

City of Sallisaw, Oklahoma

Report on Audit of Financial Statements



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Julia Ferguson

Council Members

Ronnie Lowe, Ward 1
Roena Poindexter, Ward 2
Julian Mendiola, Ward 3
Vicki Sawney, Ward 4

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City Manager

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Assistant City Manger

Director of Finance

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City Clerk/Treasurer

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Fiscal Year End June 30, 2014

City of Sallisaw, Oklahoma
Report on Audit of Financial Statements
June 30, 2014
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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, 2014, and the related notes to the financial statements, which collectively comprise the City of Sallisaw's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sallisaw as of June 30, 2014, 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 II.E.10. 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 schedule of funding progress on pages 4-13 and 42-45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

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 65 – 68 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 October 6, 2014, 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
Kansas, Oklahoma
October 6, 2014

City of Sallisaw, Oklahoma
Management's Discussion and Analysis
June 30, 2014

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, 2014. Please read it in conjunction with the City's financial statements, which begin on page 14.

Financial Highlights

- ❖ The assets of the City of Sallisaw exceeded its liabilities at the close of the most recent fiscal year by \$ 15,762,523 (net position). Of this amount, \$ 1,820,223 (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 \$ 414,683.
- ❖ As of the close of the current fiscal year, the City of Sallisaw's governmental funds reported combined ending fund balances of \$ 3,812,394, an increase of \$ 431,980 in comparison with the prior year. Approximately \$ 1,542,481 is available for spending at the government's discretion (unassigned fund balance).
- ❖ At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 1,542,481, or 23% of total general fund expenditures.
- ❖ The City of Sallisaw's total debt increased \$ 4,254,624 during the current fiscal year.
- ❖ Net capital assets decreased \$ 1,171,314 after deducting depreciation of \$ 2,462,306.

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 22–41 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 42–45 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 46–57 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 by \$ 15,762,523 at the close of the most recent fiscal year.

One portion of the City’s net position (\$ 10,765,815 or 68%) 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, 2014 and 2013

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Current assets	\$ 3,933,817	\$ 3,493,052	\$ 11,031,926	\$ 4,656,162	\$ 14,965,743	\$ 8,149,214
Capital and other noncurrent assets	6,719,641	7,078,603	37,398,595	39,707,913	44,118,236	46,786,516
Total assets	10,653,458	10,571,655	48,430,521	44,364,075	59,083,979	54,935,730
Deferred outflows	-	-	2,418,453	-	2,418,453	-
Current liabilities	537,562	534,044	4,026,328	3,391,864	4,563,890	3,925,908
Non-current liabilities	925,790	956,070	40,250,229	33,866,836	41,176,019	34,822,906
Total liabilities	1,463,352	1,490,114	44,276,557	37,258,700	45,739,909	38,748,814
Net position:						
Net investment in capital assets	5,842,193	6,144,687	4,923,622	4,663,913	10,765,815	10,808,600
Restricted	1,820,324	1,356,236	1,356,161	1,284,337	3,176,485	2,640,573
Unrestricted	1,527,589	1,580,618	292,634	318,049	1,820,223	1,898,667
Total net position	\$ 9,190,106	\$ 9,081,541	\$ 6,572,417	\$ 6,266,299	\$ 15,762,523	\$ 15,347,840

An additional portion of the City's net position (\$ 3,171,485 or 20%) represents resources that are subject to external restrictions on how they may be used, for example, capital improvements and debt service. The remaining balance of unrestricted net position (\$ 1,820,223) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net position increased by \$ 414,683 during the current fiscal year. This is mainly attributed to:

- An increase in total assets of \$ 4,148,249.
- An increase in total liabilities of \$ 6,991,095
- A decrease in net invested in capital assets of \$ 1,449,750.
- An increase in both restricted and unrestricted assets in the amount of \$ 1,025,357.

City of Sallisaw
Statement of Activities
Years Ended June 30, 2014 and 2013

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Program revenues:						
Charges for services	\$ 522,072	\$ 411,303	\$ 18,144,857	\$ 16,965,033	\$ 18,666,929	\$ 17,376,336
Grants/contributions	417,820	787,026	18,000	18,000	435,820	805,026
General revenues	6,219,830	5,421,977	2,526	14,933	6,222,356	5,436,910
Total revenues	7,159,722	6,620,306	18,165,383	16,997,966	25,325,105	23,618,272

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Expenses:						
General government	1,961,542	1,868,934	-	-	1,961,542	1,868,934
Public safety	2,996,743	2,977,683	-	-	2,996,743	2,977,683
Public works	1,918,922	1,844,290	-	-	1,918,922	1,844,290
Culture and recreation	749,868	711,771	-	-	749,868	711,771
Economic development	120,000	119,999	387,329	-	507,329	119,999
Electric	-	-	8,217,975	7,516,068	8,217,975	7,516,068
Water	-	-	2,534,426	2,654,842	2,534,426	2,654,842
Wastewater	-	-	826,500	781,751	826,500	781,751
Landfill	-	-	1,071,611	1,124,130	1,071,611	1,124,130
Sanitation	-	-	615,079	564,033	615,079	564,033
Telecommunications	-	-	2,748,599	2,836,374	2,748,599	2,836,374
Administration/other	31,951	40,138	729,877	802,663	761,828	842,801
Total expenses	<u>7,779,026</u>	<u>7,562,815</u>	<u>17,131,396</u>	<u>16,279,861</u>	<u>24,910,422</u>	<u>23,842,676</u>
Increase (decrease) in net position before transfers	(619,304)	(942,509)	1,033,987	718,105	414,683	(224,404)
Transfers, net	<u>727,869</u>	<u>1,070,343</u>	<u>(727,869)</u>	<u>(1,070,343)</u>	-	-
Increase in net position	108,565	127,834	306,118	(352,238)	414,683	(224,404)
Net position, beginning, restated	<u>9,081,541</u>	<u>8,953,707</u>	<u>6,266,299</u>	<u>6,618,537</u>	<u>15,347,840</u>	<u>15,572,244</u>
Net position, ending	<u>\$ 9,190,106</u>	<u>\$ 9,081,541</u>	<u>\$ 6,572,417</u>	<u>\$ 6,266,299</u>	<u>\$ 15,762,523</u>	<u>\$ 15,347,840</u>

Governmental activities. Governmental activities increased the City's net position by \$ 108,565. Key elements of this increase are as follows:

- An increase in total revenues of \$ 539,416.
- An increase in total expenses of \$ 216,211.
- A decrease in net transfers.

City of Sallisaw
Governmental Activities
Years Ended June 30, 2014 and 2013

	Program Revenues		Cost of Services	
	2014	2013	2014	2013
General government	\$ 5,419	\$ 26,154	\$ 1,961,542	\$ 1,868,934
Public safety	469,022	543,608	2,996,743	2,977,683
Public works	427,485	588,871	1,918,922	1,844,290
Culture and recreation	37,966	39,696	749,868	711,771
Economic development	-	-	120,000	119,999
Interest on long-term debt	-	-	31,951	40,138
Total governmental activities	<u>\$ 939,892</u>	<u>\$ 1,198,329</u>	<u>\$ 7,779,026</u>	<u>\$ 7,562,815</u>

Business-type activities. Business-type activities increased the City's net position by \$ 306,118. The key elements in this increase are:

- An increase in program revenues of \$ 1,167,417, mainly charges for services.
- Increase in total expenses of \$ 851,535, mainly the cost of purchasing electricity.
- A decrease in net transfers.

City of Sallisaw
Business-Type Activities
Years Ended June 30, 2014 and 2013

	<u>Program Revenues</u>		<u>Cost of Services</u>	
	2014	2013	2014	2013
Electric	\$ 10,699,116	\$ 9,617,274	\$ 8,217,975	\$ 7,516,068
Water	1,807,770	1,743,843	2,534,426	2,654,842
Wastewater	704,041	646,090	826,500	781,751
Sanitation	967,539	986,122	615,079	564,033
Landfill	1,174,676	1,178,910	1,071,611	1,124,130
Telecommunications	2,557,919	2,505,155	2,748,599	2,836,374
Administration/other	233,796	305,639	1,117,206	802,663
Total business-type activities	<u>\$ 18,144,857</u>	<u>\$ 16,983,033</u>	<u>\$ 17,131,396</u>	<u>\$ 16,279,861</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 \$ 3,812,394, an increase of \$ 431,980 in comparison with the prior year. Approximately 40% of this total amount (\$ 1,542,481) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been spent or is restricted, committed, or assigned by various outside sources or for certain projects or programs.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 1,542,481. 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 23% of total general fund expenditures. General fund revenues of \$ 6,702,792 represented an increase of \$ 1,126,738 over the prior year, due mainly to an increase in various tax revenues of \$ 620,879, an increase in intergovernmental revenues of \$ 153,182, and an increase in other revenues of \$ 251,409. Expenditures of \$ 6,675,447 were \$ 322,744 more than the prior year due to increases in expenditures related to General Government, Public Safety and Public Works. These expenditures include items such as employee compensation and benefit costs and various maintenance costs.

The capital improvements fund has a fund balance of \$ 830,992 at the end of the year, which represents an increase of \$ 302,429 over the prior year balance. Total expenditures of \$ 1,388,112 were \$ 263,768 higher than the previous year.

The other governmental funds have total fund balances of \$ 1,312,846, all of which is restricted, committed, or assigned. The net increase in fund balance during the current year in the other governmental funds was \$ 100,716.

This was the result of:

- An increase in the fund balance of the Street and Alley fund of \$ 75,547.
- An increase in the fund balance of the Fire Department Fund of \$ 19,535.
- An increase in the fund balance of the Police Department Fund of \$ 2,938.

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 \$ 674,533. The total increase in net position was \$ 380,875. Operating revenues showed an increase of \$ 1,239,572 due to rate adjustments that provided increases in utility revenues, mainly electric, water and wastewater revenues.

Operating expenses increased by \$ 583,706, mainly due to increases in cost of electricity.

Budgetary Highlights of Major Governmental Funds

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

During the year, revenues of \$ 6,431,667 were higher than budgetary estimates by \$ 911,342. This was primarily due to increases in sales tax collections and other increases in miscellaneous revenues.

Expenditures of \$ 10,270,667 were \$ 598,459 less than budget appropriations of \$ 10,889,126, due to budgetary constraints and efforts of city employees to save funds.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts to \$ 44,118,236 (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 vehicles for the electric, parks and water treatment departments.
- Purchase of a new aerial basket truck for the electric department.
- Various water line improvements in the amount of \$ 152,835.
- Upgrade of police department door security and video camera equipment
- Begin construction of the new Sallisaw Sports Complex.

City of Sallisaw
Capital Assets
June 30, 2014 and 2013
(net of depreciation)

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Land and easements	\$ 1,417,612	\$ 1,416,118	\$ 1,386,784	\$ 1,474,397	\$ 2,804,396	\$ 2,890,515
Construction in progress	214,976	127,592	429,595	-	644,571	127,592
Buildings and improvements	980,396	1,065,110	1,545,243	1,610,659	2,525,639	2,675,769
Infrastructure and improvements	2,520,938	2,747,812	10,720,418	11,015,612	13,241,356	13,763,424
Equipment and computers	864,973	830,726	1,410,740	1,765,452	2,275,713	2,596,178
Water and sewer facilities	-	-	21,236,404	22,001,461	21,236,404	22,001,461
Vehicles	720,744	891,245	669,414	343,367	1,390,158	1,234,612
Capital assets, net	<u>\$ 6,719,639</u>	<u>\$ 7,078,603</u>	<u>\$ 37,398,598</u>	<u>\$ 38,210,948</u>	<u>\$ 44,118,237</u>	<u>\$ 45,289,551</u>

Additional information of the City's capital assets can be found in Note III.D. on pages 30–31 of this report.

Long-term liabilities. At the end of the current fiscal year, the City had total long-term liabilities of \$ 43,580,481. This represents bonds secured solely by specified revenue sources (i.e., revenue bonds and notes) totaling \$ 34,550,000, other notes payable to banks and other governmental entities of \$ 5,867,735; and \$ 877,448 in capital lease obligations. Other non-current liabilities were the landfill closure and post-closure liability of \$ 1,796,985, and \$ 488,313 for accrued compensated absences.

The City's total debt increased \$ 4,254,625 during the current fiscal year. The key factors in this increase were:

- Issuance of \$ 5,325,000 in Sales Tax Revenue Bonds and \$ 120,000 in notes payable for the new Sallisaw Sports Complex.
- Increase in landfill closure and post closure cost in the amount of \$ 132,040.
- Increase in accrued compensated absences of \$ 44,753.

City of Sallisaw
Long-Term Liabilities
June 30, 2014 and 2013

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Capital lease obligations	\$ 877,448	\$ 933,916	\$ -	\$ -	\$ 877,448	\$ 933,916
Revenue bonds	-	-	34,550,000	30,325,000	34,550,000	30,325,000
Notes payable	-	-	5,867,735	5,958,435	5,867,735	5,958,435
Landfill closure & post closure liability	-	-	1,796,985	1,664,945	1,796,985	1,664,945
Accrued compensated absences	488,313	443,560	-	-	488,313	443,560
Total outstanding debt	<u>\$ 1,365,761</u>	<u>\$ 1,377,476</u>	<u>\$ 42,214,720</u>	<u>\$ 37,948,380</u>	<u>\$ 43,580,481</u>	<u>\$ 39,325,856</u>

Additional information on the City's long-term liabilities can be found in Note III.F. on pages 32–35 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 2015 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.
- Cost of providing city services where no revenues are derived.
- Operations and cost of maintaining the new sports complex currently under construction.
- Future capital outlays for the landfill facility and other utility infrastructure.
- Future raw water supply to complement existing Brushy Lake.
- Location and construction of a new animal shelter.

Items of note included in the FY 2015 budget include:

- \$ 100,000 appropriations for a new animal shelter.
- Appropriation for equipment for the new sports complex.
- For the Police Department, appropriation for new police patrol units.
- For the Street Department, appropriations for a new dump truck and street compactor.
- For the Fire Department, appropriations for a new grass fire unit and utility vehicle.
- For meter reading, appropriations for four new handheld computers and new software.
- In the General Fund, \$ 115,000 was included in the contingency account for possible salary adjustments, dependent on salary surveys and studies to be completed during FY 2015.

For fiscal year 2015, revenues related to sales tax receipts are expected to remain static, only increasing due to the new ½ cent sales tax approved for the new Sallisaw Sports Complex.

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.



City of Sallisaw, Oklahoma
Statement of Net Position
June 30, 2014

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,207,642	\$ 816,415	\$ 3,024,057
Investments	1,094,091	448,623	1,542,714
Receivables (net of allowance for uncollectibles)	635,891	2,083,121	2,719,012
Internal balances	(102,977)	102,977	-
Prepaid expenses	99,170	-	99,170
Restricted assets:			
Cash and investments	-	7,580,790	7,580,790
Capital assets (net of accumulated depreciation)	6,719,641	37,398,595	44,118,236
Total assets	<u>10,653,458</u>	<u>48,430,521</u>	<u>59,083,979</u>
Deferred outflows of resources			
Loss on refunding of debt	-	2,418,453	2,418,453
Total deferred outflows of resources	<u>-</u>	<u>2,418,453</u>	<u>2,418,453</u>
Liabilities			
Accounts payable and accrued liabilities	97,591	899,628	997,219
Payable from restricted assets:			
Accrued interest	-	508,425	508,425
Customer deposits	-	653,784	653,784
Long-term liabilities:			
Due within one year	439,971	1,964,491	2,404,462
Due in more than one year	925,790	40,250,229	41,176,019
Total liabilities	<u>1,463,352</u>	<u>44,276,557</u>	<u>45,739,909</u>
Net position			
Net investment in capital assets	5,842,193	4,923,622	10,765,815
Restricted for:			
Enabling legislation	830,992	-	830,992
Statutes	573,485	-	573,485
Debt service	-	1,356,161	1,356,161
Contractual agreement	415,847	-	415,847
Unrestricted	1,527,589	292,634	1,820,223
Total net position	<u>\$ 9,190,106</u>	<u>\$ 6,572,417</u>	<u>\$ 15,762,523</u>

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

City of Sallisaw, Oklahoma
Statement of Activities
Year Ended June 30, 2014

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 1,961,542	\$ 5,419	\$ -	\$ -
Public safety	2,996,743	197,310	265,539	6,173
Public works	1,918,922	281,377	11,871	134,237
Culture and recreation	749,868	37,966	-	-
Economic development	120,000	-	-	-
Interest on long-term debt	31,951	-	-	-
Total governmental activities	<u>7,779,026</u>	<u>522,072</u>	<u>277,410</u>	<u>140,410</u>
Business-type activities:				
Administration	65,156	233,796	-	-
Electric	8,217,975	10,699,116	-	-
Water	2,534,426	1,807,770	-	-
Wastewater	826,500	704,041	-	-
Landfill	1,071,611	1,174,676	-	-
Sanitation	615,079	967,539	-	-
Telecommunications	2,748,599	2,557,919	-	-
Economic development	387,329	-	18,000	-
Other	664,721	-	-	-
Total business-type activities	<u>17,131,396</u>	<u>18,144,857</u>	<u>18,000</u>	<u>-</u>
Total primary government	<u>\$ 24,910,422</u>	<u>\$ 18,666,929</u>	<u>\$ 295,410</u>	<u>\$ 140,410</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
\$ (1,956,123)	\$ -	\$ (1,956,123)
(2,527,721)	-	(2,527,721)
(1,491,437)	-	(1,491,437)
(711,902)	-	(711,902)
(120,000)	-	(120,000)
(31,951)	-	(31,951)
<u>(6,839,134)</u>	<u>-</u>	<u>(6,839,134)</u>
-	168,640	168,640
-	2,481,141	2,481,141
-	(726,656)	(726,656)
-	(122,459)	(122,459)
-	103,065	103,065
-	352,460	352,460
-	(190,680)	(190,680)
-	(369,329)	(369,329)
-	(664,721)	(664,721)
-	<u>1,031,461</u>	<u>1,031,461</u>
<u>(6,839,134)</u>	<u>1,031,461</u>	<u>(5,807,673)</u>
5,322,322	-	5,322,322
127,921	-	127,921
327,244	-	327,244
6,547	17,078	23,625
448,895	8,047	456,942
(13,099)	(22,599)	(35,698)
727,869	(727,869)	-
<u>6,947,699</u>	<u>(725,343)</u>	<u>6,222,356</u>
108,565	306,118	414,683
<u>9,081,541</u>	<u>6,266,299</u>	<u>15,347,840</u>
<u>\$ 9,190,106</u>	<u>\$ 6,572,417</u>	<u>\$ 15,762,523</u>

City of Sallisaw, Oklahoma
Fund Balance Sheet
Governmental Funds
June 30, 2014

	General	Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 383,236	\$ 770,570	\$ 1,053,836	\$ 2,207,642
Investments	865,199	-	228,892	1,094,091
Receivables:				
Accounts	52,870	-	-	52,870
Taxes	536,920	-	6,442	543,362
Due from other governments	-	-	14,926	14,926
Municipal court fines	24,453	-	-	24,453
Accrued interest	162	-	118	280
Due from other funds	347,728	60,422	8,757	416,907
Prepaid expenses	99,170	-	-	99,170
Total assets	\$ 2,309,738	\$ 830,992	\$ 1,312,971	\$ 4,453,701
 Liabilities, deferred inflows and fund balances:				
Liabilities:				
Accounts payable and accrued liabilities	\$ 97,466	\$ -	\$ 125	\$ 97,591
Due to other funds	519,884	-	-	519,884
Total liabilities	617,350	-	125	617,475
Deferred inflows of resources:				
Deferred revenue	23,832	-	-	23,832
Total deferred inflows of resources	23,832	-	-	23,832
Fund balances:				
Nonspendable	99,170	-	-	99,170
Restricted	-	-	805,533	805,533
Committed	26,905	-	132,303	159,208
Assigned	-	830,992	375,010	1,206,002
Unassigned	1,542,481	-	-	1,542,481
Total fund balances	1,668,556	830,992	1,312,846	3,812,394
Total liabilities, deferred inflows of resources, and fund balances	\$ 2,309,738	\$ 830,992	\$ 1,312,971	\$ 4,453,701

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, 2014

	General	Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 5,604,022	\$ -	\$ -	\$ 5,604,022
Licenses and permits	40,393	-	-	40,393
Intergovernmental	213,979	-	341,808	555,787
Fines and forfeitures	170,191	-	-	170,191
Charges for services	251,856	-	35,800	287,656
Other	417,371	46,916	20,108	484,395
Interest	4,980	547	1,019	6,546
Total revenues	<u>6,702,792</u>	<u>47,463</u>	<u>398,735</u>	<u>7,148,990</u>
Expenditures				
General government	1,871,354	-	-	1,871,354
Public safety	2,637,819	-	151,538	2,789,357
Public works	1,325,395	-	220	1,325,615
Economic development	120,000	-	-	120,000
Culture and recreation	696,086	-	6,383	702,469
Debt service:				
Principal	-	512,728	-	512,728
Interest	-	31,951	-	31,951
Capital outlay	24,793	843,433	251,149	1,119,375
Total expenditures	<u>6,675,447</u>	<u>1,388,112</u>	<u>409,290</u>	<u>8,472,849</u>
Excess of revenues over (under) expenditures	27,345	(1,340,649)	(10,555)	(1,323,859)
Other financing sources (uses)				
Proceeds from capital lease obligations	-	456,260	-	456,260
Transfers in	5,651,083	1,186,818	123,367	6,961,268
Transfers out	(5,649,593)	-	(12,096)	(5,661,689)
Total other financing sources (uses)	<u>1,490</u>	<u>1,643,078</u>	<u>111,271</u>	<u>1,755,839</u>
Net change in fund balances	28,835	302,429	100,716	431,980
Fund balances, beginning	<u>1,639,721</u>	<u>528,563</u>	<u>1,212,130</u>	<u>3,380,414</u>
Fund balances, ending	<u>\$ 1,668,556</u>	<u>\$ 830,992</u>	<u>\$ 1,312,846</u>	<u>\$ 3,812,394</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, 2014

Total fund balance - governmental funds	\$ 3,812,394
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.	6,719,641
Long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds	23,832
Long-term liabilities are not due and payable in the current period and therefore are not reported in funds:	
Capital lease obligations	(877,448)
Accrued compensated absences	(488,313)
	<u> </u>
Net position of governmental activities	\$ 9,190,106
	<u> </u>
Net change in fund balances – total governmental funds	\$ 431,980
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	264,152
Depreciation expense	(610,041)
Net book value of disposals	(13,072)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Change in deferred revenue	23,832
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	(456,260)
Capital lease principal payments	512,728
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	(44,753)
Change in net position of governmental activities	\$ 108,566
	<u> </u>
	<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, 2014

	Enterprise Funds		Totals
	Sallisaw Municipal Authority	Nonmajor Enterprise Funds	
Assets			
Cash and cash equivalents	\$ 736,425	\$ 79,990	\$ 816,415
Investments	448,623	-	448,623
Receivables:			
Accounts (net of allowance for uncollectibles)	1,874,016	-	1,874,016
Accrued interest	345	-	345
Due from other funds	571,550	169,166	740,716
Restricted assets:			
Cash and cash equivalents	164,908	-	164,908
Investments	7,415,882	-	7,415,882
Notes receivable	208,760	-	208,760
Capital assets (net of accumulated depreciation)	36,050,258	1,348,337	37,398,595
Total assets	<u>47,470,767</u>	<u>1,597,493</u>	<u>49,068,260</u>
Deferred outflows of resources			
Loss on refunding of debt	2,418,453	-	2,418,453
Total deferred outflows of resources	<u>2,418,453</u>	<u>-</u>	<u>2,418,453</u>
Liabilities			
Accounts payable and accrued liabilities	899,629	-	899,629
Payable from restricted assets:			
Accrued interest payable	508,425	-	508,425
Customer deposits	653,784	-	653,784
Due to other funds	468,571	169,166	637,737
Noncurrent liabilities:			
Due within one year	1,875,739	88,752	1,964,491
Due in more than one year	39,077,885	1,172,345	40,250,230
Total liabilities	<u>43,484,033</u>	<u>1,430,263</u>	<u>44,914,296</u>
Deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Net position			
Net investment in capital assets	4,374,493	549,129	4,923,622
Restricted:			
Expendable	1,356,161	-	1,356,161
Unrestricted	674,533	(381,899)	292,634
Total net position	<u>\$ 6,405,187</u>	<u>\$ 167,230</u>	<u>\$ 6,572,417</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, 2014

	Enterprise Funds		Totals
	Sallisaw Municipal Authority	Nonmajor Enterprise Funds	
Operating revenues			
Charges for services:			
Electric	\$ 10,699,116	\$ -	\$ 10,699,116
Water	1,807,770	-	1,807,770
Wastewater	704,041	-	704,041
Landfill	1,174,676	-	1,174,676
Sanitation	967,539	-	967,539
Telecommunications	2,557,919	-	2,557,919
Other	226,044	-	226,044
Total operating revenues	<u>18,137,105</u>	<u>-</u>	<u>18,137,105</u>
Operating expenses			
Administration	64,096	-	64,096
Electric	8,065,243	-	8,065,243
Water	766,658	-	766,658
Wastewater	553,209	-	553,209
Landfill	718,332	-	718,332
Sanitation	552,241	-	552,241
Telecommunications	2,097,724	-	2,097,724
Economic development	-	2,885	2,885
Depreciation	1,811,602	40,663	1,852,265
Bad debt expense	96,659	-	96,659
Total operating expenses	<u>14,725,764</u>	<u>43,548</u>	<u>14,769,312</u>
Net operating income (loss)	3,411,341	(43,548)	3,367,793
Nonoperating revenues (expenses)			
Miscellaneous revenues	13,798	20,000	33,798
Interest income	17,078	-	17,078
Gain (loss) on disposal of assets	(22,599)	-	(22,599)
Interest expense and fiscal charges	(1,506,578)	(51,209)	(1,557,787)
Debt issuance costs	(139,575)	-	(139,575)
Payments to hospital	(664,721)	-	(664,721)
Total nonoperating revenues (expenses)	<u>(2,302,597)</u>	<u>(31,209)</u>	<u>(2,333,806)</u>
Operating transfers			
Transfers in	7,763,752	-	7,763,752
Transfers (out)	(8,491,621)	-	(8,491,621)
Total operating transfers	<u>(727,869)</u>	<u>-</u>	<u>(727,869)</u>
Net income (loss)	380,875	(74,757)	306,118
Net position, beginning, restated	<u>6,024,312</u>	<u>241,987</u>	<u>6,266,299</u>
Net position, ending	<u>\$ 6,405,187</u>	<u>\$ 167,230</u>	<u>\$ 6,572,417</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, 2014

	Enterprise Funds		Totals
	Sallisaw Municipal Authority	Nonmajor Enterprise Funds	
Cash flows from operating activities			
Net operating income (loss)	\$ 3,411,341	\$ (43,548)	\$ 3,367,793
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	1,811,602	40,663	1,852,265
(Increase) decrease in assets:			
Accounts receivable	(75,763)	-	(75,763)
Increase (decrease) in liabilities:			
Accounts payable	144,676	-	144,676
Customer deposits	907	-	907
Accrued landfill closure costs	132,039	-	132,039
Net cash provided (used) by operating activities	<u>5,424,802</u>	<u>(2,885)</u>	<u>5,421,917</u>
Cash flows from noncapital financing activities			
(Increase) decrease in interfund receivables/payables	(83,346)	-	(83,346)
(Increase) decrease in notes receivable	(118,760)	-	(118,760)
Miscellaneous revenues/ (expenses)	(650,923)	20,000	(630,923)
Operating transfers in (out)	(727,869)	-	(727,869)
Net cash provided (used) by noncapital financing activities	<u>(1,580,898)</u>	<u>20,000</u>	<u>(1,560,898)</u>
Cash flows from capital and related financing activities			
Proceeds from long-term debt	5,445,000	118,760	5,563,760
Principal paid on long-term debt	(1,383,361)	(46,101)	(1,429,462)
Debt issuance costs	(139,975)	-	(139,975)
Interest expense and fiscal charges	(1,319,090)	(51,209)	(1,370,299)
(Increase) decrease in restricted assets	(5,196,777)	-	(5,196,777)
Acquisition/construction of capital assets	(1,062,113)	-	(1,062,113)
Net cash provided (used) by capital and related financing activities	<u>(3,656,316)</u>	<u>21,450</u>	<u>(3,634,866)</u>
Cash flows from investing activities			
(Increase) decrease in investments	98,679	-	98,679
Interest income	16,733	-	16,733
Net cash provided (used) by investing activities	<u>115,412</u>	<u>-</u>	<u>115,412</u>
Net increase (decrease) in cash and cash equivalents	303,000	38,565	341,565
Cash and cash equivalents, beginning	<u>433,425</u>	<u>41,425</u>	<u>474,850</u>
Cash and cash equivalents, ending	<u>\$ 736,425</u>	<u>\$ 79,990</u>	<u>\$ 816,415</u>

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

City of Sallisaw, Oklahoma
Notes to Financial Statements
June 30, 2014

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.

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. 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.

E. 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. New accounting pronouncements adopted in 2014

The City implemented the following Governmental Accounting Standards Board (GASB) pronouncements during the fiscal year ended June 30, 2014:

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. Adjustments were made in the government-wide financial statements and the proprietary fund financial statements to beginning net position to reflect the write-off of unamortized debt issuance costs recorded previously as assets.

GASB Statement No. 66 – *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. This had no impact on the financial report.

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This had no impact on the financial report.

11. Budgetary information

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

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

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

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

III. Detailed notes on all funds

A. Deposits and investments

Deposits

The City's carrying amount of deposits was \$ 3,184,935 as of June 30, 2014, and the bank balances totaled \$ 3,307,662. 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, 2014, none of the City's bank balances of \$ 3,307,662 was exposed to custodial credit risk.

Investments

As of June 30, 2014, the City had the following investments.

Investment	Maturities	Fair Value
Certificates of deposit	< 182 days	\$ 2,031,596
U.S. Treasury Mutual Funds	n/a	6,926,999
Total		<u>\$ 8,958,595</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, 2014, 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 77 % and 23 %, respectively, of the City's total investments.

B. Receivables

Receivables as of June 30, 2014, 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	\$ 536,920	\$ 6,442	\$ -	\$ 543,362
Accounts	52,870	-	1,980,580	2,033,450
Due from other governments	-	14,926	-	14,926
Accrued interest	162	118	345	625
Municipal court fines	30,566	-	-	30,566
Notes receivable	-	-	208,760	208,760
Gross receivables	620,518	21,486	2,189,685	2,831,689
Less: allowance for uncollectibles	(6,113)	-	(106,564)	(112,677)
Net total receivables	<u>\$ 614,405</u>	<u>\$ 21,486</u>	<u>\$ 2,083,121</u>	<u>\$ 2,719,012</u>

Notes receivable – The Sallisaw Municipal Authority made loans totaling \$ 208,760 over the last several years to the Sallisaw Economic Authority to help with debt service payments by

SEA. The loans were approved by the respective boards of the two trust authorities and are interest-free. The loans are due and payable in fiscal year 2023.

C. Restricted cash and investments

The Sallisaw Municipal Authority Revenue Bonds Series 2009, the Sallisaw Municipal Authority Utility System Refunding Revenue Bonds, Series 2013, 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, 2014:

	Enterprise Funds Sallisaw Municipal Authority				Meter Deposit Fund	Total
	Series 2009 Revenue Bonds	Series 2010 Revenue Bonds	Series 2012 Revenue Bonds	Series 2013 Revenue Bonds		
Restricted assets:						
Sinking fund	\$ 338,088	\$ 119,286	\$ 865,576	\$ 541,629	\$ -	\$ 1,864,579
Construction fund	346,121	-	-	4,716,299	-	5,062,420
Customer deposits	-	-	-	-	653,790	653,790
Total restricted assets	<u>\$ 684,209</u>	<u>\$ 119,286</u>	<u>\$ 865,576</u>	<u>\$ 5,257,928</u>	<u>\$ 653,790</u>	<u>\$ 7,580,789</u>

D. Capital assets

Capital asset balances and activities for the year ended June 30, 2014, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,416,118	\$ 1,494	\$ -	\$ 1,417,612
Construction in progress	127,592	87,384	-	214,976
Total capital assets, not being depreciated	<u>1,543,710</u>	<u>88,878</u>	<u>-</u>	<u>1,632,588</u>
Capital assets, being depreciated:				
Buildings and improvements	2,710,497	-	(21,809)	2,688,688
Infrastructure and other improvements	4,494,189	-	-	4,494,189
Equipment and computers	2,432,886	175,273	(43,862)	2,564,297
Vehicles	3,000,089	-	(60,863)	2,939,226
Total capital assets, being depreciated	<u>12,637,661</u>	<u>175,273</u>	<u>(126,534)</u>	<u>12,686,400</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,645,385)	(84,716)	21,809	(1,708,292)
Infrastructure and other improvements	(1,746,377)	(226,874)	-	(1,973,251)
Equipment and computers	(1,602,161)	(127,950)	30,789	(1,699,322)
Vehicles	(2,108,843)	(170,501)	60,862	(2,218,482)
Total accumulated depreciation	<u>(7,102,766)</u>	<u>(610,041)</u>	<u>113,460</u>	<u>(7,599,347)</u>
Total capital assets, being depreciated, net	<u>5,534,895</u>	<u>(434,768)</u>	<u>(13,074)</u>	<u>5,087,053</u>
Governmental activities capital assets, net	<u>\$ 7,078,605</u>	<u>\$ (345,890)</u>	<u>\$ (13,074)</u>	<u>\$ 6,719,641</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land and easements	\$ 1,474,398	\$ -	\$ (87,614)	\$ 1,386,784
Construction in progress	-	429,595	-	429,595
Total capital assets, not being depreciated	<u>1,474,398</u>	<u>429,595</u>	<u>(87,614)</u>	<u>1,816,379</u>
Capital assets, being depreciated:				
Buildings and improvements	2,300,859	-	(4,500)	2,296,359
Infrastructure and other improvements	17,101,534	250,164	-	17,351,698
Water and sewer treatment facilities	28,270,909	-	-	28,270,909
Equipment	2,912,215	22,553	-	2,934,768
Vehicles	1,635,046	425,217	-	2,060,263
Total capital assets, being depreciated	<u>52,220,563</u>	<u>697,934</u>	<u>(4,500)</u>	<u>52,913,997</u>
Less accumulated depreciation for:				
Buildings and improvements	(690,200)	(65,416)	4,500	(751,116)
Infrastructure and other improvements	(5,924,209)	(707,071)	-	(6,631,280)
Water and sewer treatment facilities	(6,269,434)	(765,071)	-	(7,034,505)
Equipment	(1,308,494)	(215,537)	-	(1,524,031)
Vehicles	(1,291,679)	(99,170)	-	(1,390,849)
Total accumulated depreciation	<u>(15,484,016)</u>	<u>(1,852,265)</u>	<u>4,500</u>	<u>(17,331,781)</u>
Total capital assets, being depreciated, net	<u>36,736,547</u>	<u>(1,154,331)</u>	<u>-</u>	<u>35,582,216</u>
Business-type activities capital assets, net	<u>\$ 38,210,945</u>	<u>\$ (724,736)</u>	<u>\$ (87,614)</u>	<u>\$ 37,398,595</u>

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

Governmental activities:	
General government	\$ 46,215
Public safety	161,996
Public works	359,596
Cultural and recreation	42,234
Total depreciation expense – governmental activities	<u>\$ 610,041</u>
Business-type activities:	
Electric	\$ 94,793
Water	733,278
Wastewater	269,428
Landfill	344,281
Sanitation	58,010
Telecommunications	311,812
Economic development	40,663
Total depreciation expense – business-type activities	<u>\$ 1,852,265</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, 2014, cash and investments included \$ 653,790 available for refund of customer deposits, while the liability to customers was \$ 653,784.

F. Non-current liabilities

Governmental activities

Compensated absences \$ 488,313

Capital Leases

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

Armstrong Bank dated December 1, 2012, in the amount of \$ 689,000, payable in monthly installments of \$ 12,683 including interest at 3.89% for two (2) landfill compactors.	348,436
Armstrong Bank dated December 21, 2012, in the amount of \$ 121,250, payable in monthly installments of \$ 3,539 including interest at 3.20% for 2013 Freightliner sanitation truck.	20,926
National Bank of Sallisaw dated December 1, 2011, in the amount of \$ 211,169, payable in monthly installments of \$ 6,154 including interest at 3.20% for eight (8) police vehicles.	30,527
Armstrong Bank dated July 24, 2012, in the amount of \$ 124,749, payable in monthly installments of \$ 3,641 including interest at 3.24% for Caterpillar dozer.	46,370
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.	67,461
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.	121,963
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.	160,458
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.	<u>81,307</u>
Total capital lease obligations	877,448
Total governmental activities	<u>\$ 1,365,761</u>

Business-type activities

Sallisaw Municipal Authority

Landfill closure and post-closure liability	\$ 1,796,985
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Revenue bonds:

\$ 8,475,000 Sallisaw Municipal Authority Utility System Refunding Revenue Bonds, Series 2009, due annually in amounts from \$ 305,000 to \$ 645,000 plus semi-annual interest of 4.45%, with final maturity at January 1, 2028 secured by a first mortgage on the leasehold of the telecommunications system and, subject to the mortgage securing the Series 2002 bonds, a second mortgage on the leasehold of the water, sanitary sewer, electric, and garbage collection systems.	7,065,000
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\$ 19,415,000 Sallisaw Municipal Authority Refunding Revenue Bonds, Series 2012A, due annually in amounts from \$ 215,000 to \$ 1,455,000, plus semi-annual interest from 1.00% to 4.00% with final maturity at September 1, 2035, secured by SMA water, sewer, electric, telecommunications, and garbage collection systems, and a pledge of its net revenues, proceeds used to defease the Series 2005 bonds.	19,200,000
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\$ 2,935,000 Sallisaw Municipal Authority Taxable Refunding Revenue Bonds, Series 2012B, due annually in amounts from \$ 475,000 to \$ 505,000, plus semi-annual interest from 0.96% to 2.15%, with final maturity at September 1, 2018, secured by SMA water, sewer, electric, telecommunications, and garbage collection systems, and a pledge of its net revenues, proceeds used to defease the Series 2005 bonds.	2,460,000
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\$ 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
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\$ 55,000 Sallisaw Municipal Authority Taxable Revenue Refunding Bonds, Series 2012D, due annually in amounts from \$ 25,000 to \$ 30,000 plus semi-annual interest of 3.00% with final maturity at September 1, 2014, secured by the Sallisaw Municipal Authority water, sewer, and electric systems and facilities, and a pledge of its net revenues.	30,000
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\$ 5,325,000 Sallisaw Municipal Authority Sales Tax Revenue Bonds, Series 2013, 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.	5,325,000
Total revenue bonds	<u>34,550,000</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.	120,000
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Note payable to Oklahoma Water Resources Board, dated March 2, 2010, authorized in the amount of \$ 5,360,000, due and payable in semi-annual installments of \$ 15,747 including interest at 2.58%, plus an administrative fee of .05%, secured by water system. 4,486,638

Sallisaw Economic Authority:

Note payable to Sallisaw Improvement Corporation, due and payable on or before June 30, 2015, with interest at 0.00%, for the Cello foam project 43,352

Note payable to Sallisaw Municipal Authority in the amount of \$ 208,760 due and payable on or before May 13, 2023. 208,760

Note payable to Firstar Bank of Sallisaw, dated October 4, 2005, in the amount of \$ 980,000, due and payable in monthly installments of \$ 5,998 including interest at 6.00% secured by real estate located in the Sallisaw Industrial Park. 841,761

Sallisaw Industrial Finance Authority:

CDBG note payable to the Oklahoma Department of Commerce, dated May 16, 2006, in the amount of \$ 350,000, due and payable in monthly installments of \$ 1,944, including interest at 0.00% secured by pledge of lease agreement and revenues from Sallisaw Improvement Corporation. 167,224

Total notes payable	5,867,735
Total business-type activities	42,214,720
Total non-current liabilities	<u>\$ 43,580,481</u>

Non-current liabilities transactions for the year ended June 30, 2014, and changes therein were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities					
Compensated absences	\$ 443,560	\$ 44,753	\$ -	\$ 488,313	\$ -
Capital leases	933,916	456,260	(512,728)	877,448	439,971
Total governmental activities	<u>1,377,476</u>	<u>501,013</u>	<u>(512,728)</u>	<u>1,365,761</u>	<u>439,971</u>
Business-type activities					
Landfill closure & post-closure liability	1,664,945	132,039	-	1,796,985	-
Revenue bonds:					
Series 2009	7,450,000	-	(385,000)	7,065,000	400,000
Series 2012A	19,415,000	-	(215,000)	19,200,000	215,000
Series 2012B	2,935,000	-	(475,000)	2,460,000	480,000
Series 2012C	470,000	-	-	470,000	-
Series 2012D	55,000	-	(25,000)	30,000	30,000
Series 2013	-	5,325,000	-	5,325,000	500,000
Notes payable:					
National Bank of Sallisaw	78,194	120,000	(78,194)	120,000	39,115
OWRB	4,691,805	-	(205,167)	4,486,638	211,624
Sallisaw Improvement Corporation	45,352	-	(2,000)	43,352	43,352
Sallisaw Municipal Authority	90,000	118,760	-	208,760	-
Firstar Bank of Sallisaw	862,528	-	(20,767)	841,761	22,067
CDBG/EDIF	190,557	-	(23,333)	167,224	23,333
Total business-type activities	<u>37,948,381</u>	<u>5,695,799</u>	<u>(1,429,461)</u>	<u>42,214,720</u>	<u>1,964,491</u>
Total long-term debt	<u>\$ 39,325,857</u>	<u>\$ 6,196,812</u>	<u>\$ (1,942,189)</u>	<u>\$ 43,580,481</u>	<u>\$ 2,404,462</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
2015	\$ 439,971	\$ 19,745
2016	317,601	8,461
2017	119,876	965
2018	-	-
2019	-	-
Totals	<u>\$ 877,448</u>	<u>\$ 29,171</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
2015	\$ 1,625,000	\$ 1,212,106	\$ 339,491	\$ 190,637
2016	1,640,000	1,176,073	1,100,934	145,926
2017	1,675,000	1,136,009	289,380	125,459
2018	1,705,000	1,092,771	255,561	117,886
2019	1,745,000	1,048,153	262,869	110,578
2020–2024	9,600,000	4,275,936	1,574,435	435,453
2025–2029	7,545,000	2,550,826	1,535,918	214,654
2030–2034	6,160,000	1,208,460	509,147	16,026
2035–2039	2,855,000	115,300	-	-
Totals	<u>\$ 34,550,000</u>	<u>\$ 13,815,634</u>	<u>\$ 5,867,735</u>	<u>\$ 1,356,619</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. Debt issuance costs

Debt issuance costs of \$139,575 incurred with the issuance of the Series 2013 bonds were charged to expense, while unamortized debt issuance costs from prior years of \$ 1,406,965 were charged against beginning net position as a prior period adjustment due to a change in accounting principle in accordance with GASB Statement No. 65.

I. 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	\$ 488,313

J. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2014, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General fund	Sallisaw Municipal Authority	\$ 347,728
Capital improvements fund	Sallisaw Municipal Authority	60,421
Nonmajor governmental	General fund	8,757
Sallisaw Municipal Authority	General fund	511,128
Sallisaw water projects fund	Sallisaw Municipal Authority	60,422
Nonmajor enterprise	Nonmajor enterprise	169,166
Total		<u>\$ 1,157,622</u>

Interfund transactions:

	Transfers Out			Totals
	General Fund	Nonmajor Governmental	Sallisaw Municipal Authority	
Transfer in:				
General fund	\$ -	\$ -	\$ 5,651,083	\$ 5,651,083
Capital improvements fund	216,000	-	970,818	1,186,818
Nonmajor governmental	111,271	12,096	-	123,367
Sallisaw Municipal Authority	5,322,322	-	-	5,322,322
SMA Water Projects	-	-	1,869,721	1,869,721
Totals	<u>\$ 5,649,593</u>	<u>\$ 12,096</u>	<u>\$ 8,491,622</u>	<u>\$ 14,153,311</u>

In addition to the above transfers, \$ 571,709 expended in governmental funds for capital projects was reclassified and transferred to the Sallisaw Municipal Authority Water Projects fund for purposes of the government-wide financial statements. These amounts are included in transfers for the proprietary fund statements.

K. Landfill closure and post-closure liability

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

The \$ 1,796,985 reported as other noncurrent liabilities for the accrued landfill closure cost liability as of June 30, 2014, represents the cumulative amount of such cost reported to date based on the use of approximately 63.00 % 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 \$ 1,055,372 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 2014. 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, 2014, are as follows:

Estimated closure costs	\$ 1,270,276
Estimated post-closure costs	<u>1,582,081</u>
Total estimated costs	2,852,357
Accrued closure costs	<u>1,796,985</u>
Current estimated costs charged to expense	<u>\$ 132,039</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 of Sallisaw participates in the Oklahoma State Police Pension and Retirement System (OPPRS) and the Oklahoma State Firefighters' Pension and Retirement System (OFPRS), both of which are cost-sharing multiple-employer defined benefit pension plans administered by the State of Oklahoma. Additionally, for other City employees not covered by the other plans, the City of Sallisaw maintains a defined benefit plan—the Oklahoma Municipal Retirement Fund Employee Retirement System of Sallisaw (the Plan).

Oklahoma State Police Pension and Retirement System (OPPRS)

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

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary and the City of Sallisaw contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OPPRS for the year ended June 30, 2014, for employees and employer were \$ 60,248 and \$ 97,903, respectively, on covered payroll of \$ 753,098. The State of Oklahoma made on-behalf payments to OPPRS totaling \$ 86,019 during the year. These on-behalf payments were recognized as both revenue and expense in the accompanying government-wide financial statements.

Oklahoma State Firefighters' Pension and Retirement System (OFPRS)

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

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary and the City of Sallisaw contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Effective November 1, 2013, the City of Sallisaw was required to contribute 14.0% and the firefighters were required to contribute 9.0% of gross salary for each paid firefighter of the City of Sallisaw. Contributions to the OFPRS for the year ended June 30, 2014, for employees and employer were \$ 20,799 and \$ 32,355, respectively, on covered payroll of \$ 231,104. The State of Oklahoma made on-behalf payments to OFPRS totaling \$ 69,331 during the year. These on-behalf payments were recognized as both revenue and expense in the accompanying government-wide financial statements.

Oklahoma Municipal Retirement Fund Employee Retirement System of Sallisaw, Oklahoma

Plan Description – The Oklahoma Municipal Retirement Fund Employee Retirement System of Sallisaw, Oklahoma (the Plan) is a defined benefit retirement plan covering City employees not covered by other plans. The Plan operates as a trust maintained by the Oklahoma

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

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

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

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

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

The actuarial accrued liability was computed as part of an actuarial valuation performed as of January 1, 2014. Significant actuarial assumptions used in the valuation include 1) a rate of return on the investment of present and future assets of 7.50% compounded annually, and 2) future salary increases of 4.00% to 7.42% per year.

The total actuarial liability exceeded the net assets available for benefits by \$ 4,982,950 at January 1, 2014, as follows:

Actuarial accrued liability	\$ 16,562,886
Net assets available for benefits (actuarial value)	11,579,936
Unfunded actuarial accrued liability	<u>\$ 4,982,950</u>

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

For the year ended June 30, 2014, employees were required to contribute 7% of annual compensation while the City contributed the remaining amounts necessary to fund the pension plan using an actuarial basis. The City's contribution rate, for the year ended June 30, 2014, was 18.18%. Contributions to the Plan for payroll for the year ended June 30, 2014, for employees and employer were \$ 228,564 and \$ 593,614, respectively.

For the year ended June 30, 2014, the City's covered payroll was \$ 3,286,781. Covered payroll refers to all compensation paid by the City of Sallisaw to active employees covered by the Plan on which contributions are based.

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

The schedule of funding progress for the Plan is presented as required supplementary information following the notes to the financial statements, and presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

ICMA Retirement Corporation Deferred Compensation Plan

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

Funding Policy – The City contributes 20 % of covered annual compensation. All amounts of compensation deferred under the ICMA, all property and rights purchased with those amounts, and all income attributed to those amounts, properties, or rights are solely the property of the employer's general creditors until paid or made available to the employee or other beneficiary. Contributions to the ICMA for the year ended June 30, 2014, were \$ 22,000 on covered payroll of \$ 119,000.

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.E.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 October 6, 2014, 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 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. 65, *Items Previously Reported as Assets and Liabilities*. The write-off of remaining unamortized debt issuance costs as of July 1, 2013 in the amount of \$ 1,406,965 reduced beginning net position for both the business-type activities in the government-wide financial statements and the Sallisaw Municipal Authority in the proprietary fund financial statements.

City of Sallisaw, Oklahoma
Budgetary Comparison Schedule
General Fund
(Budgetary Basis)
Year Ended June 30, 2014

	General Fund			Variance with Final Budget Positive (Negative)
	Budget		Actual	
	Original	Final		
Fund balance, beginning	\$ 243,075	\$ 243,075	\$ 249,950	\$ 6,875
Resources				
Taxes	4,941,300	4,941,300	5,503,151	561,851
Licenses and permits	28,900	28,900	40,393	11,493
Intergovernmental	58,700	58,700	58,550	(150)
Fines and forfeitures	181,400	181,400	169,570	(11,830)
Charges for services	154,025	154,025	241,781	87,756
Miscellaneous	155,000	155,000	417,371	262,371
Interest	1,000	1,000	851	(149)
Operating transfers	9,968,726	9,968,726	9,251,624	(717,102)
Total resources	<u>15,489,051</u>	<u>15,489,051</u>	<u>15,683,291</u>	<u>194,240</u>
Amounts available for appropriation	15,732,126	15,732,126	15,933,241	201,115
Charges to appropriations:				
Administration	616,804	653,224	650,759	2,465
Customer service	518,162	464,443	425,489	38,954
Finance	524,230	561,764	552,634	9,130
Information services	184,631	158,773	152,504	6,269
Contingency	187,410	82,955	-	82,955
Sundry	101,000	155,148	123,582	31,566
Contributions to others	120,000	120,000	120,000	-
Police patrol	1,647,254	1,582,886	1,535,938	46,948
Police auxiliary	420,917	441,345	421,065	20,280
Animal welfare	70,825	74,920	66,696	8,224
Municipal court	61,526	62,242	59,515	2,727
Fire suppression	402,449	414,912	402,214	12,698
Building development	281,730	286,833	254,844	31,989
Street	757,473	765,870	702,711	63,159
Airport	154,525	173,507	164,397	9,110
Fleet maintenance	204,931	219,939	212,142	7,797
Cemetery	13,550	13,590	4,724	8,866
Parks	643,362	667,082	657,206	9,876
Swimming pool	62,282	65,289	47,835	17,454
Electric	728,198	804,665	796,353	8,312
Water production	560,712	560,689	526,580	34,109
Water distribution	274,097	277,518	243,940	33,578
Wastewater collection	230,072	230,156	194,433	35,723
Wastewater treatment	408,989	399,264	362,099	37,165
Sanitation	452,533	470,062	462,576	7,486
Landfill	685,112	622,069	591,716	30,353
Telecommunications	576,352	559,981	538,715	21,266
Operating transfers	4,843,000	4,843,000	5,539,993	(696,993)
Total charges to appropriations	<u>15,732,126</u>	<u>15,732,126</u>	<u>15,810,660</u>	<u>(78,534)</u>
Fund balances, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,581</u>	<u>\$ 122,581</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, 2014

<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	\$ 15,683,291
Adjustments:	
<i>Budgetary</i> general fund revenues are reported on the cash basis, rather than the modified accrual basis	115,775
State on-behalf pension contributions	155,350
Operating transfers in are reported as "other financing sources and uses" for GAAP purposes	<u>(9,251,624)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u><u>\$ 6,702,792</u></u>
Expenditures	
Actual amounts (budgetary basis) "charges to appropriations" from the budgetary comparison schedules	\$ 15,810,660
Reclassifications:	
Utility service expenditures are included in the general fund for budgetary purposes	(3,716,412)
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	(34,158)
Operating transfers out are reported as "other financing sources and uses" for GAAP purposes	<u>(5,539,993)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u><u>\$ 6,675,447</u></u>
Other financing sources (uses)	
Actual amounts (budgetary basis) from the budgetary comparison schedules - net operating transfers in/(out)	\$ 3,711,631
Reclassifications:	
Utility services expenditures are reclassified as a reduction of transfers in for GAAP reporting	(3,716,412)
Adjustments:	
Budgetary transfers are reported on the cash basis, rather than the modified accrual basis. Tax revenues accrued and transferred to other funds	<u>6,271</u>
Total other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u><u>\$ 1,490</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, 2014

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
Schedule of Funding Progress
Pension Plan
For the Year Ended June 30, 2014

Oklahoma Municipal Retirement Fund - Defined Benefit Pension Plan

Actuarial Valuation Date	Value of Assets Available for Benefits	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Percentage Funded	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
1/1/2014	\$ 11,579,936	\$ 16,562,886	\$ 4,982,950	69.90%	\$ 3,176,468	156.9 %
1/1/2013	10,723,251	15,792,836	5,069,585	67.90%	3,026,209	167.5 %
1/1/2012	10,152,071	15,130,607	4,978,536	67.10%	2,910,637	171.0 %
1/1/2011	9,783,836	14,754,723	4,970,887	66.30%	2,920,272	170.2 %
1/1/2010	9,146,032	13,789,091	4,643,059	66.30%	3,171,878	146.4 %
1/1/2009	8,665,670	12,662,631	3,996,961	68.40%	2,913,231	137.2 %
1/1/2008	8,873,995	11,479,729	2,605,734	77.30%	2,847,744	91.5 %
1/1/2007	8,081,755	10,557,013	2,475,257	76.60%	2,818,855	87.8 %
1/1/2006	7,372,380	9,878,658	2,506,278	74.60%	2,628,802	95.3 %
1/1/2005	6,822,495	9,251,048	2,428,543	73.70%	2,587,306	93.9 %

City of Sallisaw, Oklahoma
Combining Balance Sheet
General Fund
June 30, 2014

	General Fund	Reserve Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and cash equivalents	\$ 310,997	\$ 72,239	\$ 383,236
Investments	-	865,199	865,199
Receivables:			
Accounts	52,870	-	52,870
Taxes	536,920	-	536,920
Municipal court fines	24,453	-	24,453
Accrued interest	-	162	162
Due from other funds	347,728	-	347,728
Prepaid expenses	99,170	-	99,170
Total assets	<u>\$ 1,372,138</u>	<u>\$ 937,600</u>	<u>\$ 2,309,738</u>
 Liabilities, deferred inflows and fund balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 97,466	\$ -	\$ 97,466
Due to other funds	519,884	-	519,884
Total liabilities	<u>617,350</u>	<u>-</u>	<u>617,350</u>
 Deferred inflows of resources:			
Deferred revenue	23,832	-	23,832
Total deferred inflows of resources	<u>23,832</u>	<u>-</u>	<u>23,832</u>
 Fund balances:			
Nonspendable	99,170	-	99,170
Restricted	-	-	-
Committed	26,905	-	26,905
Assigned	-	-	-
Unassigned	604,881	937,600	1,542,481
Total fund balances	<u>730,956</u>	<u>937,600</u>	<u>1,668,556</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 1,372,138</u>	<u>\$ 937,600</u>	<u>\$ 2,309,738</u>

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
General Fund
Year Ended June 30, 2014

	General Fund	Reserve Fund	Total
Revenues			
Taxes	\$ 5,604,022	\$ -	\$ 5,604,022
Licenses and permits	40,393	-	40,393
Intergovernmental	213,979	-	213,979
Fines and forfeitures	170,191	-	170,191
Charges for services	251,856	-	251,856
Other	417,371	-	417,371
Interest	851	4,129	4,980
Total revenues	<u>6,698,663</u>	<u>4,129</u>	<u>6,702,792</u>
Expenditures			
Current:			
General government	1,871,354	-	1,871,354
Public safety	2,637,819	-	2,637,819
Public works	1,325,395	-	1,325,395
Economic development	120,000	-	120,000
Culture and recreation	696,086	-	696,086
Debt service	-	-	-
Capital outlay	24,793	-	24,793
Total expenditures	<u>6,675,447</u>	<u>-</u>	<u>6,675,447</u>
Excess of revenues over (under) expenditures	23,216	4,129	27,345
Other Financing sources (uses)			
Transfers in	5,651,083	-	5,651,083
Transfers (out)	<u>(5,649,593)</u>	<u>-</u>	<u>(5,649,593)</u>
Total other financing sources (uses)	<u>1,490</u>	<u>-</u>	<u>1,490</u>
Net change in fund balances	24,706	4,129	28,835
Fund balances, beginning	<u>706,250</u>	<u>933,471</u>	<u>1,639,721</u>
Fund balances, ending	<u><u>\$ 730,956</u></u>	<u><u>\$ 937,600</u></u>	<u><u>\$ 1,668,556</u></u>

City of Sallisaw, Oklahoma
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014

	Special Revenue			
	Street and Alley Fund	Library Fund	Library Trust Authority	Youth & Recreation Fund
Assets				
Cash and cash equivalents	\$ 340,427	\$ 5,577	\$ 45	\$ 123,546
Investments	-	-	84,100	-
Receivables:				
Taxes	6,442	-	-	-
Due from other governments	-	-	-	-
Accrued interest	-	-	91	-
Due from other funds	-	-	-	8,757
Total assets	<u>\$ 346,869</u>	<u>\$ 5,577</u>	<u>\$ 84,236</u>	<u>\$ 132,303</u>
Liabilities				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances				
Nonspendable	-	-	-	-
Restricted	346,869	-	84,236	-
Committed	-	-	-	132,303
Assigned	-	5,577	-	-
Unassigned	-	-	-	-
Total fund balances	<u>346,869</u>	<u>5,577</u>	<u>84,236</u>	<u>132,303</u>
Total liabilities and fund balances	<u>\$ 346,869</u>	<u>\$ 5,577</u>	<u>\$ 84,236</u>	<u>\$ 132,303</u>

Special Revenue					
Fire Department Fund	Police Department Fund	Police Federal Forfeiture Fund	Police Drug Fund	Sallisaw NOW	Department of Justice Grants
\$ 70,342	\$ 15,369	\$ 16,635	\$ 23,454	\$ 66,862	\$ 130
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	5,491	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 70,342</u>	<u>\$ 15,369</u>	<u>\$ 16,635</u>	<u>\$ 23,454</u>	<u>\$ 72,353</u>	<u>\$ 130</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	16,635	23,454	72,353	130
-	-	-	-	-	-
70,342	15,369	-	-	-	-
-	-	-	-	-	-
<u>70,342</u>	<u>15,369</u>	<u>16,635</u>	<u>23,454</u>	<u>72,353</u>	<u>130</u>
<u>\$ 70,342</u>	<u>\$ 15,369</u>	<u>\$ 16,635</u>	<u>\$ 23,454</u>	<u>\$ 72,353</u>	<u>\$ 130</u>

City of Sallisaw, Oklahoma
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014
(continued)

	Capital Projects			
	Cemetery Fund	Infrastructure Improvements Fund	FAA Grant	CDBG Grant
Assets				
Cash and cash equivalents	\$ 59,550	\$ 283,722	\$ 57,612	\$ (9,435)
Investments	144,792	-	-	-
Receivables:				
Taxes	-	-	-	-
Due from other governments	-	-	-	9,435
Accrued interest	27	-	-	-
Due from other funds	-	-	-	-
Total assets	\$ 204,369	\$ 283,722	\$ 57,612	\$ -
Liabilities				
Accounts payable and accrued liabilities	\$ 125	\$ -	\$ -	\$ -
Total liabilities	125	-	-	-
Fund balances				
Nonspendable	-	-	-	-
Restricted	204,244	-	57,612	-
Committed	-	-	-	-
Assigned	-	283,722	-	-
Unassigned	-	-	-	-
Total fund balances	204,244	283,722	57,612	-
Total liabilities and fund balances	\$ 204,369	\$ 283,722	\$ 57,612	\$ -

Capital Projects

Homeland Security Grants	Totals
\$ -	\$ 1,053,836
-	228,892
-	6,442
-	14,926
-	118
-	8,757
<u>\$ -</u>	<u>\$ 1,312,971</u>
<u>\$ -</u>	<u>\$ 125</u>
-	125
-	-
-	805,533
-	132,303
-	375,010
-	-
<u>-</u>	<u>1,312,846</u>
<u>\$ -</u>	<u>\$ 1,312,971</u>

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2014

	Special Revenue			
	Street and Alley Fund	Library Fund	Library Trust Authority	Youth & Recreation Fund
Revenues				
Intergovernmental	\$ 87,643	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Other	-	-	-	-
Interest	-	-	389	-
Total revenues	<u>87,643</u>	<u>-</u>	<u>389</u>	<u>-</u>
Expenditures				
Current:				
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	6,383	-	-
Capital outlay	-	-	-	32,776
Total expenditures	<u>-</u>	<u>6,383</u>	<u>-</u>	<u>32,776</u>
Excess of revenues over (under) expenditures	87,643	(6,383)	389	(32,776)
Other financing sources (uses)				
Transfers in	-	10,000	-	91,159
Transfers (out)	(12,096)	-	-	-
Total other financing sources (uses)	<u>(12,096)</u>	<u>10,000</u>	<u>-</u>	<u>91,159</u>
Net change in fund balances	75,547	3,617	389	58,383
Fund balances, beginning	<u>271,322</u>	<u>1,960</u>	<u>83,847</u>	<u>73,920</u>
Fund balances, ending	<u>\$ 346,869</u>	<u>\$ 5,577</u>	<u>\$ 84,236</u>	<u>\$ 132,303</u>

Special Revenue					
Fire Department Fund	Police Department Fund	Police Federal Forfeiture Fund	Police Drug Fund	Sallisaw NOW	Department of Justice Grants
\$ 35,196	\$ 3,870	\$ -	\$ -	\$ 74,689	\$ 584
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>35,196</u>	<u>3,870</u>	<u>-</u>	<u>-</u>	<u>74,689</u>	<u>584</u>
13,166	932	-	8,040	129,400	-
-	-	-	-	-	-
-	-	-	-	-	-
1,100	-	-	-	-	454
<u>14,266</u>	<u>932</u>	<u>-</u>	<u>8,040</u>	<u>129,400</u>	<u>454</u>
20,930	2,938	-	(8,040)	(54,711)	130
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
20,930	2,938	-	(8,040)	(54,711)	130
49,412	12,431	16,635	31,494	127,064	-
<u>\$ 70,342</u>	<u>\$ 15,369</u>	<u>\$ 16,635</u>	<u>\$ 23,454</u>	<u>\$ 72,353</u>	<u>\$ 130</u>

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2014
(continued)

	Capital Projects			
	Cemetery Fund	Infrastructure Improvements Fund	FAA Grant	CDBG Grant
Revenues				
Intergovernmental	\$ -	\$ -	\$ 53,802	\$ 80,435
Charges for services	35,800	-	-	-
Other	-	-	-	20,108
Interest	485	145	-	-
Total revenues	36,285	145	53,802	100,543
Expenditures				
Current:				
Public safety	-	-	-	-
Public works	220	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	34,983	25,000	38,608	112,639
Total expenditures	35,203	25,000	38,608	112,639
Excess of revenues over (under) expenditures	1,082	(24,855)	15,194	(12,096)
Other financing sources (uses)				
Transfers in	-	-	10,112	12,096
Transfers (out)	-	-	-	-
Total other financing sources (uses)	-	-	10,112	12,096
Net change in fund balances	1,082	(24,855)	25,306	-
Fund balances, beginning, restated	203,162	308,577	32,306	-
Fund balances, ending	\$ 204,244	\$ 283,722	\$ 57,612	\$ -

Capital Projects

<u>Homeland Security Grants</u>	<u>Totals</u>
\$ 5,589	\$ 341,808
-	35,800
-	20,108
-	1,019
5,589	398,735
-	151,538
-	220
-	6,383
5,589	251,149
5,589	409,290
-	(10,555)
-	123,367
-	(12,096)
-	111,271
-	100,716
-	1,212,130
\$ -	\$ 1,312,846

City of Sallisaw, Oklahoma
Combining Statement of Net Position
Sallisaw Municipal Authority
June 30, 2014

	Business-type Activities		Totals
	Enterprise Funds		
	Sallisaw Municipal Authority	Sallisaw Water Projects Fund	
Assets			
Cash and cash equivalents	\$ 704,448	\$ 31,977	\$ 736,425
Investments	448,623	-	448,623
Receivables:			
Accounts (net of allowance for uncollectibles)	1,874,016	-	1,874,016
Accrued interest	345	-	345
Due from other funds	511,128	60,422	571,550
Restricted assets:			
Cash and cash equivalents	164,908	-	164,908
Investments	6,431,020	984,862	7,415,882
Notes receivable	208,760	-	208,760
Capital assets (net of accumulated depreciation)	16,124,200	19,926,058	36,050,258
Total assets	<u>26,467,448</u>	<u>21,003,319</u>	<u>47,470,767</u>
Deferred outflows of resources			
Loss on refunding of debt	548,118	1,870,335	2,418,453
Total deferred outflows of resources	<u>548,118</u>	<u>1,870,335</u>	<u>2,418,453</u>
Liabilities:			
Accounts payable and accrued liabilities	899,629	-	899,629
Payable from restricted assets:			
Accrued interest payable	206,600	301,825	508,425
Customer deposits	653,784	-	653,784
Due to other funds	468,571	-	468,571
Noncurrent liabilities:			
Due within one year	939,115	936,624	1,875,739
Due in more than one year	13,367,870	25,710,015	39,077,885
Total liabilities	<u>16,535,569</u>	<u>26,948,464</u>	<u>43,484,033</u>
Deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Net position			
Net investment in capital assets	9,224,739	(4,850,246)	4,374,493
Restricted:			
Expendable	673,124	683,037	1,356,161
Unrestricted	582,134	92,399	674,533
Total net position	<u>\$ 10,479,997</u>	<u>\$ (4,074,810)</u>	<u>\$ 6,405,187</u>

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenses, and Changes in Net Position –
Sallisaw Municipal Authority
Year Ended June 30, 2014

	Business-type Activities		Totals
	Enterprise Funds		
	Sallisaw Municipal Authority	Sallisaw Water Projects Fund	
Operating revenues			
Charges for services:			
Electric	\$ 10,699,116	\$ -	\$ 10,699,116
Water	1,807,770	-	1,807,770
Wastewater	704,041	-	704,041
Landfill	1,174,676	-	1,174,676
Sanitation	967,539	-	967,539
Telecommunications	2,557,919	-	2,557,919
Other	226,044	-	226,044
Total operating revenues	<u>18,137,105</u>	<u>-</u>	<u>18,137,105</u>
Operating expenses			
Administration	64,096	-	64,096
Electric	8,065,243	-	8,065,243
Water	766,658	-	766,658
Wastewater	553,209	-	553,209
Landfill	718,332	-	718,332
Sanitation	552,241	-	552,241
Telecommunications	2,097,724	-	2,097,724
Depreciation	1,247,713	563,889	1,811,602
Bad debt expense	96,659	-	96,659
Total operating expenses	<u>14,161,875</u>	<u>563,889</u>	<u>14,725,764</u>
Net operating income (loss)	3,975,230	(563,889)	3,411,341
Nonoperating revenues (expenses)			
Miscellaneous revenues	4,499	9,299	13,798
Interest income	17,016	62	17,078
Gain (loss) on disposal of assets	(22,599)	-	(22,599)
Interest expense and fiscal charges	(481,745)	(1,024,833)	(1,506,578)
Debt issuance costs	(139,575)	-	(139,575)
Payments to hospital	(664,721)	-	(664,721)
Total nonoperating revenues (expenses)	<u>(1,287,125)</u>	<u>(1,015,472)</u>	<u>(2,302,597)</u>
Operating transfers			
Transfers in	5,894,031	1,869,721	7,763,752
Transfers (out)	(8,491,621)	-	(8,491,621)
Total operating transfers	<u>(2,597,590)</u>	<u>1,869,721</u>	<u>(727,869)</u>
Net income (loss)	90,515	290,360	380,875
Net position, beginning, restated	<u>10,389,482</u>	<u>(4,365,170)</u>	<u>6,024,312</u>
Net position, ending	<u>\$ 10,479,997</u>	<u>\$ (4,074,810)</u>	<u>\$ 6,405,187</u>

City of Sallisaw, Oklahoma
Combining Statement of Cash Flows
Sallisaw Municipal Authority
Year Ended June 30, 2014

	Business-type Activities		Totals
	Enterprise Funds		
	Sallisaw Municipal Authority	Sallisaw Water Projects Fund	
Cash flows from operating activities			
Net operating income (loss)	\$ 3,975,230	\$ (563,889)	\$ 3,411,341
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	1,247,713	563,889	1,811,602
(Increase) decrease in assets:			
Accounts receivable	(75,763)	-	(75,763)
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	144,676	-	144,676
Customer deposits	907	-	907
Accrued landfill closure costs	132,039	-	132,039
Net cash provided (used) by operating activities	<u>5,424,802</u>	<u>-</u>	<u>5,424,802</u>
Cash flows from noncapital financing activities			
(Increase) decrease in interfund receivables/payables	(77,834)	(5,512)	(83,346)
(Increase) decrease in notes receivable	(118,760)	-	(118,760)
Miscellaneous revenues/ (expenses)	(660,222)	9,299	(650,923)
Operating transfers in (out)	(2,597,590)	1,869,721	(727,869)
Net cash provided (used) by noncapital financing activities	<u>(3,454,406)</u>	<u>1,873,508</u>	<u>(1,580,898)</u>
Cash flows from capital and related financing activities			
Proceeds from long-term debt	5,445,000	-	5,445,000
Principal paid on long-term debt	(463,194)	(920,167)	(1,383,361)
Interest expense and fiscal charges	(379,134)	(939,956)	(1,319,090)
(Increase) decrease in restricted assets	(5,191,413)	(5,364)	(5,196,777)
Debt issuance costs	(139,975)	-	(139,975)
Acquisition/construction of capital assets	(1,062,113)	-	(1,062,113)
Net cash provided (used) by capital and related financing activities	<u>(1,790,829)</u>	<u>(1,865,487)</u>	<u>(3,656,316)</u>
Cash flows from investing activities			
(Increase) decrease in investments	98,679	-	98,679
Interest income	16,671	62	16,733
Net cash provided (used) by investing activities	<u>115,350</u>	<u>62</u>	<u>115,412</u>
Net increase (decrease) in cash and cash equivalent	294,917	8,083	303,000
Cash and cash equivalents, beginning	409,531	23,894	433,425
Cash and cash equivalents, ending	<u>\$ 704,448</u>	<u>\$ 31,977</u>	<u>\$ 736,425</u>

City of Sallisaw, Oklahoma
Combining Statement of Net Position –
Nonmajor Proprietary Funds
June 30, 2014

	Enterprise		Total Nonmajor Enterprise Funds
	Sallisaw Economic Authority	Sallisaw Industrial Finance Authority	
Assets			
Cash and cash equivalents	\$ 81,934	\$ (1,944)	\$ 79,990
Due from other funds	-	169,166	169,166
Capital assets (net of accumulated depreciation)	1,348,337	-	1,348,337
Total assets	<u>1,430,271</u>	<u>167,222</u>	<u>1,597,493</u>
Deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Liabilities			
Due to other funds	169,166	-	169,166
Noncurrent liabilities:			
Due within one year	-	-	-
Due in more than one year	1,093,875	167,222	1,261,097
Total liabilities	<u>1,263,041</u>	<u>167,222</u>	<u>1,430,263</u>
Deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Net position			
Net investment in capital assets	549,129	-	549,129
Restricted:			
Expendable	-	-	-
Unrestricted	(381,899)	-	(381,899)
Total net position	<u>\$ 167,230</u>	<u>\$ -</u>	<u>\$ 167,230</u>

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenses, and Changes in Net Position -
Nonmajor Proprietary Funds
Year Ended June 30, 2014

	Enterprise		Total Nonmajor Enterprise Funds
	Sallisaw Economic Authority	Sallisaw Industrial Finance Authority	
Operating revenues			
Charges for services:			
Other	\$ -	\$ -	\$ -
Total operating revenues	<u>-</u>	<u>-</u>	<u>-</u>
Operating expenses			
Economic development	2,885	-	2,885
Depreciation	40,663	-	40,663
Total operating expenses	<u>43,548</u>	<u>-</u>	<u>43,548</u>
Net operating income (loss)	(43,548)	-	(43,548)
Nonoperating revenues (expenses)			
Miscellaneous	20,000	-	20,000
Interest and fiscal charges	(51,209)	-	(51,209)
Total nonoperating revenues (expenses)	<u>(31,209)</u>	<u>-</u>	<u>(31,209)</u>
Operating transfers			
Total operating transfers	<u>-</u>	<u>-</u>	<u>-</u>
Net income (loss)	(74,757)	-	(74,757)
Net position, beginning	<u>241,987</u>	<u>-</u>	<u>241,987</u>
Net position, ending	<u>\$ 167,230</u>	<u>\$ -</u>	<u>\$ 167,230</u>

City of Sallisaw, Oklahoma
Combining Statement of Cash Flows –
Nonmajor Proprietary Funds
Year Ended June 30, 2014

	Enterprise		Total Nonmajor Enterprise Funds
	Sallisaw Economic Authority	Sallisaw Industrial Finance Authority	
Cash flows from operating activities			
Net operating income (loss)	\$ (43,548)	\$ -	\$ (43,548)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	40,663	-	40,663
Net cash provided (used) by operating activities	<u>(2,885)</u>	<u>-</u>	<u>(2,885)</u>
Cash flows from noncapital financing activities			
(Increase) decrease in interfund receivables/payables	(23,334)	23,334	-
Miscellaneous revenues	20,000	-	20,000
Net cash provided (used) by noncapital financing activities	<u>(3,334)</u>	<u>23,334</u>	<u>20,000</u>
Cash flows from capital and related financing activities			
Proceeds from long-term debt	118,760	-	118,760
Principal paid on long-term debt	(22,768)	(23,333)	(46,101)
Interest expense and fiscal charges	(51,209)	-	(51,209)
Net cash provided (used) by capital and related financing activities	<u>44,783</u>	<u>(23,333)</u>	<u>21,450</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	38,564	1	38,565
Cash and cash equivalents, beginning	43,370	(1,945)	41,425
Cash and cash equivalents, ending	<u>\$ 81,934</u>	<u>\$ (1,944)</u>	<u>\$ 79,990</u>

City of Sallisaw, Oklahoma
Schedule of Debt Service Coverage
Year Ended June 30, 2014

Gross revenue available for debt service:

Operating revenues	\$ 18,137,105
Transfer of dedicated sales tax	2,440,060
Total gross revenues available	20,577,165
Operating expenses	12,914,162
Net revenues available for debt service	\$ 7,663,003

Debt service requirement:

Notes payable (principal and interest)	\$ 3,187,220
Total debt service requirement	\$ 3,984,025

Coverage	1.92
Coverage requirement	1.25



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, 2014, 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 October 6, 2014, 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 2014-1, 2014-2, and 2014-3 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
Kansas, Oklahoma
October 6, 2014

City of Sallisaw, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2014

2014-1 Police Department Cash Account

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

Condition – Proper procedures and controls over the handling and documentation of the cash fund in the police department were not in place. 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.

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 – Procedures should be implemented to ensure all pertinent information is included on the receipts. The draft of the written policies and procedures should be reviewed and finalized then presented to management and the governing board for approval.

Responsible Official's Comments and Plan of Action

Comments of the City Clerk/Treasurer and the Director of Finance:

The City Sallisaw currently has written administrative policies that cover internal control, cash handling and petty cash. We will review the items above and make necessary changes to the policies as needed to ensure information on receipts are documented as needed.

2014-2 Police Department Evidence Room

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

Condition – Evidence obtained during traffic stops and arrests by Sallisaw police officers was not always documented properly as to location, description, or disposition. 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.

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 – Procedures and controls established to properly document evidence obtained and on hand should be finalized and presented to management and the governing board for approval and then implemented. Past documentation issues should be resolved. Access to the

evidence should be restricted and properly documented. Periodic physical inventories should be made and reconciled with the inventory listings.

Responsible Official's Comments and Plan of Action –

Comments of the City Manager

The City of Sallisaw will continue working with the Police Chief and his staff to establish proper procedures and controls needed for the proper tracking of evidence. Policies related to the proper tracking and control of evidence are currently in the draft stage and should be completed prior to June 30, 2015.

Until the noted policies are completed and implemented, the City Manager will request the Sallisaw Police Chief issue a memorandum that will direct officers on the proper documentation and tracking of evidence. Once issued, the memorandum will be copied to the Director of Finance for inclusion in the audit records of the City.

2014 – 3 Purchasing Cards

Criteria – The procurement process should include proper procedures and controls to ensure that all purchases are properly authorized, funds are appropriately budgeted, and the goods or services are necessary for the operations of the entity.

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.

Cause and Effect – Some purchases made by the department may be items which could be acquired in bulk utilizing the purchase order process. Purchases may have been made on an as-need basis rather than planning and anticipating the upcoming needs. Use of the “P-Card” for the excessive purchases which exceed the established limits could reduce the overall controls in place for authorization, budget, and approval of the purchase.

Recommendation – “P-Card” policies should be reviewed to determine if the limits in place are reasonable and whether change would lessen the overall control afforded by the limits. Different limits may be considered for certain departments based on the nature of their operations and needs. Better planning in anticipating upcoming needs could be useful in bulk purchasing of some items. Any temporary increase in limits should be approved and documented by the financial director or his designee.

Responsible Official's Comments and Plan of Action –

Comments of the Director of Finance.

Prior to the completion of the FY 2014 audit, the Director of Finance requested the auditor review the City's purchasing procedures, particularly the use of the City's Purchasing Cards (P-Card) by various departments for purchase of small dollar routinely needed items. The request was made to ensure that the City was complying with all purchasing laws as required.

In response to the items noted above, the City of Sallisaw will review its P-Card policies and procedures currently in place. Each department's needs will be considered and appropriate limits will be identified. We will also review items purchased to identify bulk purchases that could be

made, thus resulting in savings to the city. In addition, we will also review our policy and procedure for requesting temporary increases in P-Card limits and how those requests are approved and documented.

Any changes in policy and procedures will be documented in the City of Sallisaw purchasing policy and presented to the City Manager for approval.

City of Sallisaw, Oklahoma
Summary Schedule of Prior Audit Findings

Financial Statement Findings

2013-1 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, as noted in our interim agreed-upon procedures in March 2014. Receipt book receipts did not reconcile with amounts deposited. Cash received was not properly documented, and receipts were not deposited in a timely manner.

Status – Most changes recommended by the auditors have been implemented. Others are in the process of implementation..

2013-2 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. Additionally, some evidence recorded in inventory was not located in the evidence room.

Status – This condition still exists.

Federal Award Findings and Questioned Costs

There were no matters reported.

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.

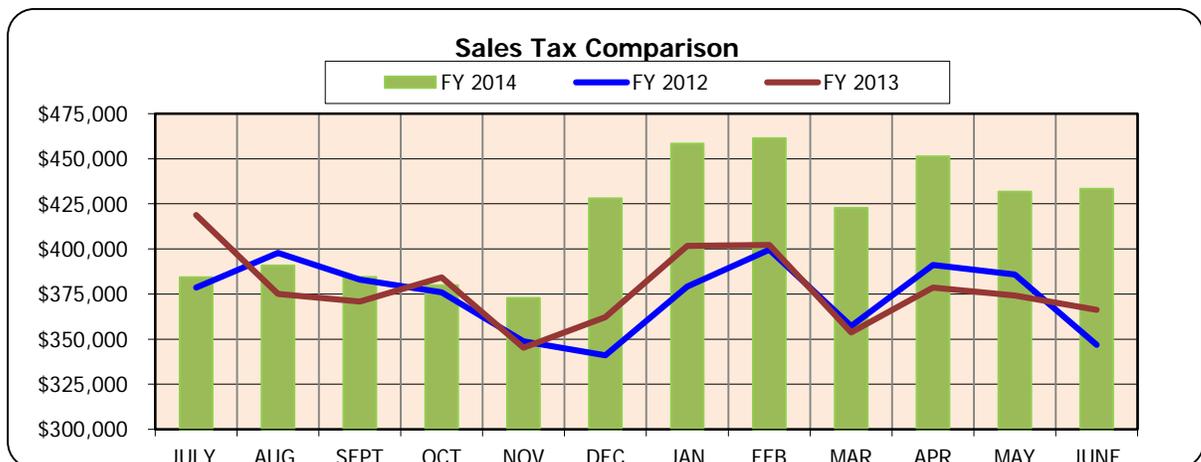
As of June 30, 2014 the sales tax rate within the city limits of Sallisaw was 9.917%, with 4.0% going to the City of Sallisaw. A breakdown of existing sales tax as of June 30, 2014 is as follows:

<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 2010 to FY 2014

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
JULY	\$ 437,314	\$ 417,743	\$ 378,525	\$ 418,751	\$ 384,369
AUG	\$ 431,652	\$ 435,587	\$ 397,852	\$ 375,011	\$ 390,862
SEPT	\$ 425,231	\$ 415,590	\$ 383,073	\$ 370,784	\$ 384,547
OCT	\$ 404,703	\$ 432,627	\$ 375,940	\$ 384,282	\$ 380,000
NOV	\$ 380,379	\$ 376,781	\$ 348,732	\$ 345,170	\$ 372,796
DEC	\$ 414,440	\$ 397,419	\$ 341,076	\$ 362,252	\$ 428,102
JAN	\$ 366,548	\$ 428,379	\$ 379,166	\$ 401,756	\$ 458,424
FEB	\$ 491,612	\$ 454,929	\$ 399,669	\$ 402,297	\$ 461,481
MAR	\$ 404,430	\$ 340,663	\$ 357,159	\$ 353,684	\$ 422,866
APR	\$ 398,642	\$ 372,625	\$ 391,107	\$ 378,594	\$ 451,441
MAY	\$ 404,895	\$ 372,365	\$ 385,879	\$ 374,133	\$ 431,722
JUNE	\$ 418,854	\$ 339,046	\$ 346,797	\$ 366,277	\$ 433,328
TOTAL	\$ 4,978,700	\$ 4,783,754	\$ 4,484,975	\$ 4,532,991	\$ 4,999,938

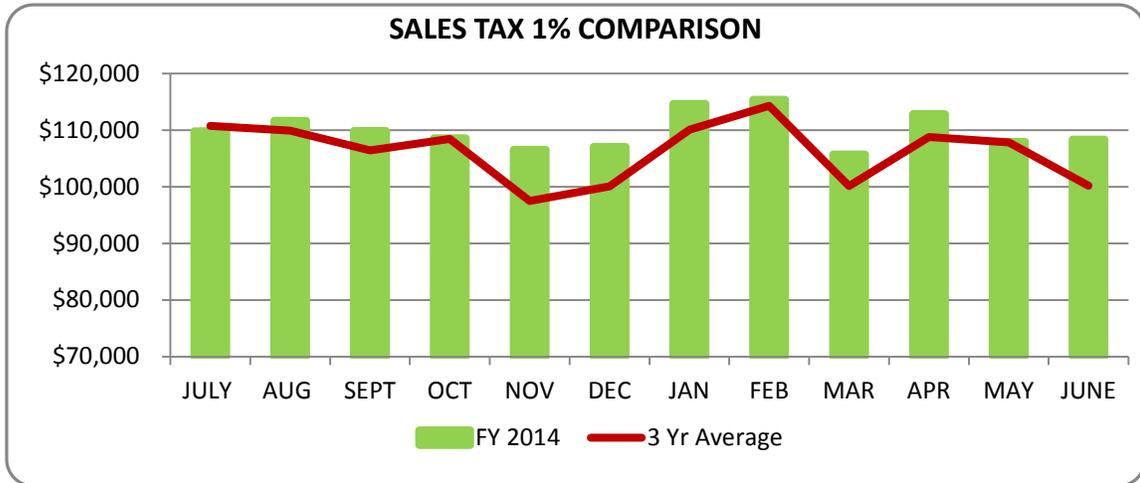
*Receipts reflect sales tax rate change in October 2013 for new sports complex.



Sales Tax Collections Based on 1%

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
JULY	\$ 109,329	\$ 104,436	\$ 108,150	\$ 119,643	\$ 109,820
AUG	\$ 107,913	\$ 108,897	\$ 113,672	\$ 107,146	\$ 111,675
SEPT	\$ 106,308	\$ 103,898	\$ 109,449	\$ 105,938	\$ 109,871
OCT	\$ 101,176	\$ 108,157	\$ 107,411	\$ 109,795	\$ 108,571
NOV	\$ 95,095	\$ 94,195	\$ 99,638	\$ 98,620	\$ 106,513
DEC	\$ 103,610	\$ 99,355	\$ 97,450	\$ 103,501	\$ 107,026
JAN	\$ 91,637	\$ 107,095	\$ 108,333	\$ 114,787	\$ 114,606
FEB	\$ 122,903	\$ 113,732	\$ 114,191	\$ 114,942	\$ 115,370
MAR	\$ 101,108	\$ 97,333	\$ 102,045	\$ 101,053	\$ 105,717
APR	\$ 99,661	\$ 106,464	\$ 111,745	\$ 108,170	\$ 112,860
MAY	\$ 101,224	\$ 106,390	\$ 110,251	\$ 106,895	\$ 107,931
JUNE	\$ 104,714	\$ 96,871	\$ 99,085	\$ 104,651	\$ 108,332
TOTAL	\$ 1,244,675	\$ 1,246,821	\$ 1,281,421	\$ 1,295,140	\$ 1,318,291

*Sales tax receipts based on 1% show FY 2014 ended at 96% of FY 2009 levels.



U.S. Census Data

People QuickFacts From U.S. Census Bureau as of July 8, 2014	Sallisaw	Oklahoma
Population, 2013 estimate	8,623	3,850,568
Population, 2012 estimate	8,675	3,815,780
Population, 2010 (April 1) estimates base	8,883	3,751,357
Population, percent change, April 1, 2010 to July 1, 2013	-2.9%	2.6%
Population, percent change, April 1, 2010 to July 1, 2012	-2.3%	1.7%
Population, 2010	8,880	3,751,351
Persons under 5 years, percent, 2010	8.2%	7.0%
Persons under 18 years, percent, 2010	25.9%	24.8%
Persons 65 years and over, percent, 2010	15.2%	13.5%
Female persons, percent, 2010	51.7%	50.5%
White alone, percent, 2010 (a)	63.1%	72.2%
Black or African American alone, percent, 2010 (a)	1.6%	7.4%
American Indian and Alaska Native alone, percent, 2010 (a)	21.6%	8.6%
Asian alone, percent, 2010 (a)	0.5%	1.7%
Native Hawaiian and Other Pacific Islander alone, percent, 2010 (a)	Z	0.1%
Two or More Races, percent, 2010	11.0%	5.9%
Hispanic or Latino, percent, 2010 (b)	5.6%	8.9%
White alone, not Hispanic or Latino, percent, 2010	61.2%	68.7%
Living in same house 1 year & over, percent, 2008-2012	74.2%	82.1%
Foreign born persons, percent, 2008-2012	3.8%	5.5%
Language other than English spoken at home, pct age 5+, 2008-2012	6.6%	9.2%
High school graduate or higher, percent of persons age 25+, 2008-2012	81.5%	86.2%
Bachelor's degree or higher, percent of persons age 25+, 2008-2012	13.8%	23.2%
Veterans, 2008-2012	697.00	322,008
Mean travel time to work (minutes), workers age 16+, 2008-2012	16	21
Housing units, 2010	3,930	1,664,378
Homeownership rate, 2008-2012	56.7%	67.5%
Housing units in multi-unit structures, percent, 2008-2012	15.4%	15.1%
Median value of owner-occupied housing units, 2008-2012	\$96,900	\$110,800
Households, 2008-2012	3,440	1,439,292
Persons per household, 2008-2012	2.49	2.53
Per capita money income in past 12 months (2012 dollars), 2008-2012	\$16,788	\$24,046
Median household income, 2008-2012	\$29,524	\$44,891
Persons below poverty level, percent, 2008-2012	18.9%	16.6%
Geography QuickFacts		
Land area in square miles, 2010	13.28	68,594.92
Persons per square mile, 2010	668.90	54.70
FIPS Code	65,000.00	40.00
Counties	Sequoyah County	

Unemployment

As of June 2014, the unemployment rate for Sequoyah County was at 6.7%, compared to 4.5% for Oklahoma and 6.1% for the United States.

