

**CITY OF SALLISAW, OKLAHOMA
SALLISAW, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS
AND ACCOMPANYING
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2016**

City of Sallisaw, Oklahoma
Annual Financial Statements
June 30, 2016

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City of Sallisaw, Oklahoma
Year Ended June 30, 2016
List of Principal Officials

Mayor
Julie Ferguson

Commissioner Ward 1
Ronnie Lowe

Commissioner Ward 2
James Hudgens

Commissioner Ward 3
Julian Mendiola

Commissioner Ward 4
Daryl Legg



801 Frisco, Clinton, OK 73601

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Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Commissioners
City of 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, 2016, and the related notes to the financial statements, which collectively comprise the City of Sallisaw, Oklahoma'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 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, Oklahoma, as of June 30, 2016, 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.

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 schedules on pages 4-11 and 47-50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sallisaw, Oklahoma's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 or to 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 nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2016, on our consideration of the City of Sallisaw, Oklahoma'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 the City of Sallisaw, Oklahoma's internal control over financial reporting and compliance.



RSMeacham CPAs & Advisors
Clinton, Oklahoma
November 8, 2016

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, 2016. Please read it in conjunction with the City's basic financial statements.

Financial Highlights

- The assets and deferred outflows of resources of the City of Sallisaw exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$13,129,795 (net position), compared to \$11,540,460 restated prior year. Of this amount, (\$180,374) (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 \$1,589,335, in relation to the restated beginning balance of net position.
- As of the close of the current fiscal year, the City of Sallisaw's governmental funds reported combined ending fund balances of \$3,839,028, a decrease of \$98,168 in comparison with the prior year of \$3,898,836. Approximately \$768,019 is available for spending at the government's discretion (assigned and unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$768,019, or 6% of total general fund expenditures and transfers out.
- The City of Sallisaw's total debt decreased \$2,118,859 during the current fiscal year.

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 balance 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.

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 seventeen (17) individual government 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 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.

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.

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.

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.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets plus deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$13,129,795 at the close of the most recent fiscal year.

One portion of the City's net position (\$8,570,169 or 65%) 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 provides services to citizens; consequently, these assets are not available for future spending.

City of Sallisaw
Net Position
Year Ended June 30,

| | Governmental Activities | | Business-Type Activities | | Totals | |
|-------------------------------------|--------------------------------|--------------|---------------------------------|--------------|---------------|---------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | | ** | | ** | | ** |
| Current assets | \$ 4,287,276 | \$ 4,215,368 | \$ 7,186,698 | \$ 7,907,152 | \$ 11,473,974 | \$ 12,122,520 |
| Capital and other noncurrent assets | 6,500,025 | 6,556,814 | 37,804,447 | 37,550,282 | 44,304,472 | 44,107,096 |
| Total assets | 10,787,301 | 10,772,182 | 44,991,145 | 45,457,434 | 55,778,446 | 56,229,616 |
| Deferred outflows | 1,239,691 | 644,241 | 2,446,936 | 2,455,077 | 3,686,627 | 3,099,318 |
| Current liabilities | 448,248 | 654,492 | 3,816,736 | 3,829,945 | 4,264,984 | 4,484,437 |
| Non-current liabilities | 4,339,650 | 4,412,232 | 36,526,704 | 38,111,755 | 40,866,354 | 42,523,987 |
| Total liabilities | 4,787,898 | 5,066,724 | 40,343,440 | 41,941,700 | 45,131,338 | 47,008,424 |
| Deferred inflows | 1,005,709 | 1,109,547 | 201,231 | 204,502 | 1,206,940 | 1,314,049 |
| Net position | | | | | | |
| Net investment in capital assets | 6,148,647 | 5,890,489 | 2,421,522 | 4,449,533 | 8,570,169 | 10,340,022 |
| Restricted | 2,404,787 | 1,401,854 | 2,335,213 | 1,400,510 | 4,740,000 | 2,802,364 |
| Unrestricted | (2,317,049) | (2,052,191) | 2,136,675 | (83,734) | (180,374) | (2,135,925) |
| Total net position | \$ 6,236,385 | \$ 5,240,152 | \$ 6,893,410 | \$ 5,766,309 | \$ 13,129,795 | \$ 11,006,461 |

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

An additional portion of the City's net position (\$4,740,000 or 36%) 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 (\$180,374) may be used to meet the government's ongoing obligations to citizens and creditors.

City of Sallisaw
Statement of Activities
Years Ended June 30,

| | Governmental Activities | | Business-Type Activities | | Totals | | Change | |
|---|-------------------------|-------------------|--------------------------|-------------------|---------------------|-------------------|-----------------------|------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | \$ | % |
| Revenues: | | | | | | | | |
| Program revenues | \$ 1,600,109 | \$ 1,201,396 | \$ 17,209,245 | \$ 18,285,099 | \$ 18,809,354 | \$ 19,486,495 | \$ (677,141) | -3% |
| General revenues | 3,593,537 | 6,257,591 | 3,135,417 | (257,053) | 6,728,954 | 6,000,538 | 728,416 | 12% |
| Total revenues | <u>5,193,646</u> | <u>7,458,987</u> | <u>20,344,662</u> | <u>18,028,046</u> | <u>25,538,308</u> | <u>25,487,033</u> | <u>\$ 51,275</u> | <u>0%</u> |
| Expenses: | | | | | | | | |
| General government | 2,557,257 | 2,070,096 | - | - | 2,557,257 | 2,070,096 | 487,161 | 24% |
| Public safety | 3,031,805 | 2,861,670 | - | - | 3,031,805 | 2,861,670 | 170,135 | 6% |
| Public works | 1,299,217 | 2,142,661 | - | - | 1,299,217 | 2,142,661 | (843,444) | -39% |
| Culture and recreation | 908,160 | 753,516 | - | - | 908,160 | 753,516 | 154,644 | 21% |
| Economic development | 342,241 | 120,000 | - | 309,531 | 342,241 | 429,531 | (87,290) | -20% |
| Electric | - | - | 6,972,787 | 8,092,557 | 6,972,787 | 8,092,557 | (1,119,770) | -14% |
| Water | - | - | 1,449,679 | 2,542,995 | 1,449,679 | 2,542,995 | (1,093,316) | -43% |
| Wastewater | - | - | 928,409 | 875,916 | 928,409 | 875,916 | 52,493 | 6% |
| Landfill | - | - | 1,068,278 | 858,848 | 1,068,278 | 858,848 | 209,430 | 24% |
| Sanitation | - | - | 536,397 | 621,412 | 536,397 | 621,412 | (85,015) | -14% |
| Telecommunications | - | - | 2,542,580 | 2,640,489 | 2,542,580 | 2,640,489 | (97,909) | -4% |
| Administration/other | - | 20,652 | 1,631,457 | 769,132 | 1,631,457 | 789,784 | 841,673 | 107% |
| Total expenses | <u>8,138,680</u> | <u>7,968,595</u> | <u>15,129,587</u> | <u>16,710,880</u> | <u>23,268,267</u> | <u>24,679,475</u> | <u>\$ (1,411,208)</u> | <u>-6%</u> |
| Increase (decrease) in net position before transfers | | | | | | | | |
| | (2,945,034) | (509,608) | 5,215,075 | 1,317,166 | 2,270,041 | 807,558 | 1,462,483 | 181% |
| Transfers, net | 3,768,003 | 1,048,663 | (3,768,003) | (1,048,663) | - | - | - | 0% |
| Transfer to other gov't | (680,706) | - | - | - | (680,706) | - | (680,706) | 100% |
| Increase in net position | <u>\$ 142,263</u> | <u>\$ 539,055</u> | <u>\$ 1,447,072</u> | <u>\$ 268,503</u> | <u>\$ 1,589,335</u> | <u>\$ 807,558</u> | <u>\$ 781,777</u> | <u>97%</u> |

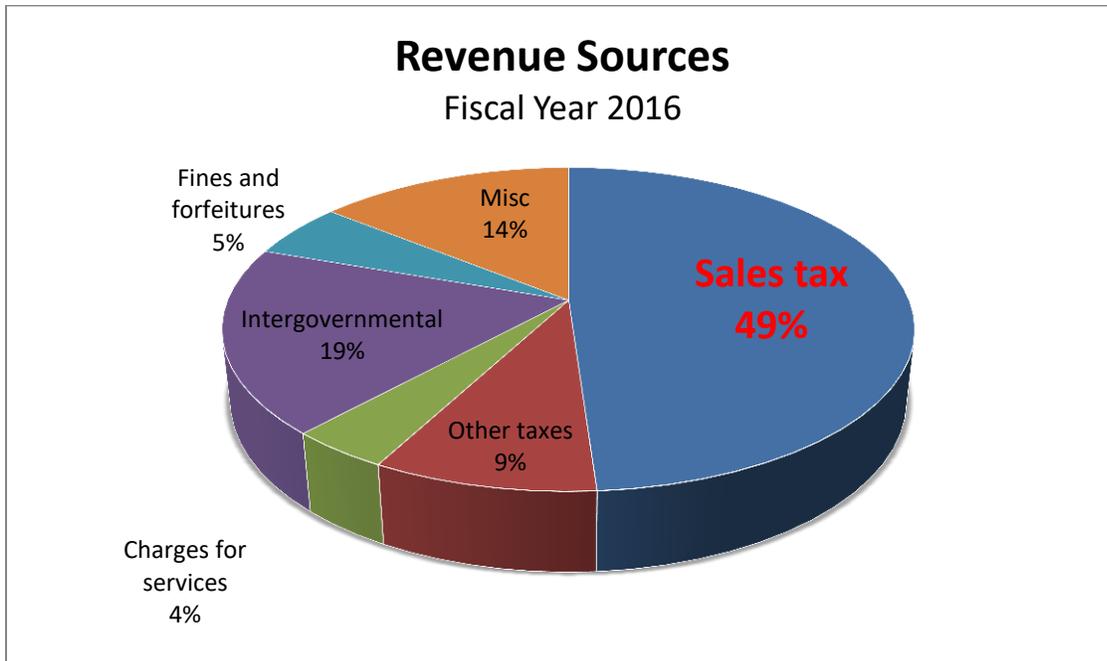
The government's net position increased by \$1,589,335 during the current fiscal year. This increase is related to cost savings in the purchase of electricity, noted as a 14% decrease in electric expense when compared year over year. Water expenses decreased and correspondingly Administration expenses increased based upon allocation of depreciation and admin costs between the departments during the fiscal year.

Financial Analysis of the Government's Funds

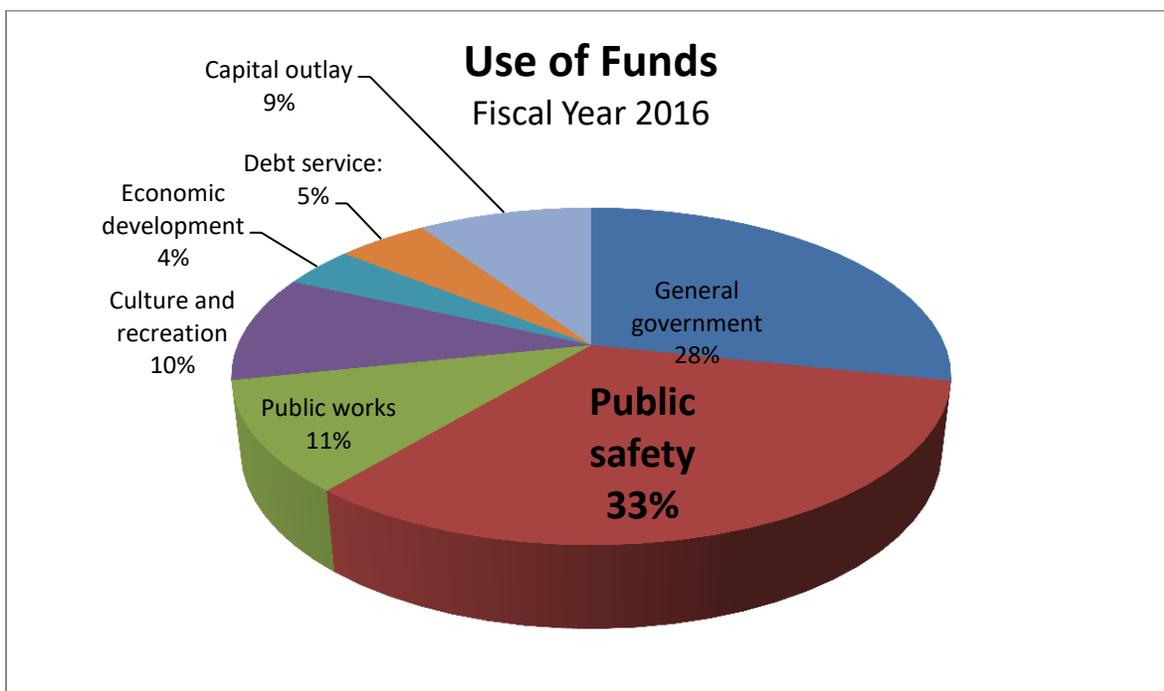
As noted earlier, the city uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 requirement's net 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.

Graphic presentation of the City's governmental funds revenue sources and uses follow to assist in analysis of the City's activities.

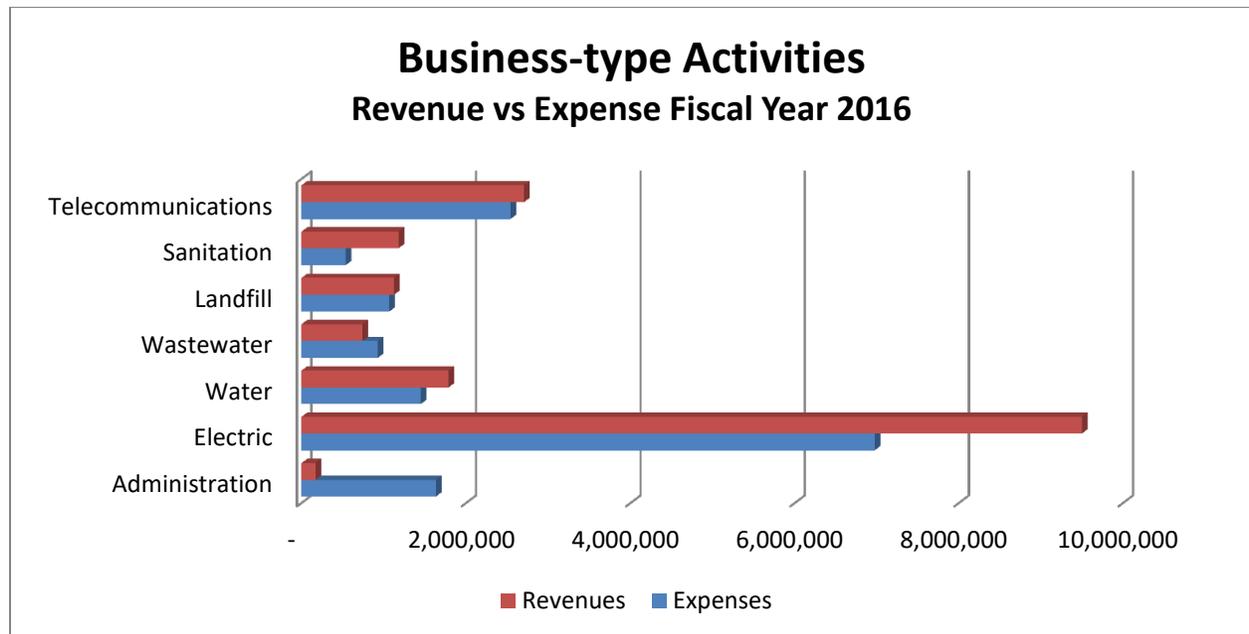


Sales tax provided for the largest portion of revenues of the City's governmental funds at \$2,722,824. The next largest source of revenue for the City's was Intergovernmental funds at \$1.03 million. Intergovernmental funds consist of largely of grant revenues for the Airport through the Federal Aviation Administration as well as other granting agencies.



Public safety was the largest use of funds for the City during fiscal year 2016, totaling over \$2.9 million or 33% of the City's expenditures. General government was the next largest use at \$2.5 million. These costs, as well as all other governmental activity expenses, were primarily funded by tax revenues. It should be noted that governmental expenses are adjusted from the fund statements to the government-wide statements for the purchase and construction of capital assets. Government-wide statement is full accrual; capital outlay expenses are eliminated and capital assets are reported.

Business-type activities. The City's business-type activities account for operating activities that are primarily financed by revenues generated by the activities themselves.



Business-type activities are shown comparing costs to revenues generated by the related services. Telecommunications, Sanitation, Landfill, Wastewater, Water, and Electric activities are intended to be self-supporting with user charges and other revenues designed to recover costs. Other activities provide services with minimal user charges.

Budgetary Highlights of Major Governmental Funds

The original adopted General Fund budget for fiscal year 2016 was \$11,254,247. Budget amendments were made during the fiscal year which changed the allocation of resources but did not increase the budget of the City. The General Fund budget complied with financial policies approved by the City and the Oklahoma Municipal Budget Act.

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, 2016 is \$44,304,472 (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:

- Airport improvement funded mainly through grants
- Completion of the sports complex funded through debt issued in prior year
- Landfill excavating equipment
- Equipment for the electrical department, including a 2015 Ford F550 and skylift

City of Sallisaw
Capital Assets
Year ended June 30
(net of depreciation)

| | Governmental | | Business-Type | | Totals | |
|---------------------------------|---------------------|---------------------|----------------------|----------------------|----------------------|----------------------|
| | Activities | | Activities | | | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Land and easements | \$ 1,417,612 | \$ 1,417,612 | \$ 1,286,784 | \$ 1,286,784 | \$ 2,704,396 | \$ 2,704,396 |
| Construction in progress | 51,881 | 234,715 | 40,518 | 3,404,117 | 92,399 | 3,638,832 |
| Buildings and improvements | 917,678 | 944,227 | 375,168 | 406,648 | 1,292,846 | 1,350,875 |
| Infrastructure and improvements | 2,641,143 | 2,294,062 | 14,350,666 | 10,097,047 | 16,991,809 | 12,391,109 |
| Equipment and computers | 744,349 | 797,104 | 1,383,279 | 1,238,863 | 2,127,628 | 2,035,967 |
| Water and sewer facilities | - | - | 19,734,986 | 20,494,286 | 19,734,986 | 20,494,286 |
| Vehicles | 727,362 | 775,090 | 633,046 | 622,538 | 1,360,408 | 1,397,628 |
| Capital assets, net | <u>\$ 6,500,025</u> | <u>\$ 6,462,810</u> | <u>\$ 37,804,447</u> | <u>\$ 37,550,283</u> | <u>\$ 44,304,472</u> | <u>\$ 44,013,093</u> |

Long-term liabilities. For the year ended June 30, 2016, the City had total long-term liabilities of \$40,863,354.

City of Sallisaw
Long-Term Liabilities
Year ended June 30,

| | Governmental | | Business-Type | | Totals | |
|----------------------------------|---------------------|---------------------|----------------------|----------------------|----------------------|----------------------|
| | Activities | | Activities | | | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Capital lease obligations | \$ 351,378 | \$ 572,321 | \$ - | \$ - | \$ 351,378 | \$ 572,321 |
| Revenue bonds | - | - | 31,285,000 | 32,925,000 | 31,285,000 | 32,925,000 |
| Notes payable | - | - | 4,097,925 | 4,355,841 | 4,097,925 | 4,355,841 |
| Landfill liability | - | - | 1,875,436 | 1,759,868 | 1,875,436 | 1,759,868 |
| Accrued compensated absences | 228,485 | 455,730 | 191,792 | - | 420,277 | 455,730 |
| Net pension liability | 3,979,373 | 3,651,968 | 1,027,540 | 968,954 | 5,006,913 | 4,620,922 |
| Less current portion | (222,586) | - | (1,950,989) | - | (2,173,575) | - |
| Total outstanding long-term debt | <u>\$ 4,336,650</u> | <u>\$ 4,680,019</u> | <u>\$ 36,526,704</u> | <u>\$ 40,009,663</u> | <u>\$ 40,863,354</u> | <u>\$ 44,689,682</u> |

Long-term liabilities decreased over prior year by \$3.8 million due to payments made on outstanding debt issues offset by an increase in Pension and landfill liabilities.

Economic Factors and Next Year's Budgets and Rates

According to the Tulsa World newspaper, "gross revenue for the state of Oklahoma continued a downward spiral for the 18th consecutive month in August, as unemployment figures show the state's jobless numbers exceeded the national rate for the first time in almost 26 years." "We keep scouring through the data to find signs of an impending turnaround, but it's just not there," Miller said. "Some aspects of the August report aren't as negative as in prior months. A few revenue streams have ticked back up, but we can't yet point to a positive trend." The economic environment of the state sheds light on the local economy of the City.

As noted in the City's FY17 Annual Budget, the fiscal condition of the City remains stable with some revenue growth in the areas of sales tax, telecom, grant funding and landfill. Decreases in spending, salaries and benefits and position cuts have also significantly lowered overall expenditures. City staff will continue cutting expenditures where possible and continue to seriously consider and evaluate the need to fill vacant positions. Staff will continue to aggressively seek grants and federal/state funding. Staff will also actively seek new industry and retail business, creating good jobs for our citizens and stimulating our local economy.

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, 2016

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|---------------|
| Assets | | | |
| Cash and cash equivalents | \$ 2,407,482 | \$ 1,542,673 | \$ 3,950,155 |
| Investments | 330,579 | 450,783 | 781,362 |
| Receivables (net of allowance for uncollectible) | 662,166 | 1,937,629 | 2,599,795 |
| Due from other funds | (278,767) | 278,767 | - |
| Inventory | 9,127 | - | 9,127 |
| Other assets | 213,525 | - | 213,525 |
| Restricted assets: | | | |
| Cash and cash equivalents | 47,239 | 2,487,963 | 2,535,202 |
| Investments | 895,925 | 488,883 | 1,384,808 |
| Capital assets (net of accumulated depreciation) | 6,500,025 | 37,804,447 | 44,304,472 |
| Total assets | 10,787,301 | # 44,991,145 | # 55,778,446 |
| Deferred outflows of resources | | | |
| Loss on refunding of debt | - | 2,163,668 | 2,163,668 |
| Deferred amounts related to pensions | 1,239,691 | 283,268 | 1,522,959 |
| Total deferred outflows of resources | 1,239,691 | 2,446,936 | 3,686,627 |
| Liabilities | | | |
| <u>Current liabilities</u> | | | |
| Accounts payable | 66,335 | 724,779 | 791,114 |
| Payroll liabilities | 42,511 | - | 42,511 |
| Salary payable | 116,816 | 128,179 | 244,995 |
| Capital leases, current | 222,586 | - | 222,586 |
| Notes payable, current | - | 275,989 | 275,989 |
| Bonds payable, current | - | 1,675,000 | 1,675,000 |
| <u>Payable from restricted assets</u> | | | |
| Accrued interest payable | - | 345,463 | 345,463 |
| Customer deposits | - | 667,326 | 667,326 |
| <u>Long-term liabilities</u> | | | |
| Compensated absences | 228,485 | 191,792 | 420,277 |
| Capital lease obligation | 128,792 | - | 128,792 |
| Notes payable | - | 3,821,936 | 3,821,936 |
| Bonds payable | - | 29,610,000 | 29,610,000 |
| Landfill closure | - | 1,875,436 | 1,875,436 |
| Pension liability | 3,979,373 | 1,027,540 | 5,006,913 |
| Total liabilities | 4,784,898 | 40,343,440 | 45,128,338 |
| Deferred inflows of resources | | | |
| Deferred amounts related to pensions | 1,005,709 | 201,231 | 1,206,940 |
| Total deferred inflows of resources | 1,005,709 | 201,231 | 1,206,940 |
| Net position | | | |
| Net investment in capital assets | 6,148,647 | 2,421,522 | 8,570,169 |
| Restricted | 2,404,787 | 2,335,213 | 4,740,000 |
| Unrestricted | (2,317,049) | 2,136,675 | (180,374) |
| Total net position | \$ 6,236,385 | \$ 6,893,410 | \$ 13,129,795 |

City of Sallisaw, Oklahoma

Statement of Activities

Year Ended June 30, 2016

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | |
|--------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|-----------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Governmental activities: | | | | | | | |
| General government | \$ 2,557,257 | \$ 65,300 | \$ 81,615 | \$ - | \$ (2,410,342) | \$ - | \$ (2,410,342) |
| Public safety | 3,031,805 | 305,980 | 317,253 | - | (2,408,572) | - | (2,408,572) |
| Public works | 1,299,217 | 113,620 | 79,622 | 175,059 | (930,916) | - | (930,916) |
| Culture and recreation | 908,160 | 65,877 | 2,500 | 393,283 | (446,500) | - | (446,500) |
| Economic development | 342,241 | - | - | - | (342,241) | - | (342,241) |
| Total governmental activities | <u>8,138,680</u> | <u>550,777</u> | <u>480,990</u> | <u>568,342</u> | <u>(6,538,571)</u> | <u>-</u> | <u>(6,538,571)</u> |
| Business-type activities: | | | | | | | |
| Administration | 1,631,457 | 167,338 | - | - | - | (1,464,119) | (1,464,119) |
| Electric | 6,972,787 | 9,498,355 | - | - | - | 2,525,568 | 2,525,568 |
| Water | 1,449,679 | 1,790,115 | - | - | - | 340,436 | 340,436 |
| Wastewater | 928,409 | 743,400 | - | - | - | (185,009) | (185,009) |
| Landfill | 1,068,278 | 1,126,239 | - | - | - | 57,961 | 57,961 |
| Sanitation | 536,397 | 1,178,145 | - | - | - | 641,748 | 641,748 |
| Telecommunications | 2,542,580 | 2,705,653 | - | - | - | 163,073 | 163,073 |
| Total business-type activities | <u>15,129,587</u> | <u>17,209,245</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,079,658</u> | <u>2,079,658</u> |
| Total primary government | <u>\$ 23,268,267</u> | <u>\$ 17,760,022</u> | <u>\$ 480,990</u> | <u>\$ 568,342</u> | <u>\$ (6,538,571)</u> | <u>\$ 2,079,658</u> | <u>\$ (4,458,913)</u> |
| General revenues: | | | | | | | |
| Sales tax | | | | | 2,722,824 | 2,722,825 | 5,445,649 |
| Other taxes | | | | | 493,722 | 297,244 | 790,966 |
| Interest income | | | | | 5,269 | 2,197 | 7,466 |
| Miscellaneous | | | | | 398,254 | 177,088 | 575,342 |
| Gain (loss) on disposition of assets | | | | | 345,351 | - | 345,351 |
| Change in pension obligation | | | | | (371,883) | (63,937) | (435,820) |
| Transfers - internal activity | | | | | 3,768,003 | (3,768,003) | - |
| Transfer to other governments | | | | | (680,706) | - | (680,706) |
| Total general revenues and transfers | | | | | <u>6,680,834</u> | <u>(632,586)</u> | <u>6,048,248</u> |
| Change in net position | | | | | 142,263 | 1,447,072 | 1,589,335 |
| Net position, beginning, restated | | | | | <u>6,094,122</u> | <u>5,446,338</u> | <u>11,540,460</u> |
| Net position, ending | | | | | <u>\$ 6,236,385</u> | <u>\$ 6,893,410</u> | <u>\$ 13,129,795</u> |

City of Sallisaw, Oklahoma

Balance Sheet
Governmental Funds
June 30, 2016

| | General | Other Governmental Funds | Total Governmental Funds |
|-------------------------------------|---------------------|---|---|
| Assets | | | |
| Cash and cash equivalents | \$ 476,698 | \$ 1,930,784 | \$ 2,407,482 |
| Investments | 100,207 | 230,372 | 330,579 |
| Restricted cash | 47,239 | - | 47,239 |
| Restricted investments | 895,925 | - | 895,925 |
| Receivables: | | | |
| Taxes | 496,325 | 6,592 | 502,917 |
| Grant | - | 114,515 | 114,515 |
| Municipal court fines | 25,314 | - | 25,314 |
| Accrued interest | 162 | 118 | 280 |
| Other, net of allowance | 19,140 | - | 19,140 |
| Due from other funds | 132,725 | 156,097 | 288,822 |
| Inventory | 9,127 | - | 9,127 |
| Other assets | 213,525 | - | 213,525 |
| Total assets | <u>\$ 2,416,387</u> | <u>\$ 2,438,478</u> | <u>\$ 4,854,865</u> |
| Liabilities | | | |
| Accounts payable | \$ 50,214 | \$ 9,645 | \$ 59,859 |
| Payroll liabilities | 42,511 | - | 42,511 |
| Salary payable | 116,816 | - | 116,816 |
| Capital lease, current obligation | - | 222,586 | 222,586 |
| Due to other funds | 480,060 | 87,529 | 567,589 |
| Court bonds payable | 6,476 | - | 6,476 |
| Total liabilities | <u>696,077</u> | <u>319,760</u> | <u>1,015,837</u> |
| Fund balance | | | |
| Nonspendable | 9,127 | - | 9,127 |
| Restricted | 943,164 | 1,461,623 | 2,404,787 |
| Committed | - | 559,082 | 559,082 |
| Assigned | - | 98,013 | 98,013 |
| Unassigned | 768,019 | - | 768,019 |
| Total fund balances | <u>1,720,310</u> | <u>2,118,718</u> | <u>3,839,028</u> |
| Total liabilities and fund balances | <u>\$ 2,416,387</u> | <u>\$ 2,438,478</u> | <u>\$ 4,854,865</u> |

Amounts reported for governmental activities in the Statement of Net Position are different because:

Land and capital assets, net of accumulated depreciation, are not financial resources and, in the funds, and therefore, are not reported

| | | |
|----------------------------------|--------------------|-----------|
| Land and construction in process | 1,469,492 | |
| Capital assets | 13,347,570 | |
| Less: Accumulated depreciation | <u>(8,317,037)</u> | 6,500,025 |

Long-term portion of liabilities are not due and payable in the current period and are not reported

| | | |
|---|--------------------|--------------------|
| Capital lease obligations | (128,792) | |
| Compensated absences | (228,485) | |
| Deferred outflows(inflows) on pension obligations | 233,982 | |
| Net pension (obligation)/asset | <u>(3,979,373)</u> | <u>(4,102,668)</u> |

Net position of governmental activities \$ 6,236,385

City of Sallisaw, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
Year Ended June 30, 2016

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|---|---|
| Revenues | | | |
| Sales tax | \$ 2,042,118 | \$ 680,706 | \$ 2,722,824 |
| Other taxes | 387,456 | 106,266 | 493,722 |
| Licenses and permits | 29,300 | - | 29,300 |
| Intergovernmental | 84,115 | 949,208 | 1,033,323 |
| Fines and forfeitures | 305,070 | - | 305,070 |
| Charges for services | 164,873 | 29,150 | 194,023 |
| Rental | 11,585 | 10,800 | 22,385 |
| Donations | - | 16,008 | 16,008 |
| Other | 736,675 | 7,430 | 744,105 |
| Interest | 4,268 | 1,652 | 5,920 |
| Total revenues | <u>3,765,460</u> | <u>1,801,220</u> | <u>5,566,680</u> |
| Expenditures | | | |
| General government | 2,498,784 | - | 2,498,784 |
| Public safety | 2,597,488 | 282,334 | 2,879,822 |
| Public works | 724,513 | 208,792 | 933,305 |
| Culture and recreation | 889,170 | 8,612 | 897,782 |
| Economic development | 342,241 | - | 342,241 |
| Debt service: | | | |
| Principal | - | 411,422 | 411,422 |
| Interest | - | 18,346 | 18,346 |
| Capital outlay | - | 824,402 | 824,402 |
| Total expenditures | <u>7,052,196</u> | <u>1,753,908</u> | <u>8,806,104</u> |
| Excess of revenues over (under) expenditures | (3,286,736) | 47,312 | (3,239,424) |
| Other financing sources (uses) | | | |
| Proceeds from capital lease obligations | - | 190,487 | 190,487 |
| Transfers in | 8,087,244 | 404,476 | 8,491,720 |
| Transfers out | (4,282,784) | (440,933) | (4,723,717) |
| Transfer to other governments | (680,706) | - | (680,706) |
| Total other financing sources (uses) | <u>3,123,754</u> | <u>154,030</u> | <u>3,277,784</u> |
| Net change in fund balances | (162,982) | 201,342 | 38,360 |
| Fund balances, beginning | 1,755,113 | 2,143,723 | 3,898,836 |
| Prior period adjustment | 128,179 | (226,347) | (98,168) |
| Fund balances, ending | <u>\$ 1,720,310</u> | <u>\$ 2,118,718</u> | <u>\$ 3,839,028</u> |

City of Sallisaw, Oklahoma

Reconciliation of Governmental Funds and Government-Wide
Financial Statements
Year Ended June 30, 2016

| | | |
|--|-----------|----------------|
| Net change in fund balances - total governmental funds | \$ | 38,360 |
| <p>Governmental funds report capital outlays as expenditures; whereas, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as a depreciation expense.</p> | | |
| Capital outlay expenditures capitalized | | 824,402 |
| Depreciation expense | | (603,853) |
| <p>In the statement of activities, the loss on the disposal of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net position differs from the change in fund balance by the cost of the assets disposed, net of related accumulated depreciation.</p> | | |
| | | (1,151) |
| <p>In the statement of activities, the cost of pension benefits earned net of employee contributions is reported as an element of pension expense. The fund financial statements report pension contributions as expenditures.</p> | | |
| | | (371,883) |
| <p>The proceeds of debt issuance provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p> | | |
| Proceeds from capital lease obligations | | (190,487) |
| Capital lease principal payments | | 411,422 |
| <p>Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported in governmental funds.</p> | | |
| Accrued compensated absences, net change | | 35,453 |
| | | <hr/> |
| Change in net position of governmental activities | \$ | 142,263 |
| | | <hr/> <hr/> |

City of Sallisaw, Oklahoma

Statement of Net Position

Proprietary Funds

June 30, 2016

| | Enterprise Funds | | |
|--|---------------------------------|-----------------------------------|--------------|
| | Sallisaw Municipal Authority | Sallisaw Economic Authority | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 1,534,957 | \$ 7,716 | \$ 1,542,673 |
| Investments | 450,783 | - | 450,783 |
| Receivables: | | | |
| Accounts (net of allowance for uncollectible) | 1,937,284 | - | 1,937,284 |
| Accrued interest | 345 | - | 345 |
| Due from other funds | 538,824 | - | 538,824 |
| Restricted assets: | | | |
| Cash and cash equivalents | 2,487,963 | - | 2,487,963 |
| Investments | 488,883 | - | 488,883 |
| Capital assets (net of accumulated depreciation) | 37,804,447 | - | 37,804,447 |
| Total assets | 45,243,486 | 7,716 | 45,251,202 |
| Deferred outflows of resources | | | |
| Loss on refunding of debt | 2,163,668 | - | 2,163,668 |
| Deferred amounts related to pensions | 283,268 | - | 283,268 |
| Total deferred outflows of resources | 2,446,936 | - | 2,446,936 |
| Liabilities | | | |
| Accounts payable | 724,779 | - | 724,779 |
| Salary payable | 128,179 | - | 128,179 |
| Notes payable, current | 275,989 | - | 275,989 |
| Bonds payable, current | 1,675,000 | - | 1,675,000 |
| Payable from restricted assets: | | | |
| Accrued interest payable | 345,463 | - | 345,463 |
| Customer deposits | 667,326 | - | 667,326 |
| Due to other funds | 260,057 | - | 260,057 |
| Noncurrent liabilities: | | | |
| Compensated absences | 191,792 | - | 191,792 |
| Notes payable | 3,821,936 | - | 3,821,936 |
| Bonds payable | 29,610,000 | - | 29,610,000 |
| Landfill closure | 1,875,436 | - | 1,875,436 |
| Pension obligation | 1,027,540 | - | 1,027,540 |
| Total liabilities | 40,603,497 | - | 40,603,497 |
| Deferred inflows of resources | | | |
| Deferred amounts related to pensions | 201,231 | - | 201,231 |
| Net position | | | |
| Net investment in capital assets | 2,421,522 | - | 2,421,522 |
| Restricted: | | | |
| Debt service | 2,335,213 | - | 2,335,213 |
| Unrestricted | 2,128,959 | 7,716 | 2,136,675 |
| Total net position | \$ 6,885,694 | \$ 7,716 | \$ 6,893,410 |

City of Sallisaw, Oklahoma

Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds Year Ended June 30, 2016

| | Enterprise funds | | Totals |
|---|------------------------------------|-----------------------------------|--------------|
| | Sallisaw Municipal Authority | Sallisaw Economic Authority | |
| Operating revenues | | | |
| Charges for services: | | | |
| Electric | \$ 9,498,355 | \$ - | \$ 9,498,355 |
| Water | 1,790,115 | - | 1,790,115 |
| Wastewater | 743,400 | - | 743,400 |
| Landfill | 1,126,239 | - | 1,126,239 |
| Sanitation | 1,178,145 | - | 1,178,145 |
| Telecommunications | 2,705,653 | - | 2,705,653 |
| Other | 167,338 | - | 167,338 |
| Total operating revenues | 17,209,245 | - | 17,209,245 |
| Operating expenses | | | |
| Administration | 130,845 | - | 130,845 |
| Electric | 6,833,693 | - | 6,833,693 |
| Water | 718,264 | - | 718,264 |
| Wastewater | 659,319 | - | 659,319 |
| Landfill | 723,997 | - | 723,997 |
| Sanitation | 472,162 | - | 472,162 |
| Telecommunications | 2,242,648 | - | 2,242,648 |
| Depreciation | 1,848,047 | - | 1,848,047 |
| Bad debt expense | 99,344 | - | 99,344 |
| Total operating expenses | 13,728,319 | - | 13,728,319 |
| Total operating income (loss) | 3,480,926 | - | 3,480,926 |
| Nonoperating revenues (expenses) | | | |
| Sales tax | 2,722,825 | - | 2,722,825 |
| Other taxes | 297,244 | - | 297,244 |
| Miscellaneous revenues | 113,151 | - | 113,151 |
| Interest income | 2,197 | - | 2,197 |
| Gain (loss) on disposal of assets | - | - | - |
| Interest expense and fiscal charges | (1,401,268) | - | (1,401,268) |
| Payments to hospital | - | - | - |
| Total nonoperating revenues (expenses) | 1,734,149 | - | 1,734,149 |
| Operating transfers | | | |
| Transfers in | 4,319,241 | - | 4,319,241 |
| Transfers (out) | (8,087,244) | - | (8,087,244) |
| Total operating transfers | (3,768,003) | - | (3,768,003) |
| Net income (loss) | 1,447,072 | - | 1,447,072 |
| Net position, beginning, restated | 5,438,622 | 7,716 | 5,446,338 |
| Net position, ending | \$ 6,885,694 | \$ 7,716 | \$ 6,893,410 |

City of Sallisaw, Oklahoma

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2016

| | Enterprise Funds | | |
|---|------------------------------------|-----------------------------------|---------------------|
| | Sallisaw Municipal Authority | Sallisaw Economic Authority | Total |
| <u>Cash flows from operating activities:</u> | | | |
| Receipts from customers | \$ 17,211,281 | \$ - | \$ 17,211,281 |
| Payments to suppliers | (9,709,600) | - | (9,709,600) |
| Payments to employees | (1,685,189) | - | (1,685,189) |
| Net cash provided (used) by operating activities | 5,816,492 | - | 5,816,492 |
| <u>Cash flows from non-capital financing activities:</u> | | | |
| Transfers from other funds | 4,319,241 | - | 4,319,241 |
| Transfers to other funds | (8,087,244) | - | (8,087,244) |
| Intergovernmental revenues | 3,020,069 | - | 3,020,069 |
| Net cash provided (used) by non-capital financing activities | (747,934) | - | (747,934) |
| <u>Cash flows from capital and related financing activities:</u> | | | |
| Purchase of capital assets | (2,069,913) | - | (2,069,913) |
| Capital grants and contributions | 113,151 | - | 113,151 |
| Principal paid on capital debt | (1,897,916) | - | (1,897,916) |
| Interest paid on capital debt | (1,628,134) | - | (1,628,134) |
| Net cash provided (used) by capital and related financing activities | (5,482,812) | - | (5,482,812) |
| <u>Cash flows from investing activities:</u> | | | |
| Purchase of investments | 1,468,198 | - | 1,468,198 |
| Investment income | 2,197 | - | 2,197 |
| Net cash provided (used) by investing activities | 1,470,395 | - | 1,470,395 |
| Net increase (decrease) in cash and cash equivalents | 1,056,141 | - | 1,056,141 |
| Cash & cash equivalents, June 30, 2015 | 929,599 | 7,716 | 937,315 |
| Cash & cash equivalents, June 30, 2016 | \$ 1,985,740 | \$ 7,716 | \$ 1,993,456 |
| Cash, including time deposits | \$ 1,534,957 | \$ 7,716 | \$ 1,542,673 |
| Restricted cash, including time deposits | 450,783 | - | 450,783 |
| Total cash and cash equivalents, end of year | \$ 1,985,740 | \$ 7,716 | \$ 1,993,456 |
| <u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</u> | | | |
| Operating income (loss) | \$ 3,480,926 | \$ - | \$ 3,480,926 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | |
| Depreciation | 1,848,047 | - | 1,848,047 |
| Bad debt | 99,344 | - | 99,344 |
| Changes in assets and liabilities: | | | |
| (Increase) decrease in receivables | 2,036 | - | 2,036 |
| Increase (decrease) in accounts payable | (49,220) | - | (49,220) |
| Increase (decrease) in payroll liabilities | 319,791 | - | 319,791 |
| Increase (decrease) in other liabilities | 115,568 | - | 115,568 |
| Total adjustments | 2,335,566 | - | 2,335,566 |
| Net cash provided (used) by operating activities | \$ 5,816,492 | \$ - | \$ 5,816,492 |

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, 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 discreetly 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.

Component Units:

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. SMA is reported as a blended component unit.

Sallisaw Economic Authority ("SEA") was 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 as the governing body. SEA is reported as blended component unit. In fiscal year 2015, all assets of the SEA were sold.

Sallisaw Library Trust Authority was organized as a public trust to help promote the library services and facilities in the City. The Library Trust Authority is reported as a special revenue fund in the combining governmental statements of the City.

B. Basis of Presentation

Government-wide financial statements

The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and general revenues, from business-type activities, generally financed with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. 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) operational grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or

segment (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. Taxes and other revenue sources not properly included among program revenues are reported as general revenues.

Fund financial statements

Fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements with composite columns for non-major funds.

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.

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

Generally Accepted Accounting Principles (U.S. GAAP)

The financial statements of the City are prepared in accordance with U.S. GAAP. The City applies all relevant GASB pronouncements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements include the statement of net position and the statement of activities and are reported on the accrual basis of accounting and economic resource focus. 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and 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 absence, claims, and judgements are recorded in the year payment is due.

Major revenue sources susceptible to accrual include sales and use taxes, franchise taxes, intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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

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

Use of estimates

The preparation of financial statements in conformity with U.S. GAPP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure; accordingly, actual results could differ from those estimates.

D. Budget policy and practice

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 as the commitments will be re-appropriated and honored during the subsequent year.

E. Policies Related to Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity

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 provided by the City's investment policy.

Investments for the City, as well as for its component units, are reported at fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value.

Receivables and payables

Receivables in governmental funds and governmental activities include tax accruals and intergovernmental revenues such as grant requests, as they are both measurable and available. These receivables are due within one year.

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 uncollectible. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectible.

Inventories

Inventories are similarly reported in government-wide and fund financial statements.

Inventories in governmental funds consist of airport fuel held for future sale. The fuel is reported at cost and recorded as an expense at the time the fuel is sold.

Restricted assets

Restricted assets include assets legally restricted for capital projects funded through long-term debt, debt service reserves, facility charges, and Federal, State, and private grants. Restricted assets and liabilities current in nature are reported with current assets and current liabilities in the financial statements. Assets restricted for acquisition or construction of non-current assets or assets restricted for liquidation of long-term debt are reported with non-current assets.

It is the City's policy when purchasing goods or services, or servicing debt for which resources have been restricted, to use restricted resources first and then unrestricted resources as needed. Restricted assets and liabilities payable from restricted assets current in nature are reported with the current assets and current liabilities in the financial statements.

Capital assets

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and reported in the government-wide financial statements. Proprietary and component unit capital assets are also reported in their respective fund and combining component units' financial statements. Donated assets are stated at fair value on the date

donated. Capital assets are defined by the City as assets with an initial, individual cost of more than the following amounts, along with an estimates 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 |

The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

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

Major outlays for capital assets and improvements are recorded as construction in progress and are not depreciated until placed in service.

Interfund balances

Generally, outstanding balances between funds reported as due to/due from other funds include outstanding charges by one fund to another for goods or services outstanding at year end, or other miscellaneous receivables/payable between funds.

All activity between governmental and business-type activities are eliminated and any residual balances outstanding between the activities are reported in the government-wide financial statements as internal balances.

Deferred outflows of resources and deferred inflows of resources

In addition to assets and liabilities, the statement of financial position and the governmental fund balance sheet may report separate sections of deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period which will not be recognized as an outflow of resources until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period which will not be recognized as an inflow of resources until that time.

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 (5) to (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, mat a rate of \$2,500 for the first 1,000 hours, and \$5.00/hour for the next 1,500 hours.

Fund equity

Fund balance

Nonspendable Fund Balance

Fund balances reported as non-spendable includes amounts that cannot be spent because they are either not in spendable form or not expected to be converted to cash including inventories and non-current receivables.

Restricted Fund Balance

Restricted fund balance includes amounts that are constrained for a specific purpose which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation including City ordinances approved by a vote of the citizens.

Committed Fund Balance

Committed fund balance 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.

Assigned Fund Balance

Assigned fund balance includes amounts that are intended 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 had designated that authority.

Unassigned Fund Balance

Unassigned fund balance includes balances that has not been assigned to other funds and had 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 investment in capital assets and legally restricted amounts are separated from unrestricted net position.

Net investment in capital assets

The amount reported is calculated as total capital assets less accumulated depreciation and outstanding debt used to purchase the assets net of unspent portions. Unspent portions of debt, along with any amounts used to fund debts reserves, are included with restricted net position.

Restricted

Amounts reported as restricted net position include 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.

F. Policies Related to Revenues and Expenses

Program Revenues

Charges for Services

Program revenues reported with governmental activities include charges for services like permits and fees, parks charges, and fines and forfeitures. Business-type activity charges for services include all operating income of proprietary funds.

Grants and Contributions

Governmental grants and contributions primarily consist of grants from Federal and state agencies. The nature of the grant determines if it is reported as operating or capital program revenues.

Business-type activities grants and contributions include restricted investment income, donations from others, as well as grants from Federal and state agencies.

General Revenues

General revenues reported with governmental activities include tax revenues. Both governmental and business-type activities report unrestricted investment income as general revenues.

Sales Tax

The City received 4% tax on sales within the City. The tax is restricted as follows:

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

III. Detail Notes on Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity

A. Deposits and investments

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's deposits are secured by collateral values at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC). Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service. At June 30, 2016, all cash held by the City was fully collateralized.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

Investments

The City invests primarily in certificates of deposit. Investment securities are exposed to various risks such as interest rate risk and credit risk. The following is a summary of the investments of primary government.

| <u>Types of Investments</u> | <u>Fair Value/ Carrying Amount</u> | <u>Cost</u> | <u>Average Credit Quality/ Ratings (1)</u> | <u>Weighted Average Months to Maturity (2)</u> |
|--|--|-------------------------|--|--|
| Primary government | | | | |
| <u>INVESTMENTS:</u> | | | | |
| Certificates of deposit, pooled | \$ 2,166,170 | \$ 2,166,170 | N/A | 3.7 |
| Total investments | <u>2,166,170</u> | <u>2,166,170</u> | | |
| Total primary government investments | <u>\$ 2,166,170</u> | <u>\$ 2,166,170</u> | | |

RECONCILIATION TO STATEMENT OF NET POSITION

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---------------------------|------------------------------------|-------------------------------------|---------------------|
| Investments, unrestricted | \$ 330,579 | \$ 450,783 | \$ 781,362 |
| Investments, restricted | <u>895,925</u> | <u>488,883</u> | <u>1,384,808</u> |
| Total investments | <u>\$ 1,226,504</u> | <u>\$ 939,666</u> | <u>\$ 2,166,170</u> |

(1) Ratings are provided where applicable to indicate associated **Credit Risk**. N/A indicates not applicable.

(2) **Interest rate risk** is estimated using either duration or weighted average days to maturity depending on the respective policy.

B. Receivables

Receivables as of June 30, 2016, for the City's major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

| | <u>General Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Sallisaw Municipal Authority</u> | <u>Total</u> |
|------------------------------------|---------------------|--|---|---------------------|
| Receivables: | | | | |
| Taxes | \$ 496,325 | \$ 6,592 | \$ - | \$ 502,917 |
| Grants | - | 114,515 | 2,045,943 | 2,160,458 |
| Municipal court fines | 25,314 | - | - | 25,314 |
| Accrued interest | 162 | 118 | 345 | 625 |
| Other | <u>19,400</u> | <u>-</u> | <u>-</u> | <u>19,400</u> |
| Total gross receivables | 541,201 | 121,225 | 2,046,288 | 2,708,714 |
| Less: allowance for uncollectibles | <u>(260)</u> | <u>-</u> | <u>(108,659)</u> | <u>(108,919)</u> |
| Net receivables | <u>\$ 540,941</u> | <u>\$ 121,225</u> | <u>\$ 1,937,629</u> | <u>\$ 2,599,795</u> |

C. Restricted cash and investments

The following details the restricted cash and investments held by the City as of June 30, 2016:

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---------------------------------------|------------------------------------|-------------------------------------|---------------------|
| Restricted cash and investments: | | | |
| Bond sinking funds | \$ - | \$ 1,811,124 | \$ 1,811,124 |
| Construction fund | - | 524,089 | 524,089 |
| Customer deposits | - | 641,633 | 641,633 |
| Reserve funds | 943,164 | - | 943,164 |
| Total restricted cash and investments | <u>\$ 943,164</u> | <u>\$ 2,976,846</u> | <u>\$ 3,920,010</u> |

D. Capital assets

Capital asset balances and activities for the year ended June 30, 2016 were as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|---|------------------------------|-------------------|---------------------|---------------------------|
| <u>Governmental activities</u> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,417,612 | \$ - | \$ - | \$ 1,417,612 |
| Construction in progress | 234,715 | - | (182,834) | 51,881 |
| Total capital assets, not being depreciated | <u>1,652,327</u> | <u>-</u> | <u>(182,834)</u> | <u>1,469,493</u> |
| Capital Assets, being depreciated: | | | | |
| Buildings and improvements | 2,735,031 | 54,148 | - | 2,789,179 |
| Infrastructure and improvements | 4,494,189 | 577,128 | - | 5,071,317 |
| Equipment and computers | 2,590,843 | 89,742 | (7,315) | 2,673,270 |
| Vehicles | 2,893,418 | 103,384 | (182,999) | 2,813,803 |
| Total capital assets, being depreciated | <u>12,713,481</u> | <u>824,402</u> | <u>(190,314)</u> | <u>13,347,569</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (1,790,804) | (80,697) | - | (1,871,501) |
| Infrastructure and other improvements | (2,200,127) | (230,047) | - | (2,430,174) |
| Equipment and computers | (1,793,739) | (142,497) | 7,315 | (1,928,921) |
| Vehicles | (2,118,328) | (150,612) | 182,499 | (2,086,441) |
| Total accumulated depreciation | <u>(7,902,998)</u> | <u>(603,853)</u> | <u>189,814</u> | <u>(8,317,037)</u> |
| Total capital assets being depreciated, net | <u>4,810,483</u> | <u>220,549</u> | <u>(500)</u> | <u>5,030,532</u> |
| Governmental activities capital assets, net | <u>\$ 6,462,810</u> | <u>\$ 220,549</u> | <u>\$ (183,334)</u> | <u>\$ 6,500,025</u> |

CITY OF SALLISAW, OKLAHOMA
Notes to the Financial Statements
June 30, 2016

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|-----------------------|---------------------------|
| <u>Business-type activities</u> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land and easements | \$ 1,286,784 | \$ - | \$ - | \$ 1,286,784 |
| Construction in progress | 3,404,117 | 40,518 | (3,404,117) | 40,518 |
| Total capital assets, not being depreciated | <u>4,690,901</u> | <u>40,518</u> | <u>(3,404,117)</u> | <u>1,327,302</u> |
| Capital Assets, being depreciated: | | | | |
| Buildings and improvements | 921,879 | - | - | 921,879 |
| Land improvements | - | 4,972,100 | - | 4,972,100 |
| Infrastructure and improvements | 17,396,880 | - | - | 17,396,880 |
| Water and sewer treatment facilities | 28,293,458 | - | - | 28,293,458 |
| Equipment | 2,939,220 | 389,443 | (10,605) | 3,318,058 |
| Vehicles | 2,086,255 | 112,487 | (143,908) | 2,054,834 |
| Total capital assets, being depreciated | <u>51,637,692</u> | <u>5,474,030</u> | <u>(154,513)</u> | <u>56,957,209</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (515,231) | (31,480) | - | (546,711) |
| Infrastructure and other improvements | (7,299,833) | (718,481) | - | (8,018,314) |
| Water and sewer treatment facilities | (7,799,172) | (759,300) | - | (8,558,472) |
| Equipment | (1,700,357) | (236,806) | 2,384 | (1,934,779) |
| Vehicles | (1,463,717) | (101,979) | 143,908 | (1,421,788) |
| Total accumulated depreciation | <u>(18,778,310)</u> | <u>(1,848,046)</u> | <u>146,292</u> | <u>(20,480,064)</u> |
| Total capital assets being depreciated, net | <u>32,859,382</u> | <u>3,625,984</u> | <u>(8,221)</u> | <u>36,477,145</u> |
| Business-type activities capital assets, net | <u>\$ 37,550,283</u> | <u>\$ 3,666,502</u> | <u>\$ (3,412,338)</u> | <u>\$ 37,804,447</u> |

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

Governmental activities:

| | |
|--|-------------------|
| General government | \$ 80,141 |
| Public safety | 149,355 |
| Public works | 363,979 |
| Cultural and recreation | 10,378 |
| Total depreciation expense - governmental activities | <u>\$ 603,853</u> |

Business-type activities:

| | |
|---|---------------------|
| Electric | \$ 139,093 |
| Water | 731,415 |
| Wastewater | 269,090 |
| Landfill | 344,281 |
| Sanitation | 64,235 |
| Telecommunications | 299,932 |
| Total depreciation expense - business-type activities | <u>\$ 1,848,046</u> |

E. Long-term liabilities

Governmental activities

Capital Leases

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

| | |
|---|------------|
| Armstrong Bank dated December 1, 2011, in the amount of \$689,000, payable in monthly installments of \$12,683 including interest at 3.89% for two (2) landfill compactors | \$ 61,308 |
| 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. | 23,418 |
| 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. | 26,054 |
| National Bank of Sallisaw dated April 6, 2015, in the amount of \$145,883, payable in monthly installments of \$4,199 including interest for five (5) vehicles. | 90,413 |
| National Bank of Sallisaw dated July 1, 2015 in the amount of \$90,478, payable in monthly installments of \$2,604 including interest for a truck in the electrical department. | 60,984 |
| National Bank of Sallisaw dated February 22, 2016 in the amount of \$100,000, payable in monthly installments of \$2,881 including interest for an excavator. | 89,201 |
| Total capital lease obligations | \$ 351,378 |

Business-type activities

Revenue bonds:

| | |
|---|----------------------|
| <p>\$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.</p> | \$ 6,255,000 |
| <p>\$19,415,000 Sallisaw Municipal Authority Refunding Revenue Bonds, Series 2012 A, 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.</p> | 18,770,000 |
| <p>\$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.</p> | 1,495,000 |
| <p>\$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 a final maturity at September 1, 2027, secured by Sallisaw Municipal Authority utility system facilities and a pledge of its net revenues.</p> | 440,000 |
| <p>\$5,325,000 Sallisaw Municipal Authority Sales Tax Revenue Bonds, Series 2014, due annually in amounts from \$500,000 to \$585,000 plus semi-annual interest of 4.00% with a final maturity at August 1, 2023, secured by ½ cent sales tax, proceeds used for construction of sports complex.</p> | 4,325,000 |
| <p style="padding-left: 40px;">Total revenue bonds</p> | <u>\$ 32,925,000</u> |

Notes payable:

| | |
|--|----------------------|
| <p>Note payable to the National Bank of Sallisaw, dates 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.</p> | \$ 40,838 |
| <p>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 0.5%, secured by water system.</p> | 4,057,087 |
| <p style="padding-left: 40px;">Total notes payable</p> | <u>\$ 4,097,925</u> |
| <p style="padding-left: 40px;">Total business-type activities</p> | <u>\$ 37,022,925</u> |

CITY OF SALLISAW, OKLAHOMA
Notes to the Financial Statements
June 30, 2016

The following is a summary of changes in long-term debt for the year ended June 30, 2016:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> | <u>Amounts Due Within One Year</u> |
|---------------------------------|------------------------------|-------------------|-----------------------|---------------------------|--|
| Governmental activities | | | | | |
| Capital leases | 572,321 | 190,478 | (411,421) | 351,378 | 222,586 |
| Total governmental activities | <u>\$ 572,321</u> | <u>\$ 190,478</u> | <u>\$ (411,421)</u> | <u>\$ 351,378</u> | <u>\$ 222,586</u> |
| Business-type activities | | | | | |
| Revenue bonds: | | | | | |
| Series 2009 | 6,665,000 | - | (410,000) | 6,255,000 | 425,000 |
| Series 2012A | 18,985,000 | - | (215,000) | 18,770,000 | 225,000 |
| Series 2012B | 1,980,000 | - | (485,000) | 1,495,000 | 490,000 |
| Series 2012C | 470,000 | - | (30,000) | 440,000 | 30,000 |
| Series 2014 | 4,825,000 | - | (500,000) | 4,325,000 | 505,000 |
| Notes payable | | | | | |
| National Bank of Sallisaw | 80,826 | - | (39,988) | 40,838 | 235,191 |
| OWRB | 4,275,015 | - | (217,928) | 4,057,087 | 40,798 |
| Total business-type activities | <u>\$ 37,280,841</u> | <u>\$ -</u> | <u>\$ (1,897,916)</u> | <u>\$ 35,382,925</u> | <u>\$ 1,950,989</u> |
| Total long-term debt | <u>\$ 37,853,162</u> | <u>\$ 190,478</u> | <u>\$ (2,309,337)</u> | <u>\$ 35,734,303</u> | <u>\$ 2,173,575</u> |

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

| Year Ending June 30, | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | | |
|-------------------------|--------------------------------|-----------------|---------------------------------|----------------------|----------------------|-------------------|
| | <u>Capital Leases</u> | | <u>Bonds Payable</u> | | <u>Notes Payable</u> | |
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2017 | \$ 222,586 | \$ 6,199 | \$ 1,675,000 | \$ 1,150,510 | \$ 275,988 | \$ 114,619 |
| 2018 | 105,913 | 1,805 | 1,705,000 | 1,107,909 | 252,365 | 97,713 |
| 2019 | 22,879 | 211 | 1,745,000 | 1,062,844 | 259,634 | 90,302 |
| 2020 | - | - | 1,790,000 | 1,017,486 | 266,896 | 82,938 |
| 2021 | - | - | 1,855,000 | 955,406 | 274,940 | 74,972 |
| 2022-2026 | - | - | 8,115,000 | 3,685,018 | 1,499,974 | 232,158 |
| 2027-2031 | - | - | 7,365,000 | 2,065,835 | 1,268,128 | 39,036 |
| 2031-2036 | - | - | 6,765,000 | 831,600 | - | - |
| Total | <u>\$ 351,378</u> | <u>\$ 8,215</u> | <u>\$ 31,015,000</u> | <u>\$ 11,876,608</u> | <u>\$ 4,097,925</u> | <u>\$ 731,738</u> |

H. 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 waster, 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 waster, 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 \$1,875,436 reported as a long-term liability for the accrued landfill closure cost liability as of June 30, 2016, represents the cumulative amount of such cost reported to date based on the use of approximately 65% 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 \$1,009,850 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 2016. Based on current life of the site, the City expects the current site to remain open until fiscal year 2028. 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, 2016, are as follows:

| | | |
|---|----|--------------|
| Estimated closure cost | \$ | 1,312,492 |
| Estimated post-closure cost | | 1,572,794 |
| Total estimated cost | | \$ 2,885,286 |
| Accrued closure cost | \$ | 1,875,436 |
| Current estimated cost charged to expense | \$ | 115,569 |

The City has qualified under the State of Oklahoma Department of Environmental Quality (DEQ) financial assurance text 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. 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. Judgements against the City may be paid by a property tax assessment over a three-year period.

B. Employee retirement systems and pension plans

The City participates in four employee pension systems as follows:

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

Oklahoma Police Pension and Retirement System (OPPRS)

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

Benefits Provided – The OPPRS provides retirement, death, and disability benefits to plan members and beneficiaries. The normal retirement date under the Plan is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service. Participants' contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed 10 years of credited service may elect a vested benefit in Lieu of having their accumulated contributions refunded. If the vested balance is elected, the participant is entitled to a monthly retirement benefit commencing on the date the participant reaches 50 years of age or the date the participant would have had 20 years of credited service had employments continued uninterrupted, whichever is first.

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

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

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

Contributions – The contribution requirements of plan are at an established rate determined by Oklahoma Statute and are not based in actuarial calculations. Plan members are required to contribute 8.0% of their annual covered salary and the City of Sallisaw contributes 13.0% of annual covered payroll. Contributions to the OPPRS for the year ended June 30, 2016, for the employees and employer were \$60,722 and \$98,673, respectively, on covered payroll of \$759,023.

Pension liabilities, pension expense, and deferred outflows and inflows of resources related to pensions – As of June 30, 2016, the City reported a liability of \$11,288 for its proportionate share of the net pension liability. The net pension asset was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2015. Based upon this information, the City's proportionate share was 0.2768%.

CITY OF SALLISAW, OKLAHOMA
Notes to the Financial Statements
June 30, 2016

For the year ended June 30, 2015, the City recognized \$41,858 in pension expense. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual expenses | \$ - | \$ 62,420 |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan invest | 202,281 | 245,718 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | - | 1,940 |
| City contributions subsequent to the measurement date | 98,673 | - |
| Total | \$ 300,954 | \$ 310,078 |

Amortization of Pension Deferrals - \$98,673 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2017. Amounts reported as deferred inflows of resources will be recognized in pension expense as follows:

| Year ended June 30, | |
|---------------------|-----------|
| 2017 | (46,907) |
| 2018 | (46,907) |
| 2019 | (46,907) |
| 2020 | 35,694 |
| 2021 | (4,637) |
| Thereafter | 1,408 |
| | (108,256) |

Actuarial assumptions: - The total pension liability was determined by an actuarial valuation as of July 1, 2016 actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement.

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

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the following table:

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

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

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

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

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|--------------------------------------|-------------------------------|---|-------------------------------|
| City's net pension liability (asset) | \$ 678,282 | \$ 11,288 | \$ (551,034) |

Payables to the Pension Plan – There are no payables to the pension plan for the year ended June 30, 2016.

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

Oklahoma State Firefighters' Pension and Retirement System (OFPRS)

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

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

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

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

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

Contributions – The contribution requirements of plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Plan members are required to contribute 9.0% of their annual covered salary and the City of Sallisaw contributes 14.0% of annual covered payroll. Contributions to the OFPRS for the year ended June 30, 2016, for employees and employer were \$22,157 and \$34,466, respectively, on covered payroll of \$246,186.

Pension liabilities, pension expense, and deferred outflows and inflows of resources related to pensions – As of June 30, 2015, the City reported a net pension liability of \$949,024 for its proportionate share of the net pension asset. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2015. Based upon this information, the City's proportionate share was 0.089412 percent.

For the year ended June 30, 2016, the City recognized \$84,304 in pension expense. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual expenses | \$ 18,750 | \$ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | 33,643 | 104,386 |
| Changes in proportion | 19,595 | |
| City contributions subsequent to the measurement date | 34,466 | - |
| Total | \$ 106,454 | \$ 104,386 |

Amortization of Pension Deferrals – \$34,466 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

| Year ended June 30, | |
|---------------------|-------------|
| 2017 | \$ (21,440) |
| 2018 | (21,440) |
| 2019 | (21,440) |
| 2020 | 12,572 |
| 2021 | 1,649 |
| Total | \$ (50,099) |

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

| | |
|----------------------------|---|
| Inflation: | 3% |
| Salary increases: | 3.5% to 9% average, including inflations |
| Investment rate of return: | 7.5% net of pension plan investment expense |
| Mortality rates: | Based on RP-2000 combined healthy with blue collared adjustment as appropriate, with adjustments for generational mortality improvement using scale AA for healthy lives and no mortality improvement for disabled lives. |

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2015, are summarized in the following table:

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

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

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

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|--------------------------------------|-----------------------|---------------------------------|-----------------------|
| City’s net pension liability (asset) | \$ 1,232,211 | \$ 949,024 | \$ 711,518 |

Payables to the Pension Plan – There are no payables to the pension plan for the year ended June 30, 2016.

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

Agent Multiple Employer – Defined Benefit Plan

Oklahoma Municipal Retirement Fund Employee Retirement System of Sallisaw, Oklahoma

Plan Description – The Oklahoma Municipal Retirement Fund Employee Retirement System of Sallisaw, Oklahoma (the Plan) is a defined benefit retirement plan covering City employees not covered by other plans. The City contributes to the OMRF for all eligible employees except for those covered by the Police and Firefighter Pension Systems. The OMRF plan issues a separate financial report and can be obtained from OMRF or from their website: www.okmrf.org/reports.html. Benefits are established or amended by the City Council in accordance with O.S. Title 11, Section 48-101-102.

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

market prices. Detailed information about the OMRP plans' fiduciary net position is available in the separately issued OMRF financial report.

Eligibility Factors and Benefit Provisions

| Provision | July 1, 2015 through June 30, 2016 |
|---|---|
| Eligibility | All regular, full-time employees except police, firefighters, and other employees who are covered under an approved system. |
| Contributions | 7% of pay |
| Service: | |
| Credited service | The last period of continuous employment with the City |
| Vesting | Credited service plus transferred service from other OMRF employers. |
| Benefit eligibility | 10 or more years of service |
| Final average compensation | Average of 5 highest consecutive years of salaries out of the last 10 years of service |
| Accrued benefit | Plan AAA 3% of final average compensation multiplied by the number of years of credited service. |
| Normal retirement age | The earlier of: Age 65 with 10 or more years of vesting service Age 55 with 80 points and 10 or more years of vesting service (Points are equal to age plus completed years of service) |
| Normal retirement Eligibility | Termination after age 55 with 10 or more years of vesting service. |
| Benefit | The accrued benefit payable starting at normal retirement age, or the accrues benefit reduced 5% per year for commencement prior to normal retirement age |
| Disability retirement Eligibility | Total and permanent disability after 10 or more years of service. |
| Benefit | The accrued benefit is payable upon disablement without reduction for early payment. |
| Termination before retirement age | |
| Before vesting | Return of employee contributions, if any, with interest |
| After vesting | The accrued benefit payable starting at normal retirement age, or a reduced benefit payable at an early retirement age. |
| In-service death | |
| Before vesting | Return of employee contributions, if any, with interest. |
| After vesting (married participants only) | 50% of the accrued benefit is payable to the spouse until death or remarriage. |
| After vesting (other participants) | 50% of the accrued benefit is payable for 5 years certain. |
| Payment options | |
| Normal form | Monthly lifetime annuity with 5 years certain |
| Optional forms | Disability retirement benefits paid under normal form. Actuarially equivalent optional forms: Joint & 50% survivor annuity Joint & 66 2/3rds% last survivor annuity Joint & 100% survivor annuity |

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of July 1, 2015 are summarized in the following table:

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

Changes in Net Pension Liability – The total pension liability was determined based on an actuarial valuation performed as of July 1, 2015 which is also the measurement date. There were no changes in assumptions or changes in benefit terms that affected measurement of the total pension liability. There were also no changes between the measurement date of July 1, 2015 and the City's report ending date of June 30, 2016, that would have had a significant impact on the net pension liability.

CITY OF SALLISAW, OKLAHOMA
Notes to the Financial Statements
June 30, 2016

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

| | Schedule of Changes in Net Pension Liability | | |
|---|--|-------------------------------------|------------------------------------|
| | Increase (Decrease) | | |
| | Total Pension liability (a) | Plan Net Position (b) | Net Pension Liability (a) - (b) |
| Balance at July 1, 2014 | \$ 16,555,389 | \$ 12,739,508 \$ (12,739,508.00) | \$ 3,815,881 |
| Changes for the Year: | | | |
| Service cost | 408,732 | - | 408,732 |
| Interest expense | 1,250,385 | - | 1,250,385 |
| Difference between expected and actual experience | (227,314) | - | (227,314) |
| Contributions - City | - | 623,077 | (623,077) |
| Contributions - members | - | 248,235 | (248,235) |
| Net investment income | - | 356,175 | (356,175) |
| Benefits paid | (858,806) | (858,806) | - |
| Benefit changes due to plan amendments | - | - | - |
| Administrative expense | - | (26,404) | 26,404 |
| Other changes | - | - | - |
| Net changes | <u>572,997</u> | <u>342,277</u> | <u>230,720</u> |
| Balance at July 1, 2015 | <u>\$ 17,128,386</u> | <u>\$ 342,277</u> | <u>\$ 4,046,601</u> |

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

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|-------------------------------|------------------------|-------------------------------------|------------------------|
| Net Pension Liability (Asset) | \$ 19,293,432 | \$ 17,128,386 | \$ 15,349,662 |
| Plan Fiduciary Position | 13,081,785 | 13,081,785 | 13,081,785 |
| Net Pension Liability | <u>\$ 6,211,647</u> | <u>\$ 4,046,601</u> | <u>\$ 2,267,877</u> |

The City reported \$ 364,529 in pension expense for the year ended June 30, 2016. At June 30, 2016 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ - | \$ 188,457 |
| Changes in assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | 476,386 | 604,019 |
| City contributions subsequent to the measurements date | 639,165 | - |
| Total | <u>\$ 1,115,551</u> | <u>\$ 792,476</u> |

\$ 639,165 will be reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the

net pension liability in the year ended June 30, 2016. Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30, | |
|---------------------|---------------------|
| 2017 | \$ (121,100) |
| 2018 | (121,100) |
| 2019 | (121,100) |
| 2020 | 80,237 |
| 2021 | (33,027) |
| | <u>\$ (316,090)</u> |

ICMA Retirement Corporation Deferred Compensation Plan

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

Funding Policy – The City contributes 20% of covered annual compensation. All amounts of compensation deferred under the ICMA, all property and rights purchased with those amounts, and all income attributed to those amounts, properties, or rights are solely the property of the employer’s general creditors until paid or made available to the employee or other beneficiary. Contributions to the ICMA for the year ended June 30, 2015, were \$ 22,846 on covered payroll of \$ 190,521.

C. Commitments and contingencies

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

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

As described in Note II.E., 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 November 8, 2016, the date which the financial statements were available to be issued.

E. Restatement of Beginning Equity

Beginning net position was restated to reflect the allocation of accrued salary and compensated absences between governmental activities and business-type activities. The allocation of salary accrual impacted the fund balance of the General Fund in the same amount as the balance is due and payable in the current year. The changes were as follows:

| | Governmental Activities | Business-type Activities |
|--|------------------------------------|-------------------------------------|
| Beginning Net Position | \$ 5,240,152 | \$ 5,766,308 |
| Salary accrual | 128,178 | (128,178) |
| Compensated absences | 191,792 | (191,792) |
| Recognition of prior year reveue/(expense) | 534,000 | - |
| Restated Beginning Net Position | \$ 6,094,122 | \$ 5,446,338 |

Fund balance for the Capital Improvements Fund was restated to reflect the current portion of capital leases due and payable within one year. The impact of the adjustment decreased fund balance by \$226,347.

City of Sallisaw, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances -
General Fund - Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2016

| | Budget | Revisions | Revised Budget | Actual | Variance - Favorable (Unfavorable) |
|--|-------------------|------------------|-------------------|---------------------|--|
| REVENUES | | | | | |
| Sales tax | \$ 5,422,000 | \$ - | \$ 5,422,000 | \$ 5,445,649 | \$ 23,649 |
| Other taxes | 575,192 | - | 575,192 | 387,456 | (187,736) |
| Licenses and permits | 35,300 | - | 35,300 | 29,300 | (6,000) |
| Intergovernmental | - | - | - | 84,115 | 84,115 |
| Fines and forfeitures | 203,500 | - | 203,500 | 305,070 | 101,570 |
| Charges for services | 104,500 | - | 104,500 | 164,873 | 60,373 |
| Rental | 9,500 | - | 9,500 | 11,585 | 2,085 |
| Other | 146,850 | 378,173 | 525,023 | 736,675 | 211,652 |
| Interest | 900 | - | 900 | 4,268 | 3,368 |
| Total revenues | <u>6,497,742</u> | <u>378,173</u> | <u>6,875,915</u> | <u>7,168,991</u> | <u>293,076</u> |
| EXPENDITURES | | | | | |
| <u>General government:</u> | | | | | |
| Administration | 906,526 | 30,181 | 936,707 | 1,084,655 | (147,948) |
| Customer Service | 396,633 | 28,645 | 425,278 | 402,569 | 22,709 |
| Fleet Maintenance | 215,680 | 13,262 | 228,942 | 204,475 | 24,467 |
| Information services | 183,725 | (5,228) | 178,497 | 168,129 | 10,368 |
| Finance | 717,824 | (146,869) | 570,955 | 553,647 | 17,308 |
| General sundry | 104,500 | 123,061 | 227,561 | 121,088 | 106,473 |
| <u>Public safety:</u> | | | | | |
| Police | 1,688,086 | (106,922) | 1,581,164 | 1,571,172 | 9,992 |
| Police Auxillary | 473,004 | (32,149) | 440,855 | 421,540 | 19,315 |
| Animal Welfare | 75,765 | 62,447 | 138,212 | 127,331 | 10,881 |
| Municipal Court | 60,781 | 1,427 | 62,208 | 61,294 | 914 |
| Fire | 442,012 | (5,212) | 436,800 | 425,871 | 10,929 |
| <u>Public works:</u> | | | | | |
| Streets | 757,117 | (14,986) | 742,131 | 709,626 | 32,505 |
| Sanitation | 513,071 | 5,717 | 518,788 | 495,979 | 22,809 |
| Landfill | 640,171 | (32,508) | 607,663 | 540,166 | 67,497 |
| Electric | 845,286 | (85,996) | 759,290 | 731,853 | 27,437 |
| Telecommunications | 543,241 | 118,110 | 661,351 | 632,302 | 29,049 |
| Water production | 560,019 | (23,729) | 536,290 | 499,093 | 37,197 |
| Water distribution | 265,554 | (28,324) | 237,230 | 207,676 | 29,554 |
| Wastewater collection | 230,254 | 1,602 | 231,856 | 212,968 | 18,888 |
| Wastewater treatment | 381,236 | 80,093 | 461,329 | 447,627 | 13,702 |
| <u>Culture and recreation:</u> | | | | | |
| Airport | 154,100 | (4,258) | 149,842 | 115,618 | 34,224 |
| Parks | 727,077 | 40,650 | 767,727 | 709,192 | 58,535 |
| Swimming Pool | 60,332 | 4,350 | 64,682 | 52,746 | 11,936 |
| Cemetery | 12,375 | 1,997 | 14,372 | 8,774 | 5,598 |
| <u>Economic Development:</u> | | | | | |
| Building development | 299,878 | (28,861) | 271,017 | 354,040 | (83,023) |
| Total expenditures | <u>11,254,247</u> | <u>(3,500)</u> | <u>11,250,747</u> | <u>10,859,431</u> | <u>391,316</u> |
| Revenue over (under) expenditures | (4,756,505) | 381,673 | (4,374,832) | (3,690,440) | (98,240) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Operating transfers in/(out) | 4,756,505 | (381,673) | 4,374,832 | 3,768,003 | (606,829) |
| Net other financing sources (uses) | <u>4,756,505</u> | <u>(381,673)</u> | <u>4,374,832</u> | <u>3,768,003</u> | <u>(606,829)</u> |
| Revenues and other financing sources over (under) expenditures and other uses | - | - | - | 77,563 | (705,069) |
| Fund balance at beginning of year (Non-GAAP budgetary basis), restated | | | | <u>1,268,454</u> | |
| Fund balance at end of year (Non-GAAP budgetary basis) | | | | <u>\$ 1,346,017</u> | |
| ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES | | | | | |
| Revenue and transfer accruals | | | | <u>374,293</u> | |
| Fund balance at end of year (GAAP basis) | | | | <u>\$ 1,720,310</u> | |

City of Sallisaw, Oklahoma
Schedules of Required Supplementary Information

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS

Oklahoma Municipal Retirement Fund
SINCE INITIAL APPLICATION

| | 2015* | 2016* |
|---|----------------------|----------------------|
| Total pension liability | | |
| Service cost | \$ 366,952 | \$ 408,732 |
| Interest | 1,223,894 | 1,250,385 |
| Changes in benefit terms | - | - |
| Differences between expected and actual experience | - | (227,314) |
| Changes in assumptions | - | - |
| Benefit payments, including refunds of employee contributions | (904,499) | (858,806) |
| Net change in total pension liability | 686,347 | 572,997 |
| Total pension liability - beginning | 15,869,042 | 16,555,389 |
| Total pension liability - ending (a) | \$ 16,555,389 | \$ 17,128,386 |
| Plan fiduciary net position | | |
| Contributions - employer | 593,615 | 623,077 |
| Contributions - employee | 228,564 | 248,235 |
| Net investment income | 1,805,094 | 356,175 |
| Benefit payments, including refunds of employee contributions | (904,499) | (858,806) |
| Administrative expense | (26,721) | (26,404) |
| Other | - | - |
| Net change in plan fiduciary net position | 1,696,053 | 342,277 |
| Plan fiduciary net position - beginning | 11,043,455 | 12,739,508 |
| Plan fiduciary net position - ending (b) | \$ 12,739,508 | \$ 13,081,785 |
| City's net pension liability - ending (a) - (b) | \$ 3,815,881 | \$ 4,046,601 |
| Plan fiduciary net position as a percentage of the total pension liability | 76.95% | 76.37% |
| Covered-employee payroll | \$ 3,329,223 | \$ 3,503,183 |
| City's net pension liability as a percentage of covered-employee payroll | 114.62% | 115.51% |

* The amount presented for each fiscal year were determined as of the fiscal year-end that occurred previous

SCHEDULE OF CITY CONTRIBUTIONS
Oklahoma Municipal Retirement Plan

| | 2015* | 2016* |
|--|--------------|--------------|
| Actuarially determined contribution | \$ 593,615 | \$ 623,077 |
| Contributions in relation to the actuarially determined contribution | (593,615) | (639,165) |
| Contribution deficiency (excess) | \$ - | \$ (16,088) |
| City's covered-employee payroll | \$ 3,329,223 | \$ 3,503,183 |
| Contributions as a percentage of covered-employee payroll | 17.83% | 17.79% |

City of Sallisaw, Oklahoma
Schedules of Required Supplementary Information

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Oklahoma Police Pension Retirement Plan
Year Ended June 30, 2016

| | <u>2015*</u> | <u>2016*</u> |
|---|--------------|--------------|
| City's portion of the net pension liability (asset) | 0.2792% | 0.2768% |
| City's proportionate share of the net pension liability (asset) | \$ (94,003) | \$ 11,288 |
| City's covered-employee payroll | \$ 753,098 | \$ 759,023 |
| City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | -12.48% | 1.49% |
| Plan fiduciary net position as a percentage of the total pension liability | 139.12% | 100.00% |

* The amount presented for each fiscal year were determined as of the fiscal year-end that occurred previous

SCHEDULE OF CITY CONTRIBUTIONS
Oklahoma Police Pension Retirement Plan

| | <u>2015*</u> | <u>2016*</u> |
|--|-----------------|-----------------|
| Contractually required contribution | \$ 97,903 | \$ 98,673 |
| Contributions in relation to the contractually required contribution | <u>(97,903)</u> | <u>(98,673)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> |
| City's covered-employee payroll | \$ 753,098 | \$ 759,023 |
| Contributions as a percentage of covered-employee payroll | 13.00% | 13.00% |

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

City of Sallisaw, Oklahoma
Schedules of Required Supplementary Information

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Oklahoma Fire Pension Retirement Plan
Year Ended June 30, 2016

| | <u>2015*</u> | <u>2016*</u> |
|---|--------------|--------------|
| City's portion of the net pension liability (asset) | 0.0874% | 0.089412% |
| City's proportionate share of the net pension liability (asset) | \$ 899,045 | \$ 949,024 |
| City's covered-employee payroll | \$ 231,105 | \$ 246,186 |
| City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 389% | 385% |
| Plan fiduciary net position as a percentage of the total pension liability | 99.30% | 100.00% |

* The amount presented for each fiscal year were determined as of the fiscal year-end that occurred previous

SCHEDULE OF CITY CONTRIBUTIONS
Oklahoma Fire Pension Retirement Plan

| | <u>2015*</u> | <u>2016*</u> |
|--|-----------------|-----------------|
| Contractually required contribution | \$ 32,354 | \$ 34,466 |
| Contributions in relation to the contractually required contribution | <u>(32,354)</u> | <u>(34,466)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> |
| City's covered-employee payroll | \$ 231,105 | \$ 246,186 |
| Contributions as a percentage of covered-employee payroll | 14.00% | 14.00% |

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

City of Sallisaw, Oklahoma

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016

| | Street and Alley Fund | Library Fund | Library Trust Authority | Youth & Recreation Fund | Fire Department Fund | Police Department Fund | Sallisaw NOW PFS Grant |
|------------------------------------|----------------------------------|-------------------------|--|--|-------------------------------------|---------------------------------------|---------------------------------------|
| Assets | | | | | | | |
| Cash and cash equivalents | \$ 186,865 | \$ 21,664 | \$ 45 | \$ 175,760 | \$ 65,559 | \$ 10,790 | \$ 13,512 |
| Investments | - | - | 84,636 | - | - | - | - |
| Receivables: | | | | | | | |
| Taxes | 6,592 | - | - | - | - | - | - |
| Grants | - | - | - | - | - | - | 8,491 |
| Accrued interest | - | - | 91 | - | - | - | - |
| Due from other funds | - | - | - | 12,977 | - | - | - |
| Total assets | <u>\$ 193,457</u> | <u>\$ 21,664</u> | <u>\$ 84,772</u> | <u>\$ 188,737</u> | <u>\$ 65,559</u> | <u>\$ 10,790</u> | <u>\$ 22,003</u> |
| Liabilities | | | | | | | |
| Accounts payable | - | - | - | 4,050 | - | - | 99 |
| Current portion of capital leases | - | - | - | - | - | - | - |
| Due to other funds | 87,529 | - | - | - | - | - | - |
| Total liabilities | <u>87,529</u> | <u>-</u> | <u>-</u> | <u>4,050</u> | <u>-</u> | <u>-</u> | <u>99</u> |
| Fund balance: | | | | | | | |
| Nonspendable | - | - | - | - | - | - | - |
| Restricted | 105,928 | - | 84,772 | - | - | - | 21,904 |
| Committed | - | - | - | 184,687 | - | - | - |
| Assigned | - | 21,664 | - | - | 65,559 | 10,790 | - |
| Unassigned | - | - | - | - | - | - | - |
| Total fund balance | <u>105,928</u> | <u>21,664</u> | <u>84,772</u> | <u>184,687</u> | <u>65,559</u> | <u>10,790</u> | <u>21,904</u> |
| Total liabilities and fund balance | <u>\$ 193,457</u> | <u>\$ 21,664</u> | <u>\$ 84,772</u> | <u>\$ 188,737</u> | <u>\$ 65,559</u> | <u>\$ 10,790</u> | <u>\$ 22,003</u> |

See accompanying notes to the financial statements.

City of Sallisaw, Oklahoma

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016

| | Police Drug Fund | Sallisaw NOW | Department of Justice Grants | Sallisaw NOW DFC Grant | Capital Improvements Fund | Cemetery Fund |
|------------------------------------|-----------------------------|-------------------------|---|---------------------------------------|--|--------------------------|
| Assets | | | | | | |
| Cash and cash equivalents | \$ 33,717 | \$ 8,661 | \$ (4,891) | \$ (9,160) | \$ 933,464 | \$ 114,375 |
| Investments | - | - | - | - | - | 145,736 |
| Receivables: | | | | | | |
| Taxes | - | - | - | - | - | - |
| Grants | - | - | 9,280 | 9,215 | - | - |
| Accrued interest | - | - | - | - | - | 27 |
| Due from other funds | - | - | - | - | 55,591 | - |
| Total assets | <u>\$ 33,717</u> | <u>\$ 8,661</u> | <u>\$ 4,389</u> | <u>\$ 55</u> | <u>\$ 989,055</u> | <u>\$ 260,138</u> |
| Liabilities | | | | | | |
| Accounts payable | - | 1,150 | - | 55 | 4,291 | - |
| Current portion of capital leases | - | - | - | - | 222,586 | - |
| Due to other funds | - | - | - | - | - | - |
| Total liabilities | <u>-</u> | <u>1,150</u> | <u>-</u> | <u>55</u> | <u>226,877</u> | <u>-</u> |
| Fund balance: | | | | | | |
| Nonspendable | - | - | - | - | - | - |
| Restricted | - | 7,511 | 4,389 | - | 762,178 | 260,138 |
| Committed | 33,717 | - | - | - | - | - |
| Assigned | - | - | - | - | - | - |
| Unassigned | - | - | - | - | - | - |
| Total fund balance | <u>33,717</u> | <u>7,511</u> | <u>4,389</u> | <u>-</u> | <u>762,178</u> | <u>260,138</u> |
| Total liabilities and fund balance | <u>\$ 33,717</u> | <u>\$ 8,661</u> | <u>\$ 4,389</u> | <u>\$ 55</u> | <u>\$ 989,055</u> | <u>\$ 260,138</u> |

See accompanying notes to the financial statements.

City of Sallisaw, Oklahoma

Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2016

| | Infrastructure Improvements Fund | FAA Grant | CDBG Grant | Total Governmental Funds |
|------------------------------------|---|------------------|-----------------------|---|
| Assets | | | | |
| Cash and cash equivalents | \$ 340,678 | \$ 39,745 | \$ - | \$ 1,930,784 |
| Investments | - | - | - | 230,372 |
| Receivables: | | | | |
| Taxes | - | - | - | 6,592 |
| Grants | - | - | 87,529 | 114,515 |
| Accrued interest | - | - | - | 118 |
| Due from other funds | - | - | 87,529 | 156,097 |
| Total assets | <u>\$ 340,678</u> | <u>\$ 39,745</u> | <u>\$ 175,058</u> | <u>\$ 2,438,478</u> |
| Liabilities | | | | |
| Accounts payable | - | - | - | 9,645 |
| Current portion of capital leases | - | - | - | 222,586 |
| Due to other funds | - | - | - | 87,529 |
| Total liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>319,760</u> |
| Fund balance: | | | | |
| Nonspendable | - | - | - | - |
| Restricted | - | 39,745 | 175,058 | 1,461,623 |
| Committed | 340,678 | - | - | 559,082 |
| Assigned | - | - | - | 98,013 |
| Unassigned | - | - | - | - |
| Total fund balance | <u>340,678</u> | <u>39,745</u> | <u>175,058</u> | <u>2,118,718</u> |
| Total liabilities and fund balance | <u>\$ 340,678</u> | <u>\$ 39,745</u> | <u>\$ 175,058</u> | <u>\$ 2,438,478</u> |

See accompanying notes to the financial statements.

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
June 30, 2016

| | <u>Street and Alley Fund</u> | <u>Library Fund</u> | <u>Library Trust Authority</u> | <u>Youth & Recreation Fund</u> | <u>Fire Department Fund</u> | <u>Police Department Fund</u> | <u>Sallisaw NOW PFS Grant</u> |
|--|----------------------------------|-------------------------|--|--|-------------------------------------|---------------------------------------|---------------------------------------|
| Revenues | | | | | | | |
| Intergovernmental | \$ 79,622 | \$ - | \$ - | \$ - | \$ 33,628 | \$ - | \$ 80,289 |
| Sales Tax | - | - | - | - | - | - | - |
| Hotel tax | - | - | - | 106,266 | - | - | - |
| Charges for services | - | - | - | - | - | - | - |
| Rental income | - | - | - | - | - | - | - |
| Donations | - | - | - | 5,000 | 5,500 | 5,508 | - |
| Interest | - | - | 280 | - | - | - | - |
| Miscellaneous income | - | - | - | - | 5,630 | - | - |
| Proceeds from debt issuance | - | - | - | - | - | - | - |
| Total Revenues | <u>\$ 79,622</u> | <u>\$ -</u> | <u>\$ 280</u> | <u>\$ 111,266</u> | <u>\$ 44,758</u> | <u>\$ 5,508</u> | <u>\$ 80,289</u> |
| Expenditures | | | | | | | |
| Public safety | - | - | - | - | 13,314 | 11,807 | 58,385 |
| Public works | 87,529 | - | - | 103,152 | - | - | - |
| Culture and recreation | - | 8,612 | - | - | - | - | - |
| Debt service: | | | | | | | |
| Principal | - | - | - | - | - | - | - |
| Interest | - | - | - | - | - | - | - |
| Capital outlay | 140,644 | - | - | 19,468 | 68,884 | - | - |
| Total expenditures | <u>228,173</u> | <u>8,612</u> | <u>-</u> | <u>122,620</u> | <u>82,198</u> | <u>11,807</u> | <u>58,385</u> |
| Excess of revenues over (under) expenditures | (148,551) | (8,612) | 280 | (11,354) | (37,440) | (6,299) | 21,904 |
| Other financing sources (uses) | | | | | | | |
| Proceeds from debt issuance | - | - | - | - | - | - | - |
| Transfers in | - | 26,303 | - | - | - | - | - |
| Transfers (out) | - | - | - | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>26,303</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | (148,551) | 17,691 | 280 | (11,354) | (37,440) | (6,299) | 21,904 |
| Fund balances, beginning | 254,479 | 3,973 | 84,492 | 196,041 | 102,999 | 17,089 | - |
| Prior period adjustment, capital leases | - | - | - | - | - | - | - |
| Fund balances, ending | <u>\$ 105,928</u> | <u>\$ 21,664</u> | <u>\$ 84,772</u> | <u>\$ 184,687</u> | <u>\$ 65,559</u> | <u>\$ 10,790</u> | <u>\$ 21,904</u> |

See accompanying notes to the financial statements.

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
June 30, 2016

| | Police Drug Fund | Sallisaw NOW | Department of Justice Grants | Sallisaw NOW DFC Grant | Capital Improvements Fund | Cemetery Fund |
|--|-----------------------------|-------------------------|---|---------------------------------------|--|--------------------------|
| Revenues | | | | | | |
| Intergovernmental | \$ 16,304 | \$ - | \$ 29,068 | \$ 141,956 | \$ - | \$ - |
| Sales Tax | - | - | - | - | 680,706 | - |
| Hotel tax | - | - | - | - | - | - |
| Charges for services | - | - | - | - | - | 29,150 |
| Rental income | - | - | - | - | - | 10,800 |
| Donations | - | - | - | - | - | - |
| Interest | - | - | - | - | 692 | 496 |
| Miscellaneous income | 1,600 | - | - | - | - | 200 |
| Proceeds from debt issuance | - | - | - | - | - | - |
| Total Revenues | \$ 17,904 | \$ - | \$ 29,068 | \$ 141,956 | \$ 681,398 | \$ 40,646 |
| Expenditures | | | | | | |
| Public safety | - | 31,777 | 25,095 | 141,956 | - | - |
| Public works | - | - | - | - | 16,196 | 1,915 |
| Culture and recreation | - | - | - | - | - | - |
| Debt service: | | | | | | |
| Principal | - | - | - | - | 411,422 | - |
| Interest | - | - | - | - | 18,346 | - |
| Capital outlay | - | - | - | - | 148,995 | 11,600 |
| Total expenditures | - | 31,777 | 25,095 | 141,956 | 594,959 | 13,515 |
| Excess of revenues over (under) expenditures | 17,904 | (31,777) | 3,973 | - | 86,439 | 27,131 |
| Other financing sources (uses) | | | | | | |
| Proceeds from debt issuance | - | - | - | - | 190,487 | - |
| Transfers in | - | - | - | - | 378,173 | - |
| Transfers (out) | - | - | - | - | (440,933) | - |
| Total other financing sources (uses) | - | - | - | - | 127,727 | - |
| Net change in fund balances | 17,904 | (31,777) | 3,973 | - | 214,166 | 27,131 |
| Fund balances, beginning | 15,813 | 39,288 | 416 | - | 774,359 | 233,007 |
| Prior period adjustment, capital leases | - | - | - | - | (226,347) | - |
| Fund balances, ending | \$ 33,717 | \$ 7,511 | \$ 4,389 | \$ - | \$ 762,178 | \$ 260,138 |

See accompanying notes to the financial statements.

City of Sallisaw, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
June 30, 2016

| | Infrastructure Improvements Fund | FAA Grant | CDBG Grant | Total Governmental Funds |
|--|---|-------------------|-----------------------|---|
| Revenues | | | | |
| Intergovernmental | \$ - | \$ 393,283 | \$ 175,058 | \$ 949,208 |
| Sales Tax | - | - | - | 680,706 |
| Hotel tax | - | - | - | 106,266 |
| Charges for services | - | - | - | 29,150 |
| Rental income | - | - | - | 10,800 |
| Donations | - | - | - | 16,008 |
| Interest | 184 | - | - | 1,652 |
| Miscellaneous income | - | - | - | 7,430 |
| Proceeds from debt issuance | - | - | - | - |
| Total Revenues | <u>\$ 184</u> | <u>\$ 393,283</u> | <u>\$ 175,058</u> | <u>\$ 1,801,220</u> |
| Expenditures | | | | |
| Public safety | - | - | - | 282,334 |
| Public works | - | - | - | 208,792 |
| Culture and recreation | - | - | - | 8,612 |
| Debt service: | | | | |
| Principal | - | - | - | 411,422 |
| Interest | - | - | - | 18,346 |
| Capital outlay | 40,518 | 394,293 | - | 824,402 |
| Total expenditures | <u>40,518</u> | <u>394,293</u> | <u>-</u> | <u>1,753,908</u> |
| Excess of revenues over (under) expenditures | (40,334) | (1,010) | 175,058 | 47,312 |
| Other financing sources (uses) | | | | |
| Proceeds from debt issuance | - | - | - | 190,487 |
| Transfers in | - | - | - | 404,476 |
| Transfers (out) | - | - | - | (440,933) |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>(36,457)</u> |
| Net change in fund balances | (40,334) | (1,010) | 175,058 | 201,342 |
| Fund balances, beginning | 381,012 | 40,755 | - | 2,143,723 |
| Prior period adjustment, capital leases | - | - | - | (226,347) |
| Fund balances, ending | <u>\$ 340,678</u> | <u>\$ 39,745</u> | <u>\$ 175,058</u> | <u>\$ 2,118,718</u> |

See accompanying notes to the financial statements.



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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*

To the Honorable Mayor and City Commissioners
City of 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 General 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, 2016 and the related notes to the financial statements which collectively comprise the City of Sallisaw, Oklahoma's basic financial statements, and have issued our report thereon dated November 8, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Sallisaw, Oklahoma'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 the City of Sallisaw, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Sallisaw, Oklahoma'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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies, Finding 2015-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sallisaw, Oklahoma's financial statements are free from 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, Oklahoma's Response to Findings

City of Sallisaw, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Sallisaw, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We noted certain matters that we reported to management of City of Sallisaw, OK in a separate letter dated November 14, 2016.



RSMeacham CPAs & Advisors
Clinton, Oklahoma
November 8, 2016



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Members of American
Institute of Certified
Public Accountants

Members of Oklahoma
Society of Certified
Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Honorable Mayor and City Commissioners
City of Sallisaw, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited the City of Sallisaw, Oklahoma's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Sallisaw, Oklahoma's major federal programs for the year ended June 30, 2016. City of Sallisaw, Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Sallisaw, Oklahoma's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Sallisaw, Oklahoma's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City of Sallisaw, Oklahoma, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the City of Sallisaw, Oklahoma, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Sallisaw, Oklahoma's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine

the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Sallisaw, Oklahoma's internal control over compliance.

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

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

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



RSMeacham CPAs & Advisors
Clinton, Oklahoma
November 8, 2016

CITY OF SALLISAW
Schedule of Expenditures of Federal Awards
June 30, 2016

| Fund/Program Title | CFDA Number | Identifying Number | Federal Award Amount | Federal Grant Expenditures |
|--|----------------|--------------------------------|-------------------------|----------------------------------|
| US Department of Housing and Urban Development | | | | |
| Pass-Through Program From: | | | | |
| OK Dept of Commerce/Office of Comm Development Community Development Block Grants | 14.228 | 16299 CDBG 11 | \$ 105,000 | \$ 87,529 |
| Total US Dept of Housing and Urban Development | | | <u>105,000</u> | <u>87,529</u> |
| US Department of Justice | | | | |
| Direct Program | | | | |
| Bullet Proof Vest | 16.607 | | 5,417 | 5,417 |
| Direct Program | | | | |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | JAG-LLE-2015 Sallisaw CI-00035 | 9,280 | 9,280 |
| Total US Dept of Justice | | | <u>14,697</u> | <u>14,697</u> |
| US Department of Transportation | | | | |
| Direct Program | | | | |
| Airport Improvement Program | 20.106 | AIP 3-40-0083-012-2015 | 388,055 | 362,778 |
| Total US Department of Transportation | | | <u>388,055</u> | <u>362,778</u> |
| US Department of Human Services | | | | |
| Pass-Through Program From: | | | | |
| Cherokee Nation Health Services Substance Abuse & Mental Health Services Projects of Regional & National Significance | 93.243 | | 87,617 | 87,617 |
| Direct Program | | | | |
| Drug Free Communities | 93.276 | 5H79SP019786-03 | 125,000 | 125,000 |
| Total US Department of Human Services | | | <u>212,617</u> | <u>212,617</u> |
| US Department of Homeland Security | | | | |
| Pass-Through Program From: | | | | |
| Oklahoma Department of Emergency Management | | | | |
| Disaster Grants- Public Assistance | 97.036 | FEMA-4222-DR-OK | 50,220 | 50,220 |
| Disaster Grants- Public Assistance | 97.036 | FEMA-4222-DR-OK | 6,184 | 6,184 |
| Disaster Grants- Public Assistance | 97.036 | FEMA-4222-DR-OK | 25,210 | 25,210 |
| Total US Department of Homeland Security | | | <u>81,614</u> | <u>81,614</u> |
| Grand Total Federal Assistance | | | <u>\$ 787,286</u> | <u>\$ 744,538</u> |

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Note 1: Basis of Presentation

General

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal and state award programs of the City of Sallisaw, OK for the year ended June 30, 2016. The City's reporting entity is described in Note 1 of the City's Annual Financial Statements. Federal financial awards received directly from federal agencies as well as federal financial awards, if any, passed through other government agencies are included on the Schedule. Required matching contributions, program income, state and private grants, and other nonfederal grants and awards are not included in the Schedule.

Basis of Accounting

The accompanying Schedule is presented using the same basis of accounting as the related funding which the grant activities is reported in the basic financial statements. The basis of accounting is described in Note 1 of the City's Annual Financial Statements.

Note 2: Federal CFDA Numbers

Federal CFDA numbers or other identifying numbers listed on the Schedule were obtained from the respective grant/contract agreement.

Summary of Auditor's Results

Financial Statements

| | |
|---|------------|
| Type of auditor's report issued | Unmodified |
| <u>Internal Control over financial reporting:</u> | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified? | Yes |
| Noncompliance material to financial statements noted? | No |

Federal Awards

Internal Control over major programs:

| | |
|--|------------|
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified? | No |
| Type of auditor's report issued on compliance for major programs | Unmodified |
| Any audit findings disclosed that are required to be reported in Accordance with 2 CFR 200.516(a)? | No |

Identification of Major program(s):

Airport Improvement Program, CFDA #20.106

| | |
|---|-----------|
| Dollar threshold used for distinguishing between Types A and B programs | \$750,000 |
| Auditee qualified as low-risk auditee | No |

Financial Statement Findings

Finding 2015-001 Police Department Cash Account, updated in Fiscal Year 2016 to include Reconciliation of Fine Activity to the General Ledger

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

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

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

Recommendation – Written procedures in place should be followed.

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

Status – This condition was reported in fiscal year 2015. It has not been resolved.

Furthermore, in fiscal year 2016, it was noted financial information from the court system was not properly reconciled to the City's general ledger. Financial data between the court system and the City's general ledger should be reconciled on a timely basis to ensure the balances owed the City are properly reflected in the financial statements. As this finding encompasses the internal control processes of the fine and revenue cycle for the Police department as a whole, the prior year finding was updated to include the reconciliation issues identified as part of the fiscal year 2016 audit. City management is aware of the issue. Plans are in place to implement a new court system in fiscal year 2017.

Prior Year Financial Statement Findings

2015-002 Police Department Evidence Room

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

Status – This condition was reported in fiscal year 2015. It has not been resolved.

Federal Award Findings and Questioned Costs

None reported