net pension liability position as percentage of covered employee payroll	114.62%

Notes to schedule:

1. Only the current fiscal year is presented because 10-year data is not yet available.

City of Sallisaw, Oklahoma
Required Supplementary Information
Schedule of Employer Contributions

Oklahoma Municipal Retirement Fund

	2014
Actuarially determined contribution	\$ 593,615
Contributions in relation to the actuarially determined contribution	593,615
Contribution deficiency (excess)	\$ -
Covered-employee payroll	3,286,781
Contributions as a percentage of covered-employee payroll	18.06%

Notes to schedule:

1. Only the current fiscal year is presented because 10-year data is not yet available.
2. Latest valuation date: July 1, 2014
3. Actuarially determined contribution rate is calculated as of July 1, 2013 and July 1, 2014.
4. Methods and assumptions to determine contribution rates:
 - Actuarial cost method - Entry age normal
 - Amortization method - Level percent of payroll, closed
 - Remaining amortization period - 29 years
 - Asset valuation method - Actuarial:
 - Smoothing period - 4 years
 - Recognition method - Non-asymptotic
 - Corridor - 70% tp 130%
 - Salary increases - 4.00% - 7.42% (varies by attained age)
 - Investment rate of return - 7.50%

City of Sallisaw, Oklahoma
Required Supplementary Information
Schedule of Proportionate Share of the Net pension Liability (Asset)

Oklahoma Police Pension & Retirement System

	2014
City's proportion of the net pension liability (asset)	0.2792%
City's proportionate share of the net pension liability (asset)	\$ (94,003)
City's covered-employee payroll	\$ 753,098
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(12.48%)
Plan fiduciary net position as a percentage of the total pension liability (asset)	101.53%

Notes to schedule:

1. Only the current fiscal year is presented because 10-year data is not yet available.
2. The amounts presented for the fiscal year were determined as of 6/30/2014.

City of Sallisaw, Oklahoma
Required Supplementary Information
Schedule of Employer Contributions

Oklahoma Police Pension & Retirement System

	2014
Statutorially required contribution	\$ 97,903
Contributions in relation to the statutorially required contribution	97,903
Contribution deficiency (excess)	-
 City's covered-employee payroll	753,098
 Contributions as a percentage of covered-employee payroll	\$ 13.00%

Notes to schedule:

1. Only the current fiscal year is presented because 10-year data is not yet available.

City of Sallisaw, Oklahoma
Required Supplementary Information
Schedule of Proportionate Share of the Net pension Liability (Asset)

Oklahoma Firefighters Pension and Retirement System

	2014
City's proportion of the net pension liability (asset)	0.0874%
City's proportionate share of the net pension liability (asset)	\$ 899,045
City's covered-employee payroll	\$ 231,105
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	389%
Plan fiduciary net position as a percentage of the total pension liability (asset)	68.12%

Notes to schedule:

1. Only the current fiscal year is presented because 10-year data is not yet available.

City of Sallisaw, Oklahoma
Required Supplementary Information
Schedule of Employer Contributions

Oklahoma Firefighters Pension & Retirement System

	2014
Statutorially required contribution	\$ 32,354
Contributions in relation to the statutorially required contribution	32,354
Contribution deficiency (excess)	-
 City's covered-employee payroll	231,105
 Contributions as a percentage of covered-employee payroll	\$ 14.00%

Notes to schedule:

1. Only the current fiscal year is presented because 10-year data is not yet available.

Other Supplementary Information

City of Sallisaw, Oklahoma
Combining Balance Sheet
General Fund
June 30, 2015

	General Fund	Reserve Fund	Total
Assets			
Cash and cash equivalents	\$ 546,386	\$ 47,239	\$ 593,625
Investments	100,000	892,875	992,875
Receivables:			
Accounts	22,628	-	22,628
Taxes	517,304	-	517,304
Municipal court fines	24,453	-	24,453
Accrued interest	-	162	162
Due from other funds	283,888	-	283,888
Prepaid expenses	99,170	-	99,170
Total assets	\$ 1,593,829	\$ 940,276	\$ 2,534,105
 Liabilities, deferred inflows and fund balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 263,780	\$ -	\$ 263,780
Due to other funds	491,380	-	491,380
Total liabilities	755,160	-	755,160
Deferred inflows of resources:			
Unearned revenue	23,832	-	23,832
Total deferred inflows of resources	23,832	-	23,832
Fund balances:			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	2,777	-	2,777
Assigned	-	-	-
Unassigned	812,060	940,276	1,752,336
Total fund balances	814,837	940,276	1,755,113
Total liabilities, deferred inflows, and fund balances	\$ 1,593,829	\$ 940,276	\$ 2,534,105

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
General Fund
Year Ended June 30, 2015

	General Fund	Reserve Fund	Total
Revenues			
Taxes	\$ 5,991,537	\$ -	\$ 5,991,537
Licenses and permits	42,414	-	42,414
Intergovernmental	252,520	-	252,520
Fines and forfeitures	189,186	-	189,186
Charges for services	238,033	-	238,033
Other	129,440	-	129,440
Interest	993	2,676	3,669
Total revenues	<u>6,844,123</u>	<u>2,676</u>	<u>6,846,799</u>
Expenditures			
Current:			
General government	2,074,281	-	2,074,281
Public safety	2,815,421	-	2,815,421
Public works	1,362,174	-	1,362,174
Culture and recreation	709,893	-	709,893
Economic development	120,000	-	120,000
Debt service	-	-	-
Capital outlay	14,682	-	14,682
Total expenditures	<u>7,096,451</u>	<u>-</u>	<u>7,096,451</u>
Excess of revenues over (under) expenditures	(252,328)	2,676	(249,652)
Other Financing sources (uses)			
Transfers in	6,153,370	-	6,153,370
Transfers (out)	(5,817,161)	-	(5,817,161)
Total other financing sources (uses)	<u>336,209</u>	<u>-</u>	<u>336,209</u>
Net change in fund balances	83,881	2,676	86,557
Fund balances, beginning	<u>730,956</u>	<u>937,600</u>	<u>1,668,556</u>
Fund balances, ending	<u>\$ 814,837</u>	<u>\$ 940,276</u>	<u>\$ 1,755,113</u>

City of Sallisaw, Oklahoma
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2015

	Special Revenue			
	Street and Alley Fund	Library Fund	Library Trust Authority	Youth & Recreation Fund
Assets				
Cash and cash equivalents	\$ 248,100	\$ 3,973	\$ 45	\$ 180,915
Investments	-	-	84,356	-
Receivables:				
Taxes	6,379	-	-	-
Due from other governments	-	-	-	-
Accrued interest	-	-	91	-
Due from other funds	-	-	-	15,126
Total assets	<u>\$ 254,479</u>	<u>\$ 3,973</u>	<u>\$ 84,492</u>	<u>\$ 196,041</u>
Liabilities				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances				
Nonspendable	-	-	-	-
Restricted	254,479	-	84,492	-
Committed	-	-	-	196,041
Assigned	-	3,973	-	-
Unassigned	-	-	-	-
Total fund balances	<u>254,479</u>	<u>3,973</u>	<u>84,492</u>	<u>196,041</u>
Total liabilities and fund balances	<u>\$ 254,479</u>	<u>\$ 3,973</u>	<u>\$ 84,492</u>	<u>\$ 196,041</u>

Special Revenue

Fire Department Fund	Police Department Fund	Police Federal Forfeiture Fund	Police Drug Fund	Sallisaw NOW	Department of Justice Grants	Sallisaw NOW DFC Grant
\$ 102,999	\$ 17,089	\$ -	\$ 15,813	\$ 39,288	\$ 416	\$ (8,992)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	8,992
-	-	-	-	-	-	-
<u>\$ 102,999</u>	<u>\$ 17,089</u>	<u>\$ -</u>	<u>\$ 15,813</u>	<u>\$ 39,288</u>	<u>\$ 416</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
102,999	17,089	-	15,813	39,288	416	-
-	-	-	-	-	-	-
<u>102,999</u>	<u>17,089</u>	<u>-</u>	<u>15,813</u>	<u>39,288</u>	<u>416</u>	<u>-</u>
<u>\$ 102,999</u>	<u>\$ 17,089</u>	<u>\$ -</u>	<u>\$ 15,813</u>	<u>\$ 39,288</u>	<u>\$ 416</u>	<u>\$ -</u>

City of Sallisaw, Oklahoma
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2015
(continued)

	Capital Projects			
	Capital Improvements Fund	Cemetery Fund	Infrastructure Improvements Fund	FAA Grant
Assets				
Cash and cash equivalents	\$ 746,364	\$ 87,740	\$ 381,012	\$ 40,755
Investments	-	145,240	-	-
Receivables:				
Taxes	-	-	-	-
Due from other governments	-	-	-	-
Accrued interest	-	27	-	-
Due from other funds	56,916	-	-	-
Total assets	\$ 803,280	\$ 233,007	\$ 381,012	\$ 40,755
Liabilities				
Accounts payable and accrued liabilities	\$ 28,921	\$ -	\$ -	\$ -
Total liabilities	28,921	-	-	-
Fund balances				
Nonspendable	-	-	-	-
Restricted	-	233,007	-	-
Committed	22,853	-	-	40,755
Assigned	751,506	-	381,012	-
Unassigned	-	-	-	-
Total fund balances	774,359	233,007	381,012	40,755
Total liabilities and fund balances	\$ 803,280	\$ 233,007	\$ 381,012	\$ 40,755

<u>Capital Projects</u>		
<u>CDBG Grant</u>	<u>State of Oklahoma Projects</u>	<u>Totals</u>
\$ -	\$ -	\$ 1,855,517
-	-	229,596
-	-	6,379
-	-	8,992
-	-	118
-	-	72,042
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,172,644</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,921</u>
-	-	28,921
-	-	-
-	-	627,495
-	-	259,649
-	-	1,256,579
-	-	-
<u>-</u>	<u>-</u>	<u>2,143,723</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,172,644</u>

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2015

	Special Revenue			
	Street and Alley Fund	Library Fund	Library Trust Authority	Youth & Recreation Fund
Revenues				
Intergovernmental	\$ 81,456	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Other	-	-	-	5,000
Interest	-	-	256	-
Total revenues	<u>81,456</u>	<u>-</u>	<u>256</u>	<u>5,000</u>
Expenditures				
Current:				
Public safety	-	-	-	-
Public works	5,083	-	-	-
Culture and recreation	-	7,604	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	-	-	-	3,695
Total expenditures	<u>5,083</u>	<u>7,604</u>	<u>-</u>	<u>3,695</u>
Excess of revenues over (under) expenditures	76,373	(7,604)	256	1,305
Other financing sources (uses)				
Proceeds from capital lease obligations	-	-	-	-
Transfers in	-	6,000	-	103,785
Transfers (out)	(168,763)	-	-	(41,352)
Total other financing sources (uses)	<u>(168,763)</u>	<u>6,000</u>	<u>-</u>	<u>62,433</u>
Net change in fund balances	(92,390)	(1,604)	256	63,738
Fund balances, beginning	<u>346,869</u>	<u>5,577</u>	<u>84,236</u>	<u>132,303</u>
Fund balances, ending	<u>\$ 254,479</u>	<u>\$ 3,973</u>	<u>\$ 84,492</u>	<u>\$ 196,041</u>

Special Revenue

Fire Department Fund	Police Department Fund	Police Federal Forfeiture Fund	Police Drug Fund	Sallisaw NOW	Department of Justice Grants	Sallisaw NOW DFC Grant
\$ 40,697	\$ 3,870	\$ -	\$ -	\$ -	\$ 9,870	\$ 128,838
-	-	-	-	-	-	-
500	500	-	-	-	-	-
-	-	-	-	-	-	-
<u>41,197</u>	<u>4,370</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,870</u>	<u>128,838</u>
4,056	650	-	7,641	33,065	-	128,838
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
4,484	-	-	-	-	9,584	-
<u>8,540</u>	<u>650</u>	<u>-</u>	<u>7,641</u>	<u>33,065</u>	<u>9,584</u>	<u>128,838</u>
32,657	3,720	-	(7,641)	(33,065)	286	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	(2,000)	(16,635)	-	-	-	-
<u>-</u>	<u>(2,000)</u>	<u>(16,635)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
32,657	1,720	(16,635)	(7,641)	(33,065)	286	-
70,342	15,369	16,635	23,454	72,353	130	-
<u>\$ 102,999</u>	<u>\$ 17,089</u>	<u>\$ -</u>	<u>\$ 15,813</u>	<u>\$ 39,288</u>	<u>\$ 416</u>	<u>\$ -</u>

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2015
(continued)

	Capital Projects			
	Capital Improvements Fund	Cemetery Fund	Infrastructure Improvements Fund	FAA Grant
Revenues				
Intergovernmental	\$ 106,242	\$ -	\$ -	\$ -
Charges for services	-	29,819	-	-
Other	-	-	-	-
Interest	725	448	170	-
Total revenues	<u>106,967</u>	<u>30,267</u>	<u>170</u>	<u>-</u>
Expenditures				
Current:				
Public safety	-	-	-	-
Public works	-	1,504	-	-
Culture and recreation	-	-	-	-
Debt service:				
Principal	451,010	-	-	-
Interest	20,652	-	-	-
Capital outlay	400,477	-	2,880	16,857
Total expenditures	<u>872,139</u>	<u>1,504</u>	<u>2,880</u>	<u>16,857</u>
Excess of revenues over (under) expenditures	(765,172)	28,763	(2,710)	(16,857)
Other financing sources (uses)				
Proceeds from capital lease obligations	145,883	-	-	-
Transfers in	800,093	-	100,000	-
Transfers (out)	(237,437)	-	-	-
Total other financing sources (uses)	<u>708,539</u>	<u>-</u>	<u>100,000</u>	<u>-</u>
Net change in fund balances	(56,633)	28,763	97,290	(16,857)
Fund balances, beginning, restated	<u>830,992</u>	<u>204,244</u>	<u>283,722</u>	<u>57,612</u>
Fund balances, ending	<u>\$ 774,359</u>	<u>\$ 233,007</u>	<u>\$ 381,012</u>	<u>\$ 40,755</u>

<u>Capital Projects</u>		
<u>CDBG Grant</u>	<u>State of Oklahoma Projects</u>	<u>Totals</u>
\$ 150,000	\$ 92,290	\$ 613,263
-	-	29,819
-	-	6,000
-	-	1,599
<u>150,000</u>	<u>92,290</u>	<u>650,681</u>
-	-	174,250
-	-	6,587
-	-	7,604
-	-	451,010
-	-	20,652
318,763	92,290	849,030
<u>318,763</u>	<u>92,290</u>	<u>1,509,133</u>
(168,763)	-	(858,452)
-	-	145,883
168,763	-	1,178,641
-	-	(466,187)
<u>168,763</u>	<u>-</u>	<u>858,337</u>
-	-	(115)
-	-	2,143,838
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,143,723</u>

City of Sallisaw, Oklahoma
Combining Statement of Net Position
Sallisaw Municipal Authority
June 30, 2015

	Business-type Activities		Totals
	Enterprise Funds		
	Sallisaw Municipal Authority	Sallisaw Water Projects Fund	
Assets			
Cash and cash equivalents	\$ 906,045	\$ 23,554	\$ 929,599
Investments	449,677	-	449,677
Receivables:			
Accounts (net of allowance for uncollectibles)	1,939,320	-	1,939,320
Accrued interest	345	-	345
Due from other funds	476,254	56,916	533,170
Restricted assets:			
Cash and investments	3,458,737	986,307	4,445,044
Capital assets (net of accumulated depreciation)	18,188,113	19,362,169	37,550,282
Total assets	<u>25,418,491</u>	<u>20,428,946</u>	<u>45,847,437</u>
Deferred outflows of resources			
Loss on refunding of debt	507,517	1,783,544	2,291,061
Deferred amounts related to pensions	164,016	-	164,016
Total deferred outflows of resources	<u>671,533</u>	<u>1,783,544</u>	<u>2,455,077</u>
Liabilities:			
Accounts payable and accrued liabilities	773,999	-	773,999
Payable from restricted assets:			
Accrued interest payable	194,791	295,017	489,808
Customer deposits	668,230	-	668,230
Due to other funds	397,719	-	397,719
Noncurrent liabilities:			
Due within one year	949,981	947,927	1,897,908
Due in more than one year	13,349,667	24,762,088	38,111,755
Total liabilities	<u>16,334,387</u>	<u>26,005,032</u>	<u>42,339,419</u>
Deferred inflows of resources			
Deferred amounts related to pensions	204,502	-	204,502
Total deferred inflows of resources	<u>204,502</u>	<u>-</u>	<u>204,502</u>
Net position			
Net investment in capital assets	9,013,835	(4,564,302)	4,449,533
Restricted:			
Expendable	709,219	691,291	1,400,510
Unrestricted	(171,919)	80,469	(91,450)
Total net position	<u>\$ 9,551,135</u>	<u>\$ (3,792,542)</u>	<u>\$ 5,758,593</u>

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenses, and Changes in Net Position –
Sallisaw Municipal Authority
Year Ended June 30, 2015

	Business-type Activities		Totals
	Enterprise Funds		
	Sallisaw Municipal Authority	Sallisaw Water Projects Fund	
Operating revenues			
Charges for services:			
Electric	\$ 10,578,851	\$ -	\$ 10,578,851
Water	1,780,141	-	1,780,141
Wastewater	750,460	-	750,460
Landfill	1,170,711	-	1,170,711
Sanitation	1,168,255	-	1,168,255
Telecommunications	2,572,267	-	2,572,267
Other	247,743	-	247,743
Total operating revenues	<u>18,268,428</u>	<u>-</u>	<u>18,268,428</u>
Operating expenses			
Administration	87,614	-	87,614
Electric	7,938,367	-	7,938,367
Water	729,818	-	729,818
Wastewater	602,539	-	602,539
Landfill	507,918	-	507,918
Sanitation	550,615	-	550,615
Telecommunications	2,034,730	-	2,034,730
Depreciation	1,239,323	563,889	1,803,212
Bad debt expense	381,373	-	381,373
Total operating expenses	<u>14,072,297</u>	<u>563,889</u>	<u>14,636,186</u>
Net operating income (loss)	4,196,131	(563,889)	3,632,242
Nonoperating revenues (expenses)			
Interest income	693	60	753
Gain (loss) on disposal of assets	(40,601)	(86,791)	(127,392)
Interest expense and fiscal charges	(428,775)	(918,630)	(1,347,405)
Payments to hospital	(681,518)	-	(681,518)
Total nonoperating revenues (expenses)	<u>(1,150,201)</u>	<u>(1,005,361)</u>	<u>(2,155,562)</u>
Operating transfers			
Transfers in	5,986,164	1,851,518	7,837,682
Transfers (out)	(8,886,345)	-	(8,886,345)
Total operating transfers	<u>(2,900,181)</u>	<u>1,851,518</u>	<u>(1,048,663)</u>
Net income (loss)	145,749	282,268	428,017
Net position, beginning, restated	<u>9,405,386</u>	<u>(4,074,810)</u>	<u>5,330,576</u>
Net position, ending	<u>\$ 9,551,135</u>	<u>\$ (3,792,542)</u>	<u>\$ 5,758,593</u>

City of Sallisaw, Oklahoma
Combining Statement of Cash Flows
Sallisaw Municipal Authority
Year Ended June 30, 2015

	Business-type Activities		Totals
	Enterprise Funds		
	Sallisaw Municipal Authority	Sallisaw Water Projects Fund	
Cash flows from operating activities			
Net operating income (loss)	\$ 4,196,131	\$ (563,889)	\$ 3,632,242
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	1,239,323	563,889	1,803,212
(Increase) decrease in assets:			
Accounts receivable	(65,304)	-	(65,304)
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	(125,630)	-	(125,630)
Customer deposits	14,446	-	14,446
Accrued landfill closure costs	(37,117)	-	(37,117)
Net pension liability	(65,171)	-	(65,171)
Net cash provided (used) by operating activities	<u>5,156,678</u>	<u>-</u>	<u>5,156,678</u>
Cash flows from noncapital financing activities			
(Increase) decrease in interfund receivables/payables	(35,978)	3,506	(32,472)
(Increase) decrease in notes receivable	208,760	-	208,760
Miscellaneous revenue (expense)	(681,518)	-	(681,518)
Operating transfers in (out)	<u>(2,900,181)</u>	<u>1,851,518</u>	<u>(1,048,663)</u>
Net cash provided (used) by noncapital financing activities	<u>(3,408,917)</u>	<u>1,855,024</u>	<u>(1,553,893)</u>
Cash flows from capital and related financing activities			
Principal paid on long-term debt	(939,174)	(936,624)	(1,875,798)
Interest expense and fiscal charges	(440,584)	(925,438)	(1,366,022)
(Increase) decrease in restricted assets	3,137,191	(1,445)	3,135,746
Acquisition/construction of capital assets	<u>(3,303,236)</u>	<u>-</u>	<u>(3,303,236)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,545,803)</u>	<u>(1,863,507)</u>	<u>(3,409,310)</u>
Cash flows from investing activities			
(Increase) decrease in investments	(1,054)	-	(1,054)
Interest income	693	60	753
Net cash provided (used) by investing activities	<u>(361)</u>	<u>60</u>	<u>(301)</u>
Net increase (decrease) in cash and cash equivalents	201,597	(8,423)	193,174
Cash and cash equivalents, beginning	<u>704,448</u>	<u>31,977</u>	<u>736,425</u>
Cash and cash equivalents, ending	<u>\$ 906,045</u>	<u>\$ 23,554</u>	<u>\$ 929,599</u>

City of Sallisaw, Oklahoma
Combining Statement of Net Position –
Nonmajor Proprietary Funds
June 30, 2015

	Enterprise		Total Nonmajor Enterprise Funds
	Sallisaw Economic Authority	Sallisaw Industrial Finance Authority	
Assets			
Cash and cash equivalents	\$ 7,716	\$ -	\$ 7,716
Total assets	<u>7,716</u>	<u>-</u>	<u>7,716</u>
Deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Liabilities			
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Net position			
Net investment in capital assets	-	-	-
Restricted:			
Expendable	-	-	-
Unrestricted	(381,899)	-	(381,899)
Total net position	<u>\$ (381,899)</u>	<u>\$ -</u>	<u>\$ (381,899)</u>

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenses, and Changes in Net Position -
Nonmajor Proprietary Funds
Year Ended June 30, 2015

	Enterprise		Total Nonmajor Enterprise Funds
	Sallisaw Economic Authority	Sallisaw Industrial Finance Authority	
Operating revenues			
Charges for services:			
Other	\$ 18,000	\$ -	\$ 18,000
Total operating revenues	<u>18,000</u>	<u>-</u>	<u>18,000</u>
Operating expenses			
Economic development	11,225	-	11,225
Total operating expenses	<u>11,225</u>	<u>-</u>	<u>11,225</u>
Net operating income (loss)	6,775	-	6,775
Nonoperating revenues (expenses)			
Miscellaneous	263,760	-	263,760
Gain/(loss) on disposal of assets	(395,503)	-	(395,503)
Interest and fiscal charges	(34,546)	-	(34,546)
Total nonoperating revenues (expenses)	<u>(166,289)</u>	<u>-</u>	<u>(166,289)</u>
Operating transfers			
Total operating transfers	<u>-</u>	<u>-</u>	<u>-</u>
Net income (loss)	(159,514)	-	(159,514)
Net position, beginning	<u>167,230</u>	<u>-</u>	<u>167,230</u>
Net position, ending	<u>\$ 7,716</u>	<u>\$ -</u>	<u>\$ 7,716</u>

City of Sallisaw, Oklahoma
Combining Statement of Cash Flows –
Nonmajor Proprietary Funds
Year Ended June 30, 2015

	Enterprise		Total Nonmajor Enterprise Funds
	Sallisaw Economic Authority	Sallisaw Industrial Finance Authority	
Cash flows from operating activities			
Net operating income (loss)	\$ 6,775	\$ -	\$ 6,775
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	-	-	-
Net cash provided (used) by operating activities	<u>6,775</u>	<u>-</u>	<u>6,775</u>
Cash flows from noncapital financing activities			
(Increase) decrease in interfund receivables/payables	(169,166)	169,166	-
Miscellaneous revenues	<u>3,127</u>	<u>-</u>	<u>3,127</u>
Net cash provided (used) by noncapital financing activities	<u>(166,039)</u>	<u>169,166</u>	<u>3,127</u>
Cash flows from capital and related financing activities			
Forgiveness of debt	263,760	-	263,760
Principal paid on long-term debt	(1,093,875)	(167,222)	(1,261,097)
Interest expense and fiscal charges	(34,546)	-	(34,546)
Disposition of capital assets	<u>949,707</u>	<u>-</u>	<u>949,707</u>
Net cash provided (used) by capital and related financing activities	<u>85,046</u>	<u>(167,222)</u>	<u>(82,176)</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	(74,218)	1,944	(72,274)
Cash and cash equivalents, beginning	<u>81,934</u>	<u>(1,944)</u>	<u>79,990</u>
Cash and cash equivalents, ending	<u>\$ 7,716</u>	<u>\$ -</u>	<u>\$ 7,716</u>

City of Sallisaw, Oklahoma
Schedule of Debt Service Coverage
Year Ended June 30, 2015

Gross revenue available for debt service:

Operating revenues	\$ 18,268,428
Transfer of dedicated sales tax	2,840,438
Total gross revenues available	21,108,866
Operating expenses	12,832,974
Net revenues available for debt service	\$ 8,275,892

Debt service requirement:

Notes payable (principal and interest)	\$ 3,184,028
Total debt service requirement	\$ 3,980,035

Coverage	2.60
Coverage requirement	1.25

Compliance and Internal Control

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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, 2015, 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 December 8, 2015, which included an additional communication regarding prior period adjustments to beginning net position due to a change in accounting principle. We did not audit management's discussion and analysis, the budgetary comparison information, and the pension plan schedule of funding progress, 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2015-001 and 2015-002 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*.

City of Sallisaw's Response to Findings

The City of Sallisaw's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City of Sallisaw's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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
December 8, 2015

City of Sallisaw, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2015

Financial Statement Findings

2015-001 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 – Procedures and controls over the handling and documentation of the cash fund in the police department were not being followed in all cases. Required information such as case number and type of funds received (cash, check, etc.) was not always included on receipt prepared for payments received. Of the 19 receipts tested from May 2015, seven (7) did not indicate the type of funds received on the receipt copy. Additionally, no daily report was located for three (3) days during the test month of May 2015.

Cause and Effect – Lack of proper oversight by police department and city finance personnel was noted in an agreed-upon procedures engagement in the prior year. Procedures and controls have been implemented for most of the conditions noted to help ensure that all funds received are properly recorded and deposited.

Recommendation – Written procedures in place should be followed.

Responsible Official's Comments and Plan of Action – City management will review these findings with the appropriate personal and correct the deficiencies.

2015-002 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. Documentation issues noted previously have not been fully corrected. Of the twenty-five (25) items selected for testing on September 10, 2015, we noted the following issues:

- Unable to locate two (2) items.
- Five (5) items were located in the detective's office instead of the evidence room
- One item was noted as being in the evidence room but had not been sent to the OSBI
- Two (2) items were documented as having been destroyed by an officer but were still in the evidence locker.

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

Recommendation – Approved procedures and controls should be followed to properly document evidence obtained and on hand. Past documentation issues should be resolved.

Responsible Official's Comments and Plan of Action –

City management will review findings related to the evidence room with the Chief of Police and the Captains of the Police Department. City management will request that evidence room procedures be reviewed for any needed changes and also request that they perform training on proper handling of evidence.

City of Sallisaw, Oklahoma
Summary Schedule of Prior Audit Findings

Financial Statement Findings

2014-1 Police Department Cash Account

Condition – Proper procedures and controls over the handling and documentation of the cash fund in the police department were not in place. Required information such as case number and type of funds received (cash, check, etc.) was not always included on receipt prepared for payments received. Written procedures have not been finalized and approved.

Status – This condition has not been fully resolved.

2014-2 Police Department Evidence Room

Condition – Evidence obtained during traffic stops and arrests by Sallisaw police officers was not always documented properly as to location, description, or disposition. Auditor recommendations to establish procedures have been established in draft form, although the draft has not been approved or implemented. Documentation issues noted previously have not been fully corrected.

Status – This condition has not been fully resolved.

2014 – 3 Purchasing Cards

Condition – The City utilizes a “P-Card” for small purchases rather than using a purchase order process. Individual transaction and monthly limits have been established for each department. One department consistently uses its “P-Card” for purchases that exceed either the individual transaction or monthly limits. This requires a temporary increase in the limit. The increases are currently authorized by the purchasing agent.

Status – This condition has been resolved.

Federal Award Findings and Questioned Costs

There were no matters reported.

Other Information

City of Sallisaw, Oklahoma Other Information

Sales Tax Information

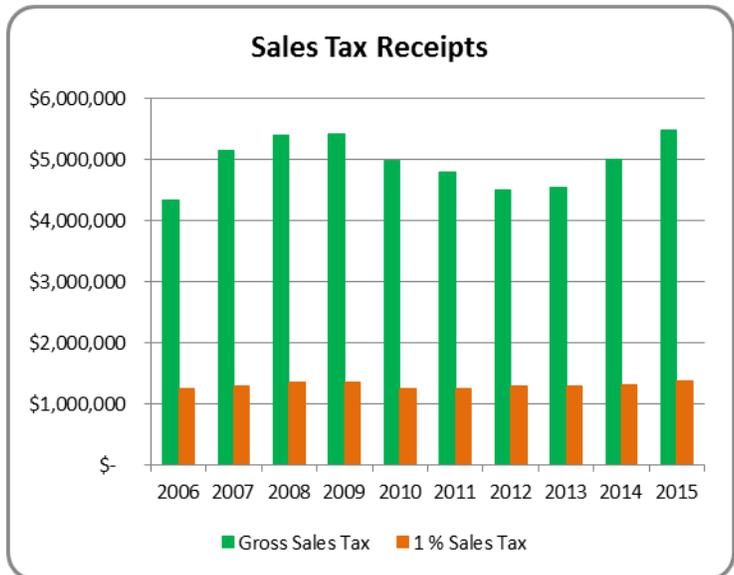
For the last three years, sales tax has averaged \$ 4,672,634 per year, or \$ 389,386 per month.

As of June 30, 2015 the sales tax rate within the city limits of Sallisaw was 9.917%, with 4.0% going to the City of Sallisaw. A breakdown of existing sales tax as of June 30, 2015 is as follows:

<u>Sales Tax Within Sallisaw</u>		<u>City Sales Tax Distribution</u>	
City Sales Tax	4.000%	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%	Sports Complex Construction	0.50%
Seq County Jail/Sheriff	0.500%	Seq Hospital Authority	0.50%
Total Tax within City Limits	9.917%	Total City Sales Tax	4.00%

Total Sales Tax Receipts FY 2006 to FY 2015

	Gross Sales Tax	1 % Sales Tax
2006	\$ 4,331,031	\$ 1,237,437
2007	\$ 5,135,894	\$ 1,283,974
2008	\$ 5,379,738	\$ 1,344,935
2009	\$ 5,417,630	\$ 1,354,407
2010	\$ 4,978,700	\$ 1,244,675
2011	\$ 4,783,756	\$ 1,246,821
2012	\$ 4,484,975	\$ 1,281,421
2013	\$ 4,532,990	\$ 1,295,140
2014	\$ 4,999,939	\$ 1,318,291
2015	\$ 5,479,703	\$ 1,369,926



U.S. Census Data

	Apr-2013	Apr-2014	Apr-2015
Population Data			
Total Population (U.S. Census 2010)	8,880	8,659	8,659
Number of citizens in labor force	3,443	4,881	4,881
Total Male Population	4,287	4,243	4,243
Total Female Population	4,593	4,416	4,416
Median Age	36.0	36.0	36.0
Total Population over Eighteen (18) years old	6,582	6,416	6,416
Per Capita Income (dollars)	\$ 16,892	\$ 16,874	\$ 16,874
Median Earnings	\$ 32,665	\$ 29,524	\$ 30,560
Percent of families below poverty level	17.1%	17.3%	17.3%
Percent of individuals below poverty level	18.2%	18.9%	22.4%
Education			
Number of students enrolled in public elementary schools	1,071	1,010	982
Number of students enrolled in public middle schools	453	424	378
Number of students enrolled in public high schools	645	620	622
Total Enrollment Sallisaw Public Schools	2,169	2,054	1,982
Total enrollment at Carl Albert State College	1,541	1,470	1,464
Total enrollment at Indian Capital Technology Center	968	755	790
City Facilities and Services			
Number of community centers	1	1	7
Number of parks	6	6	7
Number of lighted tennis courts	2	2	2
Number of public pools	1	1	1
Number of public golf courses	1	1	1
Number of police stations	1	1	1
Number of fire stations	2	2	2
Top Employers in Sallisaw			
People Inc.	400	400	300
Healthcare Innovations	400	400	400
Wal-Mart	300	300	300
Cherokee Nation	300	300	300
Sequoyah Memorial Hospital	264	264	240
Sallisaw School System	227	227	225
City of Sallisaw	120	123	123
Peter's Agency	100	100	221
SLW Automotive, Inc.	100	170	200
Cellofoam North America	70	85	120

Unemployment

As of June 2015, the unemployment rate for Sequoyah County was at 6.7%, compared to 4.5% for Oklahoma and 5.3% for the United States.

