

CITY OF CHOCTAW, OKLAHOMA  
Report on Audit of Financial Statements  
June 30, 2011

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**INDEPENDENT AUDITOR'S  
REPORT**

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**Independent Auditor's Report**

City Council  
City of Choctaw  
Choctaw, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Choctaw, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City of Choctaw's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Choctaw's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to 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 Choctaw, Oklahoma, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2011, on our consideration of the City of Choctaw's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and page 42 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Choctaw's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us, in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Dillon & Associates, P.C.*

Midwest City, Oklahoma  
December 2, 2011

# MANAGEMENT'S DISCUSSION AND ANALYSIS

**City of Choctaw  
Management's Discussion and Analysis  
June 30, 2011**

The following discussion and analysis of the City of Choctaw's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the City's financial statements, which begin on page 11.

**Financial Highlights**

- The assets of the City of Choctaw exceeded its liabilities at the close of the most recent fiscal year by \$12,068,688 (net assets), an increase of \$27,680 or 0.2% from the prior year.
- During the year, the City's expenses for governmental activities were \$4,432,731 and were funded by program revenues of \$378,667 and further funded with taxes and other general revenues, grants and net transfers that totaled \$3,700,666 resulting in a deficit of \$353,398, as noted on pages 12 and 13.
- In the business-type activities, which are primarily utilities, had program expenses of \$1,410,666 and were funded by program revenues and other general revenues and net transfers that totaled \$1,791,744.
- Sales and use taxes increased by \$224,984 or 8.9% over the prior fiscal year.
- At June 30, 2011, the General Fund reported an unreserved, undesignated fund balance of \$1,127,491, an increase of \$380,707 from the prior year.
- The City's total debt decreased by \$570,000 during the current fiscal year. The key factors were principal payments made on general obligation bonds and revenue bonds and notes.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Choctaw's basic financial statements. The City of Choctaw'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 Choctaw's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Choctaw's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Choctaw is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

City of Choctaw  
Management's Discussion and Analysis  
June 30, 2011

Both of the government-wide financial statements distinguish functions of the City of Choctaw 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 Choctaw include general government, public safety, public works and culture and recreation activities. The business-type activities of the City of Choctaw are comprised of the Choctaw Utilities Authority which operates the City's water, wastewater and sanitation operations.

The government-wide financial statements include the City of Choctaw and the Choctaw Utilities Authority. Although the Choctaw Utilities Authority is legally a separate entity, it functions for all practical purposes as departments of the City of Choctaw, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 11-13 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Choctaw, 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 Choctaw 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 twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital improvement fund, which are considered to be major funds. Data from the other six 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 its general and other governmental funds. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14-16 of this report.

**Proprietary funds.** The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its utilities authority.



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Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Choctaw Utilities Authority, which is considered to be major fund of the City.

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

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City has two fiduciary funds-the meter deposit fund and the municipal court fund, which are agency funds.

The fiduciary fund financial statements can be found on page 20 of the report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 21-41 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's actual revenues and expenditures on a budgetary basis compared with the original and final budgets for the general fund. Required supplementary information can be found on page 42 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on budget and actual revenues and expenditures for the general fund. Combining and individual fund statements and schedules can be found on pages 43-44 of this report.

### **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$12,068,688 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (68.36%) reflects its investment in capital assets (e.g., land, buildings, improvements, vehicles, and equipment) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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Management's Discussion and Analysis  
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Table 1  
Net Assets  
(In Thousands)

	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 5,463	6,115	703	646	6,166	6,761
Capital assets	9,444	9,661	5,116	5,058	14,560	14,719
Total assets	<u>14,907</u>	<u>15,776</u>	<u>5,819</u>	<u>5,704</u>	<u>20,726</u>	<u>21,480</u>
Long-term debt outstanding	7,645	8,165	725	775	8,370	8,940
Other liabilities	265	261	22	19	287	280
Total liabilities	<u>7,910</u>	<u>8,426</u>	<u>747</u>	<u>794</u>	<u>8,657</u>	<u>9,220</u>
Net assets:						
Invested in capital assets, net of debt	3,868	4,230	4,382	4,369	8,250	8,599
Restricted	3,054	4,699	94	95	3,148	4,794
Unrestricted	75	(1,579)	596	446	671	(1,133)
Total net assets	<u>\$ 6,997</u>	<u>7,350</u>	<u>5,072</u>	<u>4,910</u>	<u>12,069</u>	<u>12,260</u>

A portion of the City's net assets (26.08%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$670,237 may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net assets increased by \$27,680 during the current fiscal year. This increase represents the overall excess of revenues over expenses, including depreciation of \$1,068,982.

**Governmental activities.** Governmental activities decreased the City's net assets by \$353,398. The increase included a non-cash charge for depreciation on capital assets of \$629,557.

**Business-type activities.** Business-type activities increased the City's net assets by \$381,078. The increase in net assets included a non-cash charge for depreciation on capital assets of \$439,425.

City of Choctaw  
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Table 2  
Changes in Net Assets  
(In Thousands)

	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program revenues						
Charges for services \$	186	344	1,792	1,700	1,978	2,044
Operating grants	4	11	-	-	4	11
Capital grants	-	21	-	-	-	21
General revenues						
Sales and use taxes	2,755	2,530	-	-	2,755	2,530
Franchise tax (fees)	415	409	-	-	415	409
Other taxes	441	328	-	-	441	328
Fines/forfeitures	192	173	-	-	192	173
Investment income	6	3	-	-	6	3
Other	81	216	2	1	83	217
Total revenues	<u>4,080</u>	<u>4,035</u>	<u>1,794</u>	<u>1,701</u>	<u>5,874</u>	<u>5,736</u>
Expenses:						
General government	1,251	770	-	-	1,251	770
Public safety	1,343	1,304	-	-	1,343	1,304
Public works	1,038	1,003	-	-	1,038	1,003
Cultural & recreation	271	335	-	-	271	335
Water	-	-	450	451	450	451
Wastewater	-	-	289	437	289	437
Sanitation	-	-	680	178	680	178
Stormwater	-	-	177	527	177	527
Interest on debt	530	425	36	38	566	463
Total expenses	<u>4,433</u>	<u>3,837</u>	<u>1,632</u>	<u>1,631</u>	<u>6,065</u>	<u>5,468</u>
Increase in net assets						
before transfers	(353)	198	162	70	(191)	268
Transfers	-	-	-	-	-	-
Change in net assets	<u>(353)</u>	<u>198</u>	<u>162</u>	<u>70</u>	<u>(191)</u>	<u>268</u>
Beginning net assets	7,350	7,152	4,910	4,840	12,260	11,992
Ending net assets \$	<u><u>6,997</u></u>	<u><u>7,350</u></u>	<u><u>5,072</u></u>	<u><u>4,910</u></u>	<u><u>12,069</u></u>	<u><u>12,260</u></u>

City of Choctaw  
Management's Discussion and Analysis  
June 30, 2011

### Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,866,088, a decrease of \$580,142, in comparison with the prior year. Approximately 37.2% of this total amount, \$1,811,767 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for capital improvements.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,127,491. As a measure of the general fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Unreserved fund balance represents 35.1% of total general fund expenditures and transfers out.

The fund balance of the City's general fund increased by \$380,707 during the current fiscal year.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Choctaw Utilities Authority at the end of the year amounted to \$596,026. Net assets increased by \$161,909 compared to the prior year.

- Operating revenues increased by \$91,291 from the prior year, mainly to water and sewer revenue.
- Operating expenses (excluding depreciation) increased by \$182,013 over the prior year, mainly in the water and sewer departments.

### General Fund Budgetary Highlights

There were differences between the original budget and the final budget for the general fund. Overall, actual revenues on the budgetary basis of \$3,593,839 were \$49,812 more than the estimated revenues in the budget of \$3,544,027. Actual expenditures of \$2,121,490 were \$236,864 less than the \$2,358,354 approved in budget appropriations. After transfers out of \$1,091,642 to other governmental funds, the City increased its carryforward funds by \$380,707. The amount of carryover funds budget for expenditure was \$998,874.

### 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, 2011, amounts to \$14,560,456 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment, vehicles, and infrastructure.

Major capital asset events during the current fiscal year included the following:

- Equipment for police, fire, public works and administrative departments.
- Construction of water and wastewater lines.

City of Choctaw  
Management's Discussion and Analysis  
June 30, 2011

Table 3  
Capital Assets  
(In Thousands)

	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 2,868	2,868	22	22	2,890	2,890
Buildings	3,995	3,975	-	-	3,995	3,975
Machinery and equipment	1,389	1,387	396	365	1,785	1,752
Vehicles	1,114	1,144	47	34	1,161	1,178
Infrastructure	46,276	45,952	15,264	14,811	61,540	60,763
Less: Accum. depreciation	<u>(46,198)</u>	<u>(45,665)</u>	<u>(10,613)</u>	<u>(10,174)</u>	<u>(56,811)</u>	<u>(55,839)</u>
Total capital assets, net	\$ <u>9,444</u>	<u>9,661</u>	<u>5,116</u>	<u>5,058</u>	<u>14,560</u>	<u>14,719</u>

Additional information of the City's capital assets can be found in Note 3.D. to the basic financial statements.

**Long-term debt.** As of the end of the current fiscal year, the City had total debt outstanding of \$8,370,000. This represents debt secured solely by specified revenue sources (i.e., revenue notes and bonds) of \$6,760,000 and advalorem taxes (i.e., general obligation bonds) of \$1,610,000.

Table 4  
Long-term Debt  
(In Thousands)

	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
General obligation bonds \$	1,610	1,785	-	-	1,610	1,785
Notes payable	6,035	6,380	-	-	6,035	6,380
Revenue bonds	-	-	725	775	725	775
Total long-term debt	\$ <u>7,645</u>	<u>8,165</u>	<u>725</u>	<u>775</u>	<u>8,370</u>	<u>8,940</u>

The City's total debt decreased by \$570,000 during the current fiscal year. The key factors in this decrease were principal payments on revenue notes, revenue bonds and general obligation bonds.

Additional information on the City's long-term debt can be found in Notes 3.F. to the basic financial statements.

City of Choctaw  
Management's Discussion and Analysis  
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**Economic Factors and Next Year's Budgets and Rates**

The City's elected and appointed officials considered many factors when setting the fiscal-year 2011-2012 budget, tax rates, and fees that will be charged for the proprietary fund type activities. One of these factors is the economy. A potential downturn of the national economy is expected to have limited effect on the local economy for the coming year. Employment costs are stable and sales tax revenues continue to increase over previous periods. Utility revenues are expected to continue to increase at a moderate rate.

These indicators were taken into account when adopting the general fund budget for 2011-2012.

- ❖ Revenues, transfers in and expenses for the City's general fund are expected to increase slightly over the actual amounts received and expended in the fiscal year ended June 30, 2011.
- ❖ As for the City's proprietary fund activities, we expect a slight growth in the revenues and expenses over those received in 2011.

All of these factors were considered in preparing the City's budget for the 2011-2012 fiscal year.

**Requests for Information**

This financial report is designed to provide our citizens, funding agencies, investors, and creditors 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 City of Choctaw, P.O. Box 567, Choctaw, Oklahoma 73020.

# **BASIC FINANCIAL STATEMENTS**

City of Choctaw, Oklahoma  
Statement of Net Assets  
June 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Authority
<b>ASSETS</b>				
Pooled cash and cash equivalents	\$ 2,690,865	447,943	3,138,808	95,469
Receivables (net of allowance for uncollectibles)	-	130,884	130,884	-
Receivables from other governments	242,462	-	242,462	-
Internal balances	-	-	-	-
Bond issue cost (net of accumulated amortization)	215,831	29,669	245,500	-
Restricted assets:				
Restricted cash and investments	2,409,719	94,520	2,504,239	-
Capital assets:				
Land, improvements, and construction in progress	2,868,369	-	2,868,369	-
Other capital assets, net of depreciation	6,479,375	5,115,973	11,595,348	-
Total assets	<u>14,906,621</u>	<u>5,818,989</u>	<u>20,725,610</u>	<u>95,469</u>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	20,250	-	20,250	-
Notes payable, current	370,000	-	370,000	-
Bonds payable, current	175,000	50,000	225,000	-
Compensated absences	133,831	34,566	168,397	-
Notes payable, non-current	5,665,000	-	5,665,000	-
Bonds payable, non-current	1,546,001	662,274	2,208,275	-
Total liabilities	<u>7,910,082</u>	<u>746,840</u>	<u>8,656,922</u>	<u>-</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	3,868,007	4,381,603	8,249,610	-
Restricted for:				
Special revenue projects	-	-	-	95,469
Capital projects	2,548,035	89	2,548,124	-
Debt service	506,286	94,431	600,717	-
Unrestricted (deficit)	74,211	596,026	670,237	-
Total net assets	<u>\$ 6,996,539</u>	<u>5,072,149</u>	<u>12,068,688</u>	<u>95,469</u>

See accompanying notes to the basic financial statement.



City of Choctaw, Oklahoma  
Statement of Activities  
For the Year Ended June 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary government:</b>					
Governmental activities:					
General government	\$ 1,250,832	186,376	-	-	(1,064,456)
Public safety	1,342,865	192,291	4,398	-	(1,146,176)
Public works	1,038,324	-	-	-	(1,038,324)
Culture and recreation	270,719	-	-	-	(270,719)
Interest on long-term debt	529,991	-	-	-	(529,991)
<b>Total government activities</b>	<b>4,432,731</b>	<b>378,667</b>	<b>4,398</b>	<b>-</b>	<b>(4,049,666)</b>
<b>Business-type activities:</b>					
Water	450,059	588,977	-	-	138,918
Wastewater	288,553	411,333	-	-	122,780
Sanitation	177,146	635,163	-	-	458,017
Stormwater	679,869	156,269	-	-	(523,600)
Other	-	-	-	-	-
Interest on long-term debt	36,488	-	-	-	(36,488)
<b>Total business-type activities</b>	<b>1,632,115</b>	<b>1,791,742</b>	<b>-</b>	<b>-</b>	<b>159,627</b>
<b>Total primary government</b>	<b>6,064,846</b>	<b>2,170,409</b>	<b>4,398</b>	<b>-</b>	<b>(3,890,039)</b>
<b>Component Unit:</b>					
Economic Development	\$ 6,921	-	-	-	(6,921)

City of Choctaw, Oklahoma  
Statement of Activities  
For the Year Ended June 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Authority
Change in net assets:				
Net (expense) revenue	\$ (4,049,666)	159,627	(3,890,039)	(6,921)
General revenues:				
Taxes:				
Sales taxes	2,555,591	-	2,555,591	-
Use taxes	198,551	-	198,551	-
Franchise taxes (fees)	415,301	-	415,301	-
Other taxes	440,683	-	440,683	-
Unrestricted investment income	5,689	2	5,691	855
Miscellaneous	80,453	2,280	82,733	-
Transfers	-	-	-	-
Total general revenues and transfers	3,696,268	2,282	3,698,550	855
Change in net assets	(353,398)	161,909	(191,489)	(6,066)
Net assets - beginning	7,349,937	4,910,240	12,260,177	101,535
Net assets - ending	\$ 6,996,539	5,072,149	12,068,688	95,469

See accompanying notes to the basic financial statement.

City of Choctaw, Oklahoma  
Governmental Funds  
Balance Sheet  
June 30, 2011

	General Fund	Debt Service Fund	Dedicated Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 910,181	103,420	269,411	951,145	2,234,157
Restricted cash and cash equivalents	-	-	2,409,719	-	2,409,719
Receivables, net	236,535	-	-	5,927	242,462
<b>Total assets</b>	<b>1,146,716</b>	<b>103,420</b>	<b>2,679,130</b>	<b>957,072</b>	<b>4,886,338</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	19,225	-	-	1,025	20,250
<b>Total liabilities (Note 2)</b>	<b>19,225</b>	<b>-</b>	<b>-</b>	<b>1,025</b>	<b>20,250</b>
Fund balances:					
Reserved for:					
Capital improvements	-	-	2,276,264	271,771	2,548,035
Debt service	-	103,420	402,866	-	506,286
Unreserved, reported in:					
General fund	1,127,491	-	-	-	1,127,491
Special revenue funds	-	-	-	684,276	684,276
<b>Total fund balances</b>	<b>1,127,491</b>	<b>103,420</b>	<b>2,679,130</b>	<b>956,047</b>	<b>4,866,088</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,146,716</b>	<b>103,420</b>	<b>2,679,130</b>	<b>957,072</b>	

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not required in the funds.	9,347,744
Internal service funds are used to charge the costs of unemployment insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.	456,708
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General obligation bonds	(1,721,001)
Notes payable	(6,035,000)
Bond issuance costs	215,831
Accrued compensated absences	(133,831)
<b>Net assets of governmental activities</b>	<b>\$ 6,996,539</b>

See accompanying notes to the basic financial statement.

City of Choctaw, Oklahoma  
Governmental Funds  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
For the Year Ended June 30, 2011

	General Fund	Debt Service Fund	Dedicated Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 3,219,937	284,514	-	-	3,504,451
Intergovernmental	49,439	-	-	105,675	155,114
Licenses and permits	66,208	-	-	-	66,208
Charge for services	-	-	-	120,168	120,168
Fines and forfeitures	192,291	-	-	-	192,291
Interest	696	882	3,617	494	5,689
Miscellaneous	65,268	-	-	67,980	133,248
Total revenues	<u>3,593,839</u>	<u>285,396</u>	<u>3,617</u>	<u>294,317</u>	<u>4,177,169</u>
<b>EXPENDITURES</b>					
Current:					
General government	810,725	-	203,551	-	1,014,276
Public safety	1,157,933	-	-	42,564	1,200,497
Public works	48,113	-	-	641,600	689,713
Culture and recreation	104,719	-	-	110,393	215,112
Capital outlay	-	-	474,465	120,657	595,122
Debt service	-	290,971	696,554	55,066	1,042,591
Total expenditures	<u>2,121,490</u>	<u>290,971</u>	<u>1,374,570</u>	<u>970,280</u>	<u>4,757,311</u>
Excess (deficiency) of revenues over expenditures	<u>1,472,349</u>	<u>(5,575)</u>	<u>(1,370,953)</u>	<u>(675,963)</u>	<u>(580,142)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	-	636,470	455,172	1,091,642
Transfers out	(1,091,642)	-	-	-	(1,091,642)
Total other financing sources and uses	<u>(1,091,642)</u>	<u>-</u>	<u>636,470</u>	<u>455,172</u>	<u>-</u>
Net change in fund balances	380,707	(5,575)	(734,483)	(220,791)	(580,142)
Fund balances-beginning	746,784	108,995	3,413,613	1,176,838	5,446,230
Fund balances-ending	<u>\$ 1,127,491</u>	<u>103,420</u>	<u>2,679,130</u>	<u>956,047</u>	<u>4,866,088</u>

See accompanying notes to the basic financial statement.

City of Choctaw, Oklahoma  
 Reconciliation of the Statement of Revenues,  
 Expenditures, and Changes in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 For the Year Ended June 30, 2011

Net change in fund balances - total governmental funds \$ (580,142)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation in the current reporting period.

Capital outlay expenditures, net	414,539
Disposition of assets, net	(97,836)
Depreciation expense	(629,557)
	(312,854)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Repayment of long-term debt	520,000
Amortization of bond premium	(7,410)
Amortization of bond issuance costs	(21,980)
Change in accrued compensated absences	(8,508)
	482,102

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.

	57,496
Change in net assets of governmental activities.	\$ (353,398)

City of Choctaw, Oklahoma  
Proprietary Funds  
Statement of Net Assets  
June 30, 2011

	Business-type Activities - Enterprise Funds			Governmental
	Choctaw Utilities Authority	Debt Service	Total Enterprise Funds	Internal Service Fund
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 447,943	-	447,943	456,708
Accounts receivable, net of allowance for uncollectibles of \$ 60,359	130,884	-	130,884	-
Restricted assets - cash and investments	-	94,520	94,520	-
Total current assets	<u>578,827</u>	<u>94,520</u>	<u>673,347</u>	<u>456,708</u>
Non-current assets:				
Bond issuance costs, net of accumulated amortization	-	29,669	29,669	-
Capital assets not being depreciated	-	-	-	-
Capital assets, net of accumulated depreciation	5,115,973	-	5,115,973	-
Total non-current assets	<u>5,115,973</u>	<u>29,669</u>	<u>5,145,642</u>	<u>-</u>
Total assets	<u>5,694,800</u>	<u>124,189</u>	<u>5,818,989</u>	<u>456,708</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	-	-	-	-
Current portion of long-term obligations	-	50,000	50,000	-
Total current liabilities	<u>-</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Non-current liabilities:				
Revenue bonds payable	-	662,274	662,274	-
Accrued compensated absences	34,566	-	34,566	-
Total non-current liabilities	<u>34,566</u>	<u>662,274</u>	<u>696,840</u>	<u>-</u>
Total liabilities	<u>34,566</u>	<u>712,274</u>	<u>746,840</u>	<u>-</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	5,093,788	(712,185)	4,381,603	-
Restricted:				
Capital projects	-	89	89	-
Debt service	-	94,431	94,431	-
Payment of claims	-	-	-	456,708
Unrestricted	<u>566,446</u>	<u>29,580</u>	<u>596,026</u>	<u>-</u>
Total net assets	<u>\$ 5,660,234</u>	<u>(588,085)</u>	<u>5,072,149</u>	<u>456,708</u>

See accompanying notes to the basic financial statement.

City of Choctaw, Oklahoma  
Proprietary Funds  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
For the Year Ended June 30, 2011

	Business-type Activities - Enterprise Funds			Governmental
	Choctaw			Internal
	Utilities Authority	Debt Service	Total Enterprise Funds	Service Fund
<u>OPERATING REVENUES:</u>				
Charges for services				
Water	\$ 588,977	-	588,977	-
Wastewater	411,333	-	411,333	-
Sanitation	635,163	-	635,163	-
Stormwater and drainage fees	156,269	-	156,269	-
Other	-	-	-	695,317
Total operating revenues	<u>1,791,742</u>	<u>-</u>	<u>1,791,742</u>	<u>695,317</u>
<u>OPERATING EXPENSES:</u>				
Water	168,631	-	168,631	-
Wastewater	92,895	-	92,895	-
Wastewater plant	35,529	-	35,529	-
Sanitation	679,869	-	679,869	-
Stormwater	177,146	-	177,146	-
Insurance claims and expense	-	-	-	638,020
Depreciation and amortization	439,426	2,132	441,558	-
Total operating expenses	<u>1,593,496</u>	<u>2,132</u>	<u>1,595,628</u>	<u>638,020</u>
Operating income (loss)	<u>198,246</u>	<u>(2,132)</u>	<u>196,114</u>	<u>57,297</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>				
Miscellaneous revenues	2,281	-	2,281	-
Interest income	-	2	2	199
Interest expense and fiscal charges	-	(36,488)	(36,488)	-
Total nonoperating revenues (expenses)	<u>2,281</u>	<u>(36,486)</u>	<u>(34,205)</u>	<u>199</u>
<u>OPERATING TRANSFERS</u>				
Transfers in	-	85,446	85,446	-
Transfers out	(85,446)	-	(85,446)	-
Total operating transfers	<u>(85,446)</u>	<u>85,446</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>115,081</u>	<u>46,828</u>	<u>161,909</u>	<u>57,496</u>
Net assets - beginning	<u>5,545,153</u>	<u>(634,913)</u>	<u>4,910,240</u>	<u>399,212</u>
Net assets-ending	<u>\$ 5,660,234</u>	<u>(588,085)</u>	<u>5,072,149</u>	<u>456,708</u>

See accompanying notes to the basic financial statement.

**City of Choctaw, Oklahoma**  
**Proprietary Funds**  
**Statement of Cash Flows**  
*For the Year Ended June 30, 2011*

	Business-type Activities - Enterprise Funds			Governmental
	Choctaw		Total	Internal
	Utilities	Debt	Enterprise	Service
	<u>Authority</u>	<u>Service</u>	<u>Funds</u>	<u>Fund</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>				
Receipts from customers	\$ 621,320	-	621,320	695,317
Payments to suppliers	-	-	-	(638,020)
Payments to employees	-	-	-	-
Net cash provided (used) by operating activities	<u>621,320</u>	<u>-</u>	<u>621,320</u>	<u>57,297</u>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>				
Miscellaneous revenues	2,281	-	2,281	-
Operating transfers in (out)	(85,446)	85,446	-	-
Net cash provided (used) by noncapital financing activities	<u>(83,165)</u>	<u>85,446</u>	<u>2,281</u>	<u>-</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>				
Principal paid on long-term debt	-	(50,000)	(50,000)	-
Interest expense and fiscal charges	-	(35,580)	(35,580)	-
Decrease (increase) in restricted assets	-	132	132	-
(Acquisition) disposition of capital assets	(497,390)	-	(497,390)	-
Net cash provided (used) by capital and related financing activities	<u>(497,390)</u>	<u>(85,448)</u>	<u>(582,838)</u>	<u>-</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>				
Interest received	-	2	2	199
Net cash provided (used) by investing activities	<u>-</u>	<u>2</u>	<u>2</u>	<u>199</u>
Net increase (decrease) in cash and cash equivalents	40,765	-	40,765	57,496
Cash and cash equivalents, beginning of the year	407,178	-	407,178	399,212
Cash and cash equivalents, end of the year	<u>\$ 447,943</u>	<u>-</u>	<u>447,943</u>	<u>456,708</u>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u></b>				
Operating income (loss)	198,246	(2,132)	196,114	57,297
Adjustments to reconcile operating income to net cash provided by operating activities:				
Cash flows reported in other categories:				
Depreciation and amortization expense	439,426	2,132	441,558	-
Change in assets and liabilities:				
Receivable, net	(17,892)	-	(17,892)	-
Accrued expenses	1,540	-	1,540	-
Total adjustments	<u>423,074</u>	<u>2,132</u>	<u>425,206</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>\$ 621,320</u>	<u>-</u>	<u>621,320</u>	<u>57,297</u>

See accompanying notes to the basic financial statement.



City of Choctaw, Oklahoma  
Statement of Fiduciary Net Assets  
Agency Funds  
June 30, 2011

	Agency Funds	
	Municipal Court Fund	Meter Deposit Fund
<b>ASSETS</b>		
Cash and cash equivalents	\$ 11,543	139,120
Total assets	11,543	139,120
<b>LIABILITIES</b>		
Customer deposits	-	139,120
Due to bondholders	9,255	-
Due to other governments	2,288	-
Total liabilities	11,543	139,120
<b>NET ASSETS</b>	\$ -	-

See accompanying notes to the basic financial statement.

**NOTES TO BASIC  
FINANCIAL STATEMENTS**

City of Choctaw, Oklahoma  
Notes to Financial Statements  
*June 30, 2011*

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City have been prepared in accordance with Generally Accepted Accounting Principles (GAAP). GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In accordance with GASB Statement Nos. 20, 34, and 39, for its governmental and business-type activities, enterprise funds the City has elected to apply Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

**1.A. - REPORTING ENTITY**

The City of Choctaw, 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), utilities (streets and cemetery), culture and recreation, general government and administration, along with utility services to include water, wastewater, and sanitation.

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statement Nos. 14, 34, and 39, and includes all component units of which the City is fiscally accountable.

Each of these component units are Public Trusts established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance City services through issuance of revenue bonds or other non-government obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Authority. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated resources. In addition, the City has leased certain existing assets at the creation of the Authorities to the Trustees on a long-term basis. The City, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

**Blended component units.** The Choctaw Utilities Authority (CUA) serves all the citizens of the City and is governed by a board comprised of the City's elected council (Trustees). The rates for user charges and debt authorization are approved by the city council. The CUA was created December 1, 1961, to finance, develop, and operate the water, wastewater, and solid waste activities of the City. The CUA is reported as an enterprise fund type.

Separate financial statements have not been prepared for these component units.

**Discretely presented component unit.** The Choctaw Economic Development Authority (CEDA) was created March 24, 1981 to promote and finance economic development in the City of Choctaw. The CEDA is reported as a discrete component unit of the City, because its governing body is not substantially the same as the City Council.

**1.B. - BASIC FINANCIAL STATEMENTS**

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

*Government-wide financial statements* display information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements.

City of Choctaw, Oklahoma  
Notes to Financial Statements  
June 30, 2011

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Assets and the Statement of Activities. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment.

*Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

*Fund financial statements* display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, or fiduciary. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the supplemental information.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule include charges between the City's business-type activities/enterprise funds, as well as some special revenue funds, and the General Fund. The City allocates charges as reimbursement for services provided by the General Fund in support of those functions based on levels of service provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**1.C. - BASIS OF PRESENTATION**

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

GASB 34 sets forth minimum criteria (percentage of the assets liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The City selectively added funds as major funds, which either had debt outstanding or specific community focus. Non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

The City reports the following major governmental funds:

*General Fund*

This is the City's primary operating fund. It accounts for all the financial operations of the City except those required to be accounted for in another fund. Principal sources of revenue are sales tax, licenses and permits, state and county shared revenues and fines and forfeitures. Primary expenditures are for general government, public safety, public works and community development.

*Debt Service Fund*

Accounts for the accumulation of resources and payment of principal and interest on general obligation bonds and judgments.

City of Choctaw, Oklahoma  
Notes to Financial Statements  
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

*Dedicated Sales Tax Fund*

Accounts for the receipt and disbursement of restricted sales tax funds.

The City reports the following proprietary fund as a major fund:

*Choctaw Utilities Authority Fund*

This fund is used to account for the acquisition, operation, and maintenance of water and sewer assets. This fund is entirely or predominantly self-supported through user charges to customers.

**1.D. - MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus.

The Government-wide Financial Statements and the Proprietary Funds Financial Statements are presented on a *full accrual* basis of accounting with an *economic resource* measurement focus. An economic resource focus concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. An economic resources measurement focus is inextricably connected with full accrual accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash inflows and outflows.

Governmental Funds and Permanent Fund Financial Statements are presented on a *modified accrual* basis of accounting with a *current financial resource* measurement focus. This measurement focus concentrates on the fund's resources available for spending in the near future. Only transactions and events affecting the fund's current financial resources during the period are reported. Similar to the connection between an economic resource measurement focus and full accrual accounting, a current financial resource measurement focus is inseparable from a modified accrual basis of accounting. Under modified accrual 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.

A deferred revenue liability arises in the Governmental Funds Balance Sheet when potential revenue does not meet both the *measurable* and *available* criteria for recognition in the current period. In the government-wide Statement of Net Assets, with a full accrual basis of accounting, revenue must be recognized as soon as it is earned regardless of its availability. Thus, the liability created on the Governmental Fund Balance Sheet for unavailable deferred revenue is eliminated. Note that deferred revenues also arise outside the scope of measurement focus and basis of accounting, such as when the City receives resources before it has a legal claim to them. For instance, when grant monies are received prior to the incurrence of qualifying expenditures.

City of Choctaw, Oklahoma  
Notes to Financial Statements  
June 30, 2011

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Similar to the way its revenues are recorded, governmental funds only record those expenditures that affect current financial resources. Principal and interest on general long-term debt are recorded as fund liabilities only when due, or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Vested compensated absences are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources. In the government-wide financial statements, however, with a full accrual basis of accounting, all expenditures affecting the economic resource status of the government must be recognized. Thus, the expense and related accrued liability for long term portions of debt and compensated absences must be included.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. This reconciliation is part of the financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Choctaw Utilities Authority are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**1.E. - ASSETS, LIABILITIES AND EQUITY**

***Cash and Investments***

Cash and cash equivalents include cash on hand, demand deposits, short-term investments with original or remaining maturities of three months or less when purchased, and cash and investments in the City-wide investment pool. Investments, including equity in pooled cash and investments, are stated at fair value.

***Restricted Assets***

Assets whose use is restricted for construction, debt service or by other agreement are segregated on the Government-wide Statement of Net Assets and the Proprietary Fund Statement of Net Assets.

***Receivables and Payables***

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Uncollected property taxes receivable that are collected within 60 days after year-end are considered measurable and available and, therefore, are recognized as revenue.

City of Choctaw, Oklahoma  
Notes to Financial Statements  
June 30, 2011

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Property taxes are levied and become a lien on July 1. Collection dates are January 1 and March 1 following the lien date.

Taxes unpaid and outstanding on March 1 are considered delinquent.

Receivables of the enterprise funds are recognized as revenue when earned. Receivables in governmental and enterprise funds are stated net of an allowance for uncollectibles.

***Inventories***

Inventories of materials and supplies in the enterprise funds are stated at cost on a first-in, first-out basis and charged to expenses as used.

***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, pathways, street lights, etc.) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In the governmental fund statements, capital assets are charged to expenditures as purchased, and capitalized in the proprietary fund statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value as of the date of the donation.

Capital assets are defined by the City as assets with an initial, individual cost of \$1,000 or more, and an estimated useful life of greater than one year. Additions or improvements and other capital outlays that significantly extend the useful life of an asset, or that significantly increase the capacity of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets and is provided on the straight-line basis over the following estimated useful lives:

<u>ASSET</u>	<u>YEARS</u>
Buildings and improvements	35-60
Furniture and fixtures	5-10
Machinery and equipment	5-20
Vehicles	5-10
Utility systems	25-99
Infrastructure	25-99

One-half year of depreciation is taken in the year the assets are acquired or retired. Gains or losses from sales or retirements of capital assets are included in operations of the current period.

***Accrued Compensated Absences and Sick Pay***

In accordance with the guidelines set forth by Governmental Accounting Standards Board (GASB) Statement No. 16, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, a provision has been made for accumulated vacation, compensatory time, and holiday pay.

City of Choctaw, Oklahoma  
Notes to Financial Statements  
June 30, 2011

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Unused vacation of up to 80 hours may be carried from one year to the next. Unused sick leave may be accumulated up to a maximum of 480 hours for employees who have been employed for 10 years or more. Some employees with sick leave accumulated prior to September 3, 1996 may have higher maximum sick leave hours. The maximum possible carryover for any employee is 720 hours. Unused vacation and eligible sick leave shall be paid in full upon termination or retirement from the City. The City has designated \$150,696 of the General Fund fund balance to pay future compensated absence liabilities. The Choctaw Utilities Authority has accrued a liability of \$34,566 for compensated absences payable at June 30, 2011.

***Long-Term Debt***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are treated as period costs in the year of issue and are shown as other financing uses. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***Fund Equity***

Tentative plans for utilization of fund balances in future periods are recorded as designations of fund balance in the fund-level financial statements. Planned expenditures include future capital projects, debt service, equipment reserves and other commitments for which fund balances have not been appropriated or specifically segregated.

***Use of Estimates***

In preparing the City of Choctaw's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Subsequent Events***

Subsequent events have been evaluated through December 2, 2011, which is the date the financial statements were issued. Information on subsequent events can be found in Note 4.e. to the basic financial statements.



City of Choctaw, Oklahoma  
Notes to Financial Statements  
*June 30, 2011*

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**2.A. Deficit Fund Balances or Net Assets**

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund of the City (excluding public trusts). At June 30, 2011, the City reported no individual fund deficits.

**2.B. BUDGETARY INFORMATION**

**2.B.1. Budget Policy and Practice**

The City Manager submits an annual budget to the City Council in accordance with the City Charter and the Oklahoma Municipal Budget Act. The budget is presented to the City Council for review, and public hearings are held to address priorities and the allocation of resources. By June, the City Council adopts the annual fiscal year budgets for City operating funds. The City's financial statement presents budget and actual financial statements for the following funds approved in the budget: General, Capital Projects, Debt Service and Choctaw Utilities Authority. In addition, the City Council approves budgets for other operations, in part or in whole, not presented in the financial statements. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Public trusts submit budgets and other planning documents to their respective governing bodies.

**2.B.2. Basis of Budgeting**

Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, material and supplies, other services and charges, capital outlays, transfers and debt service. Budget revisions at this level are managed administratively and reported to the City Council. The legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations without approval. Revisions to the budget are made throughout the year.

The budgets for the operating funds and proprietary fund operations are prepared on the cash and expenditure/encumbrance basis. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the applicable purchase orders are expected to be issued. The Debt Service Fund budget is prepared to provide funding for general obligation debt service when liabilities are due for payment. The budget and actual financial statements are reported on these bases. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

**2.C. DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS**

In accordance with State Law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations or surety bonds. As required by 12 U.S.C.A., Section 1823(e), the financial institutions pledging collateral to the City must do so with a written collateral agreement approved by the board of directors or loan committee.

Investments of the City (excluding Public Trusts) whose population exceeds 3,000 according to the latest census information are limited by State Law to the following:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral.

City of Choctaw, Oklahoma  
Notes to Financial Statements  
June 30, 2011

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued**

- c. Negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations. Any investments in these instruments must be fully collateralized with investments mentioned in the previous paragraphs a. and b., where the collateral has been deposited with a trustee in an irrevocable trust or escrow account.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs a., b., c. and d.

Public trusts created under Title 60 of the Oklahoma Statutes, are not subject to the above noted investment limitations and are primarily governed by any restrictions in their trust or bond indentures. For the year ended June 30, 2011, the City and its included component unit complied, in all material respects, with the above noted investment restrictions.

**2.D. REVENUE RESTRICTIONS**

Certain restrictions are placed over certain revenue sources due to state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Sales Tax	Debt service on Revenue Notes
Gasoline Excise & Commercial Vehicle Tax	Street and Alley Purposes
Grant Revenues	Grant Agreement Specified Uses
Water and Sewer	Debt service on Revenue Notes and Bonds

For the year ended June 30, 2011, the City complied, in all material respects, with these revenue restrictions.

***Other Long-Term Debt***

As required by the Oklahoma State Constitution, the City (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval.

***Enterprise Fund Debt***

The bond indenture relating to debt issuance of the Choctaw Utilities Authority contain a number of restrictions or covenants that are financial related. These include covenants such as a required flow of funds through special accounts, a debt service coverage requirement and required reserve account balances. The following schedule presents a brief summary of the most significant requirements and the Authority's level of compliance thereon as of June 30, 2011.

City of Choctaw, Oklahoma  
Notes to Financial Statements  
June 30, 2011

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued**

Requirement

a. Flow of Funds -

- |  |   |
|--|---|
| 1. 2005 Utility Revenue Bonds - Revenue Account, Bond Account, Reserve Account and Project Account.                | The Authority maintained all required accounts and made all required payments into such accounts. |
| 2. 2006 Sales Tax Revenue Note Payable- Revenue Account, Principal Account, Interest Account and Project Account.  | The Authority maintained all required accounts and made all required payments into such accounts. |
| 3. 2007 Sales Tax Revenue Note Payable - Revenue Account, Principal Account, Interest Account and Project Account. | The Authority maintained all required accounts and made all required payments into such accounts. |
| 4. 2010 Sales Tax Revenue Note Payable - Revenue Account, Principal Account, Interest Account and Project Account. | The Authority maintained all required accounts and made all required payments into such accounts. |

b. Debt Service Coverage Requirements -

- |  |   |
|--|---|
| 1. 2005 Utility Revenue Bonds - Net operating revenue must equal 125% the maximum annual debt service on all obligations payable from the revenue.             | Net revenues amounted to \$1,343,247. The maximum annual debt service amounted to \$324,547. Actual coverage was 4.14 times debt service. |
| 2. 2006 Sales Tax Revenue Note Payable - Pledged sales tax shall be used to make the required monthly transfers to the Principal Account and Interest Account. | The required monthly transfers were made to all appropriate accounts.   |
| 3. 2007 Sales Tax Revenue Note Payable - Pledged sales tax shall be used to make the required monthly transfers to the Principal Account and Interest Account. | The required monthly transfers were made to all appropriate accounts.   |
| 4. 2010 Sales Tax Revenue Note Payable - Pledged sales tax shall be used to make the required monthly transfers to the Principal Account and Interest Account. | The required monthly transfers were made to all appropriate accounts.   |

**2.E. FUND EQUITY RESTRICTIONS**

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund. For the year ended June 30, 2011, the City had not incurred any fund balance deficit.

***Fund Balance Required Reserves***

The only required reserves of fund equity relate to restricted revenue accounted for within the General Fund. The only significant restricted revenue of the General Fund is the restricted sales tax (as described in Note 1) And gasoline excise/commercial vehicle tax (as described in Note 2). As of June 30, 2011, all such restricted revenue had been used in accordance with their specified purposes, therefore, no such fund balance reserves are necessary.

City of Choctaw, Oklahoma  
Notes to Financial Statements  
June 30, 2011

**NOTE 3 - DETAILED NOTES - TRANSACTION CLASSES/ACCOUNTS**

*Retained Earnings Required Reserves*

The required reserves of retained earnings relate to net assets held to meet revenue bond and note indenture requirements (as described in Note 2). Details on these reserves at June 30, 2011, are at Note 3.

The following notes present detailed information to support the amounts reported in the basic financial statements for the City's various assets, liabilities, net assets/fund balances, revenues and expenditures/expenses.

**3.A. - Deposits and Investment Risks:**

	<u>Carrying Value</u>	<u>Credit Rating</u>	<u>Maturity Date</u>
<b>Deposits</b>			
Demand deposits	\$ 3,138,808		
<b>Investments</b>			
Investments held with Bond Trustees:			
US Treasury Money Mkt Fd	2,504,239	AAm	N/A
<b>Total Deposits and Investments</b>	<b>\$ 5,643,047</b>		
<b>Reconciliation to Statement of Net Assets</b>			
Cash	\$ 3,138,808		
Restricted Investments	2,504,239		
	<u>\$ 5,643,047</u>		

Custodial Credit Risk - Exposure to custodial credit risk related to deposits exists when the City holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the City holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

The City's policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 110% of the uninsured deposits and accrued interest thereon. The investment policy also limits acceptable collateral to U.S. Treasury securities and direct debt obligations of municipalities, counties and school districts in the state of Oklahoma. As required by Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee.

The bank balances of the City's deposits totaled \$3,438,704 at June 30, 2011. At June 30, 2011, the City was not exposed to custodial credit risk as defined above.

City of Choctaw, Oklahoma  
Notes to Financial Statements  
June 30, 2011

**NOTE 3 - DETAILED NOTES - TRANSACTION CLASSES/ACCOUNTS - Continued**

Investment Credit Risk - The City's investment policy limits investments to those allowed in state law applicable to municipalities. These investment limitations are described in Note 2.C. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City has no formal policy limiting investments based on credit rating, but discloses any such credit risk associated with their investments by reporting the credit quality ratings of investments in debt securities as determined by nationally recognized statistical rating organizations - rating agencies - as of the year end. Unless there is information to the contrary, obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality.

As noted in the schedule of deposits and investments above, at June 30, 2011, all of the City's investments in debt securities were rated either AAm by Standard and Poor's or Aaa by Moody's Investor Service.

Investment Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its investments.

As noted in the schedule of deposits and investments above, at June 30, 2011, the investments held by the City had no stated maturity dates.

Concentration of Investment Credit Risk - Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this concentration. At June 30, 2011, the City had no concentration of credit risk as defined above.

**3.B. Receivables**

Receivables as of June 30, 2011, for the City of Choctaw's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Nonmajor Governmental Funds	Choctaw Utilities Authority	Total
Receivables:				
Taxes	\$ 236,535	5,927	-	242,462
Accounts	-	-	191,243	191,243
Due from other governments	-	-	-	-
Gross receivables	<u>236,535</u>	<u>5,927</u>	<u>191,243</u>	<u>433,705</u>
Less: Allowance for uncollectibles	-	-	60,359	60,359
Net total receivables	<u>\$ 236,535</u>	<u>5,927</u>	<u>130,884</u>	<u>373,346</u>

City of Choctaw, Oklahoma  
Notes to Financial Statements  
*June 30, 2011*

NOTE 3 - DETAILED NOTES - TRANSACTION CLASSES/ACCOUNTS

3.C. Restricted assets

The revenue bonds and notes as issued from time-to-time by the City, include restricted cash and investments for a debt service fund for repayment of the principal and interest when due, and a debt service reserve to be used for payment of principal and interest provided sufficient funds are not available in the debt service fund. All funds are on deposit with trustee banks.

Sales Tax Revenue Bonds, Series 2010:

Project account	\$ 2,181,328
Debt service	38,488

Sales Tax Revenue Bonds, Series 2007A:

Project account	16,557
Debt service	14

Sales Tax Revenue Bonds, Series 2006:

Project account	78,379
Debt service	94,953

Utility Revenue Refunding Bonds, Series 2005:

Project account	89
Debt service	7,052
Debt service reserve	87,379

Total restricted assets	\$ <u><u>2,504,239</u></u>
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City of Choctaw, Oklahoma  
Notes to Financial Statements  
June 30, 2011

NOTE 3 - DETAILED NOTES - TRANSACTION CLASSES/ACCOUNTS - Continued

D. Capital assets

Capital asset balances and activities for the year ended June 30, 2011, were as follows:

*Governmental activities*

Capital assets not being depreciated :

Land	\$ 2,868,369	-	-	2,868,369
Total capital assets not being depreciated	<u>2,868,369</u>	<u>-</u>	<u>-</u>	<u>2,868,369</u>

Capital assets being depreciated :

Buildings and improvements	3,974,893	19,728	-	3,994,621
Machinery and equipment	1,386,786	17,186	(14,700)	1,389,272
Vehicles	1,143,451	53,611	(83,136)	1,113,926
Infrastructure	45,951,794	324,004	-	46,275,798
Total capital assets being depreciated	<u>52,456,924</u>	<u>414,529</u>	<u>(97,836)</u>	<u>52,773,617</u>

Less accumulated depreciation for :

Buildings and improvements	(1,215,797)	(146,283)	-	(1,362,080)
Machinery and equipment	(774,058)	(106,219)	14,700	(865,577)
Vehicles	(868,291)	(51,621)	82,038	(837,874)
Infrastructure	(42,806,539)	(325,434)	-	(43,131,973)
Total accumulated depreciation	<u>(45,664,685)</u>	<u>(629,557)</u>	<u>96,738</u>	<u>(46,197,504)</u>
Total capital assets being depreciated, net	<u>6,792,239</u>	<u>(215,028)</u>	<u>(1,098)</u>	<u>6,576,113</u>
Governmental activities capital assets, net	<u>\$ 9,660,608</u>	<u>(215,028)</u>	<u>(1,098)</u>	<u>9,444,482</u>

*Business-type activities*

Capital assets not being depreciated :

Land	\$ 22,185	-	-	22,185
Total capital assets not being depreciated	<u>22,185</u>	<u>-</u>	<u>-</u>	<u>22,185</u>

Capital assets being depreciated :

Buildings and improvements	-	-	-	-
Machinery and equipment	364,937	30,758	-	395,695
Vehicles	33,574	13,800	-	47,374
Infrastructure	14,810,882	452,832	-	15,263,714
Total capital assets being depreciated	<u>15,209,393</u>	<u>497,390</u>	<u>-</u>	<u>15,706,783</u>

Less accumulated depreciation for :

Buildings and improvements	-	-	-	-
Machinery and equipment	(227,268)	(30,554)	-	(257,822)
Vehicles	(29,207)	(3,560)	-	(32,767)
Infrastructure	(9,917,094)	(405,311)	-	(10,322,405)
Total accumulated depreciation	<u>(10,173,569)</u>	<u>(439,425)</u>	<u>-</u>	<u>(10,612,994)</u>
Total capital assets being depreciated, net	<u>5,035,824</u>	<u>57,965</u>	<u>-</u>	<u>5,093,789</u>
Business-type activities capital assets, net	<u>\$ 5,058,009</u>	<u>57,965</u>	<u>-</u>	<u>5,115,974</u>

City of Choctaw, Oklahoma  
Notes to Financial Statements  
June 30, 2011

**NOTE 3 - DETAILED NOTES - TRANSACTION CLASSES/ACCOUNTS - Continued**

Depreciation expense was charged to functions/programs as follows:

Governmental activities:

General government	\$ 82,971
Public safety	142,368
Public works	348,611
Cultural and recreation	55,607
Total depreciation expense - governmental activities	<u>\$ 629,557</u>

Business-type activities:

Water	\$ 279,296
Sewer	160,129
Total depreciation expense - business-type activities	<u>\$ 439,425</u>

**3.E. Deposits subject to refund**

Utility customers are required to make a meter deposit, which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2011, cash and investments included \$139,120 available for refund of customer deposits, while the liability to customers was \$139,120.

Appearance bonds and other payments made to the municipal court funds are held until final disposition by the court at which time they are refunded to the bondholder or paid over to the City general fund as fines. As of June 30, 2011, \$9,255 was being held that was subject to refund.

**3.F. Long-term debt**

Long-term liabilities of the City of Choctaw as of June 30, 2011, are as summarized as follows:



City of Choctaw, Oklahoma  
Notes to Financial Statements  
June 30, 2011

**NOTE 3 - DETAILED NOTES - TRANSACTION CLASSES/ACCOUNTS - Continued**

Long-term liabilities of the City of Choctaw as of June 30, 2011, are as summarized as follows:

**Governmental activities:**

General obligation bonds:

\$1,150,000 General Obligation Library Construction Bonds, Series 2000, dated May 1, 2000, payable in annual principal installments of \$80,000 through May 1, 2014 and a final installment of \$10,000 due May 1, 2015, with interest at 5.10% to 9.10%. \$ 350,000

\$1,450,000 Funding Bonds of 2009, dated June 30, 2009, due in annual principal installments of \$95,000 through April 1, 2023 with a final installment of \$120,000 due April 1, 2024, with interest at 4.5% to 10.0%. 1,260,000

Add: Unamortized bond premium 96,202

Net general obligation bonds 1,706,202

Revenue notes:

\$1,650,000 Choctaw Utilities Authority Sales Tax Revenue Notes, Series 2006 dated Sept. 1, 2006, secured by a pledge of a one cent sales tax to provide revenues for constructing streets, water and sewer projects, due in semi-annual principal and interest payments ranging from \$118,311 to \$152,663 with a final payment due Sept. 1, 2013, interest at 3.55% per annum. 700,000

\$3,100,000 Choctaw Utilities Authority Sales Tax Revenue Notes, Taxable Series 2007A dated June 1, 2007, secured by a pledge of sales tax to provide revenues for acquisition of 38 acres of land for economic development, due in semi-annual principal and interest payments beginning October 1, 2008 and maturing April 1, 2027, initial interest at 6.5% per annum and converting to LIBOR rate in 2012. 2,825,000

\$2,510,000 Choctaw Utilities Authority Sales Tax Revenue Notes, Series 2010 dated Feb. 1, 2010, secured by a pledge of sales tax to provide revenues for constructing streets, water and sewer improvements, due in semi-annual interest payments of \$57,730 until March 1, 2014, principal and interest payments start on Sept. 1, 2014 with a final payment due Sept. 1, 2022, with interest at 4.60%. 2,510,000

Total general obligation bonds and revenue bonds 7,741,202

Accrued compensated absences 133,831

Total governmental activities \$ 7,875,033

City of Choctaw, Oklahoma  
Notes to Financial Statements  
June 30, 2011

NOTE 3 - DETAILED NOTES - TRANSACTION CLASSES/ACCOUNTS - Continued

**Business-type activities**

**Business-type activities:**

*Revenue bonds:*

\$1,000,000 Choctaw Utilities Authority Utility Revenue Bonds, Series 2005. bonds are dated June 1, 2008, due in annual principal installments of \$40,000 to \$65,000 through June 1, 2025, with interest at 3.6% to 4.85%, secured by a lien against gross revenues.

\$ 725,000

Less: Unamortized bond discount

(12,726)

Net revenue bonds

712,274

Accrued compensated absences

34,566

Total business-type activities

\$ 746,840

Long-term liabilities transactions for the year ended June 30, 2011, and changes therein were as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>	Amounts Due Within <u>One Year</u>
<b>Governmental activities</b>					
General obligation bonds:					
Series 2000	\$ 430,000	-	80,000	350,000	80,000
Series 2009 Funding Bonds	1,355,000	-	95,000	1,260,000	95,000
Sales Tax Revenue Notes-2006	945,000	-	245,000	700,000	265,000
Sales Tax Revenue Notes-2007	2,925,000	-	100,000	2,825,000	105,000
Sales Tax Revenue Notes-2010	2,510,000	-	-	2,510,000	-
Total governmental activities	<u>8,165,000</u>	<u>-</u>	<u>520,000</u>	<u>7,645,000</u>	<u>545,000</u>
<b>Business-type activities</b>					
Revenue bonds payable:					
Series 2005	775,000	-	50,000	725,000	50,000
Total business-type activities	<u>\$ 775,000</u>	<u>-</u>	<u>50,000</u>	<u>725,000</u>	<u>50,000</u>

City of Choctaw, Oklahoma  
Notes to Financial Statements  
June 30, 2011

NOTE 3 - DETAILED NOTES - TRANSACTION CLASSES/ACCOUNTS - Continued

*Annual Debt Service Requirements*

The annual debt service requirements to maturity, including principal and interest, for long-term debt, excluding accrued compensated absences, with interest rates applicable at June 30, 2011 are as follows:

Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
	2012	\$ 545,000	442,253	50,000
2013	570,000	401,875	55,000	31,328
2014	445,000	360,622	40,000	28,990
2015	560,000	328,858	40,000	27,290
2016	470,000	295,560	45,000	25,590
2017-2021	2,685,000	1,063,608	250,000	95,520
2022-2026	2,095,000	360,287	245,000	30,555
2027-2031	275,000	13,487	-	-
Totals	\$ <u>7,645,000</u>	<u>3,266,550</u>	<u>725,000</u>	<u>272,725</u>

**3.G. Debt issuance costs**

Debt issuance costs of \$288,460 in governmental activities and \$42,637 in business-type activities have been capitalized on sales tax revenue notes, revenue bonds and general obligation bonds, and are being amortized on the straight-line basis over the term of the relevant debt issues. During the year ended June 30, 2011, \$21,980 in debt issuance costs in governmental activities and \$2,132 in business-type activities were amortized, leaving an unamortized balance of \$215,832 in governmental activities and \$29,669 in business-type activities.

**3.H. Interfund receivables, payables, and transfers**

Interfund transactions:

Transfer out:	<u>Transfers In</u>			<u>Totals</u>
	<u>General</u>	<u>Nonmajor</u>	<u>Dedicated</u>	
	<u>Fund</u>	<u>Governmental</u>	<u>Sales</u>	
General fund	\$ -	457,938	636,471	1,094,409
Dedicated sales tax fund	-	-	-	-
Totals	\$ <u>-</u>	<u>457,938</u>	<u>636,471</u>	<u>1,094,409</u>

City of Choctaw, Oklahoma  
Notes to Financial Statements  
June 30, 2011

NOTE 4 - OTHER NOTES

4.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 and general liability and workers compensation. Commercial insurance is used to cover general liability claims and the risk of loss to City buildings and mobile equipment. Judgments against the City may be paid by a property tax assessment over a three-year period.

4.B. Contingent liabilities

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

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

4.C. Employee retirement systems and pension plans

The City participates in three employee pension systems as follows:

<u>Name of Plan/System</u>	<u>Type of Plan</u>
City of Choctaw - Oklahoma Employee Retirement Plan	Single Employer-Defined Contribution Benefit
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

*City of Choctaw, Oklahoma Employee Retirement Plan (the Plan)*

Plan Description - The City of Choctaw, Oklahoma Employee Retirement Plan, is a single-employer defined contribution money purchase pension plan covering City employees not covered by other plans. The Plan operates as a trust administered by the Ameritas Life Insurance. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. All regular, full-time City employees not covered by other plans are eligible to participate in the Plan after six months of service. Benefits vest after five years of service, as follows:

<u>Years of Service</u>	<u>Vested Percentage</u>
Less than five years	0%
Five years	50%
Six years	60%
Seven years	70%
Eight years	80%
Nine years	90%
Ten years	100%

City of Choctaw, Oklahoma  
Notes to Financial Statements  
June 30, 2011

**NOTE 4 - OTHER NOTES - Continued**

Benefits to be paid to employees at a future date are dependent on the sum of the employee contributions with interest, the City financed contributions with interest, and the respective employee vesting percentage as established by the plan. There are no guaranteed retirement benefits in the plan, and the City disclaims any liability between the employer and the employee regarding benefits in the plan. Any and all claims of the employee may be satisfied only out of the funds held in the plan under the individual employee's account. Each employee receives a year-end statement of his account and selects how the funds are invested.

Funding Policy - The employee contributes 3% of compensation to the Plan, and the employer contributes 8% of employee compensation. Contributions to the Plan for the year ended June 30, 2011, for employees and employer were \$29,819 and \$37,081, respectively. For the year ended June 30, 2011, the City's covered payroll was \$578,319. Covered payroll refers to all compensation paid by the City of Choctaw to active employees covered by the Plan on which contributions are based.

*Oklahoma Police and Firefighter's Pension and Retirement Systems*

The City of Choctaw, as the employer, participates in two statewide cost-sharing multiple employer defined benefit plans on behalf of the police officers and firefighters. The systems are funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The following is a summary of eligibility factors, contribution methods, and benefit provisions.

*A. Eligibility Factors, Contribution Methods, and Benefit Provisions*

	Oklahoma Police Pension and Retirement System	Oklahoma Firefighter's Pension and Retirement System
Obtaining separately issued financial statements	Police Pension and Retirement 1001 N.W. 63rd St., Suite 605 Oklahoma City, OK 73116-7335	Firefighter's Pension & Retirement 4545 N. Lincoln Blvd., Suite 265 Oklahoma City, OK 73105-3414
Eligibility to participate	All full-time officers, employed by a participating municipality, not less than 21 years of age or more than 45 years of age when hired.	All full-time or voluntary firefighters of a participating municipality hired before age 45.
Authority establishing contribution obligations and benefits	State Statute	State Statute
Employee's contribution rate (percent of covered Payroll)	8%	8%
State obligation	State appropriation to fund the unfunded actuarial accrued liability	State appropriation to fund the unfunded actuarial accrued liability
Period required to vest	10 years	10 years

City of Choctaw, Oklahoma  
Notes to Financial Statements  
June 30, 2011

NOTE 4 - OTHER NOTES - Continued

	Oklahoma Police Pension and Retirement System	Oklahoma Firefighter's Pension and Retirement System
Eligibility and benefits distribution (full time)	20 years credited service, 2 1/2% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.	20 years credited service, 2 1/2% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.
Eligibility and benefits for distribution (volunteer)	-	20 years credited service equal to \$7.24 per month per year of service, with a maximum of 30 years considered.
Deferred retirement option	Yes, 20 years credited service with additional option to participate in Louisiana Plan.	Yes, 20 years credited service with continued service for a maximum of 30 or more years.
Provisions for: Cost of living adjustments (normal retirement)	Yes	Yes, if vested by 5/83
Death (duty, non-duty, post retirement)	Yes	Yes
Disability (duty, non-duty)	Yes	Yes
Cost of living allowances	Yes	Yes

*B. Trend Information*

Contributions required by State statute and made:

Fiscal Year	Oklahoma Police Pension and Retirement System		Oklahoma Firefighter's Pension and Retirement System	
	Required Contribution		Required Contribution	
2009	\$ 42,584		\$ 23,611	
2010	46,166		23,973	
2011	46,405		23,467	
	Percentage Contributed		Percentage Contributed	
	100%		100%	
	100%		100%	
	100%		100%	

Trend information showing the progress of the Systems in accumulating sufficient assets to pay benefits when due is presented in their respective separate annual financial reports.

City of Choctaw, Oklahoma  
Notes to Financial Statements  
June 30, 2011

**NOTE 4 - OTHER NOTES - Continued**

*C. Related Party Investments*

As of June 30, 2011, the Systems held no related-party investments of the City or of its related entities.

**4.D. Compliance with bond indenture**

The bond indentures require the Authority to maintain the net revenue available for debt service of at least 1.25 times the maximum annual amount to be paid into the Sinking Fund. The amount available is computed as follows:

Gross revenue available for debt service :	
System-wide Gross Revenues - Water , wastewater and stormwater	\$ 1,156,579
System-wide Operating Expense - Exclusive of capital improvements, debt service and depreciation	
Water	168,631
Wastewater and stormwater	<u>808,293</u>
Net revenues available for debt service	<u>\$ 179,655</u>
 Annual amount to be paid into Sinking Fund	 <u>\$ 83,678</u>
 Coverage	 <u>2.15</u>
 Coverage requirement	 <u>1.25</u>

**4.E. Subsequent event**

TIF District #1 -

The Choctaw Utilities Authority is considering the issuance of the Tax Increment Revenue Note, Taxable Series 2011 in an amount not to exceed \$7,800,000 for the purpose of paying for certain infrastructure project costs authorized by the Choctaw Town Square Economic Development Project Plan.

Proceeds of the TIF Note will be advanced at closing to reimburse the City for prior expenditures related to organizational costs associated with the creation of the TIF and to pay costs of issuance of the TIF Note, then as needed to pay Project Costs.

The TIF Note will be issued in the form of a drawdown note or line-of-credit. The Authority will request periodic advances for the balance of the TIF Note for approved project purposes, with all funds to be fully advanced by July 1, 2013, all pursuant to the terms of a General Bond Indenture, as supplemented and amended by a Series 2011 Supplemental Note Indenture.

Additional details of the Purpose, Structure, Security, Interest Rates and Other Provisions of the TIF Note are available from the Authority.

**REQUIRED SUPPLEMENTARY  
INFORMATION**



City of Choctaw, Oklahoma  
General Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual  
For the Year Ended June 30, 2011

	Budget			Variance with Final Budget Over <u>(Under)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Taxes	\$ 2,975,095	3,193,950	3,219,937	25,987
Intergovernmental	43,786	37,007	49,439	12,432
Licenses and permits	65,859	56,055	66,208	10,153
Fines and forfeitures	159,788	183,233	192,291	9,058
Interest	620	672	696	24
Miscellaneous	37,901	73,110	65,268	(7,842)
Total revenues	3,283,049	3,544,027	3,593,839	49,812
<b>EXPENDITURES</b>				
General government:				
Administration	677,155	712,271	651,402	60,869
General government	307,478	224,816	143,273	81,543
Community services	42,985	16,883	16,050	833
Public safety:				
Police	796,375	831,039	770,576	60,463
Fire	392,074	412,418	387,357	25,061
Public works:				
Fleet	48,278	48,625	48,113	512
Culture and recreation:				
Parks	106,903	112,302	104,719	7,583
Total expenditures	2,371,248	2,358,354	2,121,490	236,864
Excess (deficiency) of revenues over (under) expenditures	911,801	1,185,673	1,472,349	286,676
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers	(1,066,668)	(1,147,886)	(1,091,642)	56,244
Net change in fund balances	(154,867)	37,787	380,707	342,920
Fund balances - beginning	167,619	136,862	618,167	500,010
Fund balances - ending	\$ 12,752	174,649	998,874	842,930

See accompanying notes to the basic financial statement.

**OTHER SUPPLEMENTARY  
INFORMATION**

City of Choctaw, Oklahoma  
 Nonmajor Governmental Funds  
 Combining Balance Sheet  
 June 30, 2011

	Special Revenue					Permanent	Capital Projects			Total Nonmajor Governmental Funds
	Street & Alley	Parks and Tourism	Public Safety	Emergency Management	Industrial Park	Cemetery Perpetual Care	Capital Projects	Community Development	Library Construction	
<b>ASSETS</b>										
Cash and cash equivalents	\$ 147,314	77,676	51,882	264,550	63,780	74,172	189,061	42,060	40,650	951,145
Receivables, net	5,927	-	-	-	-	-	-	-	-	5,927
<b>TOTAL</b>	<u>153,241</u>	<u>77,676</u>	<u>51,882</u>	<u>264,550</u>	<u>63,780</u>	<u>74,172</u>	<u>189,061</u>	<u>42,060</u>	<u>40,650</u>	<u>957,072</u>
<b>LIABILITIES AND FUND BALANCES</b>										
Liabilities:										
Accounts payable	-	1,025	-	-	-	-	-	-	-	1,025
<b>Total Liabilities</b>	<u>-</u>	<u>1,025</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,025</u>
Fund balances:										
Reserved for:										
Capital improvements	-	-	-	-	-	-	189,061	42,060	40,650	271,771
Unreserved:										
Designated	153,241	76,651	51,882	264,550	63,780	74,172	-	-	-	684,276
<b>Total Fund Balances</b>	<u>153,241</u>	<u>76,651</u>	<u>51,882</u>	<u>264,550</u>	<u>63,780</u>	<u>74,172</u>	<u>189,061</u>	<u>42,060</u>	<u>40,650</u>	<u>956,047</u>
<b>TOTAL</b>	<u>\$ 153,241</u>	<u>77,676</u>	<u>51,882</u>	<u>264,550</u>	<u>63,780</u>	<u>74,172</u>	<u>189,061</u>	<u>42,060</u>	<u>40,650</u>	<u>957,072</u>

See accompanying notes to the basic financial statement.

City of Choctaw, Oklahoma  
Nonmajor Governmental Funds  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
For the Year Ended June 30, 2011

	Special Revenue					Permanent	Capital Projects			Total
	Street & Alley	Parks and Tourism	Public Safety	Emergency Management	Industrial Park	Cemetery Perpetual Care	Capital Projects	Community Development	Library Construction	Nonmajor Governmental Funds
<b>REVENUES</b>										
Intergovernmental	\$ 88,283	-	-	17,392	-	-	-	-	-	105,675
Charge for services	-	6,385	5,725	-	-	28,900	49,025	30,133	-	120,168
Interest	-	-	-	-	-	128	-	-	366	494
Miscellaneous	8,519	13,094	11,499	-	2,700	834	31,334	-	-	67,980
Total revenues	<u>96,802</u>	<u>19,479</u>	<u>17,224</u>	<u>17,392</u>	<u>2,700</u>	<u>29,862</u>	<u>80,359</u>	<u>30,133</u>	<u>366</u>	<u>294,317</u>
<b>EXPENDITURES</b>										
Current:										
Public safety	-	-	38,544	-	-	-	4,020	-	-	42,564
Public works	471,761	-	-	-	49,065	-	120,774	-	-	641,600
Cultural and recreational	-	60,012	-	-	-	49,024	-	875	482	110,393
Capital outlay	-	-	-	-	-	-	120,657	-	-	120,657
Debt service	-	-	-	-	-	-	32,120	22,946	-	55,066
Total expenditures	<u>471,761</u>	<u>60,012</u>	<u>38,544</u>	<u>-</u>	<u>49,065</u>	<u>49,024</u>	<u>277,571</u>	<u>23,821</u>	<u>482</u>	<u>970,280</u>
Excess (deficiency) of revenues over expenditures	<u>(374,959)</u>	<u>(40,533)</u>	<u>(21,320)</u>	<u>17,392</u>	<u>(46,365)</u>	<u>(19,162)</u>	<u>(197,212)</u>	<u>6,312</u>	<u>(116)</u>	<u>(675,963)</u>
<b>OTHER FINANCING SOURCES (USES)</b>										
Transfers in	294,547	29,455	-	-	-	-	131,170	-	-	455,172
Transfers out	-	-	-	-	-	-	-	-	-	-
Total other financing sources and uses	<u>294,547</u>	<u>29,455</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>131,170</u>	<u>-</u>	<u>-</u>	<u>455,172</u>
Net change in fund balances	(80,412)	(11,078)	(21,320)	17,392	(46,365)	(19,162)	(66,042)	6,312	(116)	(220,791)
Fund balances-beginning	233,653	87,729	73,202	247,158	110,145	93,334	255,103	35,748	40,766	1,176,838
Fund balances-ending	<u>\$ 153,241</u>	<u>76,651</u>	<u>51,882</u>	<u>264,550</u>	<u>63,780</u>	<u>74,172</u>	<u>189,061</u>	<u>42,060</u>	<u>40,650</u>	<u>956,047</u>

See accompanying notes to the basic financial statement.

# DILLON & ASSOCIATES, P.C.

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## 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*

Honorable Mayor and City Council Members  
City of Choctaw, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Choctaw, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City of Choctaw's basic financial statements and have issued our report thereon dated December 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Choctaw, Oklahoma's internal control over financial reporting as a basis for our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Choctaw's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Choctaw, Oklahoma's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the following paragraph that we consider to be significant deficiencies in internal control over financial reporting. Finding 2011-1 is considered a significant deficiency. A significant deficiency is a deficiency, or 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.

## Finding 2011-1 Presentation of Financial Statements

In accordance with accounting standard SAS 115, should management choose to allow the auditors to prepare the City's financial statements, including full footnote disclosure, instead of preparing the statements themselves, this is considered an internal control deficiency. While it is common practice for the auditors to prepare the financial statements for many organizations, the standard requires us to communicate to those charged with governance this choice to have the auditors prepare the financial statements as a significant deficiency or material weakness. This is to ensure that you understand that the auditors, not management, have prepared the financial statements and allow those charged with governance the ability to determine whether the cost of implementing an appropriate control to prepare the financial statements outweighs the benefit that could be gained. An appropriate control could be hiring additional staff with knowledge and ability to prepare the financial statements or hiring another accountant to prepare the financial statements before the audit commences.

### Management Response

In accordance with the Statement of Auditing Standards (SAS) No. 115, it is the responsibility of the City of Choctaw to prepare the City's financial statements. The City of Choctaw chose to allow the independent auditor to prepare the financial statements for the reporting period, as has been standard practice for previous audits. It is important to note that this practice is not precluded under the guideline, but rather is listed as a significant deficiency under published standards.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Choctaw, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Choctaw, Oklahoma in a separate letter dated December 2, 2011.

This report is intended solely for the information and use of the City Council and management of the City of Choctaw, Oklahoma, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Dillon & Associates, P.C.*

Midwest City, Oklahoma  
December 2, 2011

CITY OF CHOCTAW, OKLAHOMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
*For the Year Ended June 30, 2011*

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ <u>PROGRAM TITLE</u>	FEDERAL CFDA <u>NUMBER</u>	PASS - THROUGH GRANTOR <u>NUMBER</u>	PROGRAM OR AWARD <u>AMOUNT</u>	FEDERAL <u>EXPENDITURES</u>
NONE			\$ -	-
Total Federal Assistance			<u>-</u>	<u>-</u>
<u>STATE PROGRAMS</u>				
<u>State of Oklahoma</u>				
Oklahoma Department of Agriculture				
Rural Fire Program		OP GT CHOCTAW FD ACOG	4,398	4,398
Total State of Oklahoma			<u>4,398</u>	<u>4,398</u>
Total Federal and State Assistance			<u>\$ 4,398</u>	<u>4,398</u>

Notes to Schedule of Expenditures of Federal Awards

Note A - Significant Accounting Policies - The accompanying schedule of expenditures of federal awards is prepared on the basis of accounting consistent with the definition of federal awards expended in paragraph 205 of OMB Circular A-133.