

**CITY OF CHOCTAW, OKLAHOMA**  
**ANNUAL FINANCIAL STATEMENTS**  
**AND INDEPENDENT AUDITOR'S REPORT**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2012**

## CONTENTS

	Page Number
<b>BASIC FINANCIAL STATEMENTS:</b>	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-11
<i>Government-Wide Financial Statements:</i>	
Statement of Fiduciary Net Assets	12
Statement of Activities	13-14
<i>Fund Financial Statements:</i>	
Balance Sheet - Governmental Funds	15
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Net Assets - Proprietary Funds	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	19
Statement of Cash Flows - Proprietary Funds	20
Statement of Fiduciary Net Assets - Agency Funds	21
Notes to Basic Financial Statements	22-44
<b>REQUIRED SUPPLEMENTAL INFORMATION:</b>	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	45
Notes to Required Supplemental Information	46
<b>OTHER SUPPLEMENTAL INFORMATION:</b>	
Combining Financial Statements Nonmajor Governmental Funds Combining Balance Sheet	47
Combining Statement of Revenues, Expenditures, and Changes in Fund Net Assets	48
Compliance and Internal Control Report Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	49-50
Schedule of Expenditures of Federal Awards	51

**INDEPENDENT AUDITOR'S  
REPORT**

**DILLON & ASSOCIATES, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS  
1401 S. DOUGLAS BLVD., SUITE A  
MIDWEST CITY, OK 73130

ROBERT S. DILLON, CPA  
[bobdilloncpa@gmail.com](mailto:bobdilloncpa@gmail.com)

Phone: (405) 732-1800  
Fax : (405) 737-7446

**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, each major fund, and the aggregate remaining fund information of the City of Choctaw, Oklahoma (the City), as of and for the year ended June 30, 2012, 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 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, as of June 30, 2012, 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 14, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 and budgetary comparison information on page 45 and the notes on page 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basis financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 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. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

***Dillon & Associates, P.C.***

Midwest City, Oklahoma  
December 14, 2012

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2012**  
**Unaudited**

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, 2012. Please read it in conjunction with the City's financial statements, which begin on page 12.

**Financial Highlights**

- The assets of the City of Choctaw exceeded its liabilities at the close of the most recent fiscal year by \$11,620,231 (net assets), an decrease of \$448,457 or 3.7% from the prior year.
- During the year, the City's expenses for governmental activities were \$5,228,289 and were funded by program revenues of \$417,875 and further funded with taxes and other general revenues, grants and net transfers that totaled \$3,819,146 resulting in a deficit of \$986,855, as noted on pages 13 and 14.
- In the business-type activities, which are primarily utilities, had program expenses of \$2,068,152 and were funded by program revenues of \$1,926,535 and other general revenues and net transfers that totaled \$312 resulting in a deficit of \$141,305, as noted on pages 13 and 14.
- Sales and use taxes totaled \$2,759,035 an increase of \$224,984 or 8.9% over the prior fiscal year.
- At June 30, 2012, the General Fund reported an unreserved, undesignated fund balance of \$991,266, a decrease of \$136,225 from the prior year.
- The City's total debt increased by \$397,295 during the current fiscal year. The key factors were the issuance of Tax Increment Notes and principal reduction payments 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.

**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2012**  
**Unaudited**

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).

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 12-14 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.

**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2012**  
**Unaudited**

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 15-17 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.

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 18-20 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 21 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 22-44 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 45 of this report.

**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2012**  
**Unaudited**

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 47-48+ 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 \$11,620,231 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (58.8%) 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.

Table 1  
**Net Assets**  
(In Thousands)

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 4,167	5,463	817	703	4,984	6,166
Capital assets	10,167	9,444	5,489	5,116	15,656	14,560
Total assets	<u>14,334</u>	<u>14,907</u>	<u>6,306</u>	<u>5,819</u>	<u>20,640</u>	<u>20,726</u>
Long-term debt outstanding	8,156	7,645	663	725	8,819	8,370
Other liabilities	168	265	32	22	200	287
Total liabilities	<u>8,324</u>	<u>7,910</u>	<u>695</u>	<u>747</u>	<u>9,019</u>	<u>8,657</u>
Net assets:						
Invested in capital assets, net of debt	2,011	3,868	4,826	4,382	6,837	8,250
Restricted	1,999	3,054	95	94	2,094	3,148
Unrestricted	2,000	75	690	596	2,690	671
Total net assets	<u>\$ 6,010</u>	<u>6,997</u>	<u>5,611</u>	<u>5,072</u>	<u>11,621</u>	<u>12,069</u>

A portion of the City's net assets (16.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$2,689,783 may be used to meet the government's ongoing obligations to citizens and creditors.

**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2012**  
**Unaudited**

The government's net assets decreased by \$448,457 during the current fiscal year. This increase represents the overall excess of expenses over revenues, including depreciation of \$1,099,549.

**Governmental activities.** Governmental activities decreased the City's net assets by \$986,855. The decrease included a non-cash charge for depreciation on capital assets of \$638,285.

**Business-type activities.** Business-type activities increased the City's net assets by \$538,398. The increase in net assets included a non-cash charge for depreciation on capital assets of \$461,264.

Table 2  
Changes in Net Assets  
(In Thousands)

	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues						
Charges for services \$	418	186	1,927	1,792	2,345	1,978
Operating grants	4	4	-	-	4	4
Capital grants	-	-	-	-	-	-
General revenues						
Sales and use taxes	2,759	2,755	-	-	2,759	2,755
Franchise tax (fees)	447	415	-	-	447	415
Other taxes	438	441	-	-	438	441
Investment income	2	6	-	-	2	6
Other	173	81	-	2	173	83
Total revenues	<u>4,241</u>	<u>3,888</u>	<u>1,927</u>	<u>1,794</u>	<u>6,168</u>	<u>5,682</u>

**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2012**  
**Unaudited**

	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Expenses:</b>						
General government	1,878	1,251	-	-	1,878	1,251
Public safety	1,516	1,343	-	-	1,516	1,343
Public works	915	1,038	-	-	915	1,038
Cultural & recreation	488	271	-	-	488	271
Water	-	-	708	450	708	450
Wastewater	-	-	502	289	502	289
Sanitation	-	-	670	680	670	680
Stormwater	-	-	154	177	154	177
Interest on debt	431	530	34	36	465	566
Total expenses	<u>5,228</u>	<u>4,433</u>	<u>2,068</u>	<u>1,632</u>	<u>7,296</u>	<u>6,065</u>
<b>Increase in net assets</b>						
before transfers	(987)	(353)	(141)	162	(1,128)	(191)
Transfers	-	-	-	-	-	-
Change in net assets	(987)	(353)	(141)	162	(1,128)	(191)
Beginning net assets	6,997	7,350	5,072	4,910	12,069	12,260
Contributed capital	-	-	680	-	680	-
Ending net assets	<u>\$ 6,010</u>	<u>6,997</u>	<u>5,611</u>	<u>5,072</u>	<u>11,621</u>	<u>12,069</u>

**Financial Analysis of the Government's Funds**

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,224,990, a decrease of \$1,641,098, in comparison with the prior year. Approximately 49.2% of this total amount, \$1,586,743 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.

**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2012**  
**Unaudited**

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 \$839,909. 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, 2012, amounts to \$15,655,461 (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 a water tower and line improvements.

**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2012**  
**Unaudited**

Table 3  
**Capital Assets**  
(In Thousands)

		Governmental		Business-type		Total	
		Activities		Activities		Primary Government	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$	2,868	2,868	22	22	2,890	2,890
Buildings		4,142	3,995	-	-	4,142	3,995
Machinery and equipment		1,381	1,389	468	396	1,849	1,785
Vehicles		1,108	1,114	65	47	1,173	1,161
Infrastructure		47,391	46,276	15,998	15,264	63,389	61,540
Less: Accum. depreciation		(46,723)	(46,198)	(11,064)	(10,613)	(57,787)	(56,811)
<b>Total capital assets, net</b>	<b>\$</b>	<b>10,167</b>	<b>9,444</b>	<b>5,489</b>	<b>5,116</b>	<b>15,656</b>	<b>14,560</b>

Additional information of the City's capital assets can be found in Note 2.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 \$9,337,295. This represents debt secured solely by specified revenue sources (i.e., revenue notes and bonds) of \$6,035,000 and advalorem taxes including (general obligation bonds) of \$1,610,000 and (tax increment financing note - TIF) of \$967,295.

Table 4  
**Long-term Debt**  
(In Thousands)

		Governmental		Business-type		Total	
		Activities		Activities		Primary Government	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
General obligation bonds \$		1,610	1,785	-	-	1,610	1,785
Notes payable		6,035	6,380	-	-	6,035	6,380
Tax increment note (TIF)		967	-	-	-	967	-
Revenue bonds		-	-	725	725	725	725
<b>Total long-term debt</b>	<b>\$</b>	<b>8,612</b>	<b>8,165</b>	<b>725</b>	<b>725</b>	<b>9,337</b>	<b>8,890</b>

The City's total debt increased by \$397,295 during the current fiscal year. The key factors was the issuance of Tax Increment Notes and principal reduction payments on general obligation bonds and revenue bonds and notes.

**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2012**  
**Unaudited**

Additional information on the City's long-term debt can be found in Notes 2.F. to the basic financial statements.

**Economic Factors and Next Year's Budgets and Rates**

The City's elected and appointed officials considered many factors when setting the fiscal-year 2012-2013 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 2012-2013.

❖ 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, 2012.

❖ As for the City's proprietary fund activities, we expect a slight growth in the revenues and expenses over those received in 2012.

All of these factors were considered in preparing the City's budget for the 2012-2013 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+A23**  
**Statement of Net Assets**  
**June 30, 2012**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Authority
<b>ASSETS</b>				
Pooled cash and cash equivalents	\$ 2,233,886	563,660	2,797,546	93,491
Receivables (net of allowance for uncollectibles)	239,350	130,871	370,221	-
Receivables from other governments	-	-	-	-
Internal balances	-	-	-	-
Bond issue cost (net of accumulated amortization)	441,460	27,537	468,997	-
Restricted assets:				
Restricted cash and investments	1,252,672	94,671	1,347,343	-
Capital assets:				
Land, improvements, and construction in progress	2,868,369	-	2,868,369	-
Other capital assets, net of depreciation	7,298,356	5,488,736	12,787,092	-
Total assets	<u>14,334,093</u>	<u>6,305,475</u>	<u>20,639,568</u>	<u>93,491</u>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	25,987	-	25,987	-
Notes payable, current	370,000	-	370,000	-
Bonds payable, current	175,000	55,000	230,000	-
Compensated absences	142,325	31,745	174,070	-
Notes payable, non-current	6,262,295	-	6,262,295	-
Bonds payable, non-current	1,348,802	608,183	1,956,985	-
Total liabilities	<u>8,324,409</u>	<u>694,928</u>	<u>9,019,337</u>	<u>-</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	2,010,628	4,825,642	6,836,270	-
Restricted for:				
Special revenue projects	595,477	-	595,477	93,491
Capital projects	1,013,666	90	1,013,756	-
Debt service	239,006	94,582	333,588	-
Accrued leave	151,357	-	151,357	-
Unrestricted (deficit)	1,999,550	690,233	2,689,783	-
Total net assets	<u>\$ 6,009,684</u>	<u>5,610,547</u>	<u>11,620,231</u>	<u>93,491</u>

See accompanying notes to the basic financial statement.

City of Choctaw, Oklahoma  
Statement of Activities  
For the Year Ended June 30, 2012

<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>	
<b>Primary government:</b>				
Governmental activities:				
General government	\$ 1,877,589	197,893	-	(1,679,696)
Public safety	1,516,839	219,982	4,413	(1,292,444)
Public works	914,992	-	-	(914,992)
Culture and recreation	487,504	-	-	(487,504)
Interest on long-term debt	431,365	-	-	(431,365)
Total government activities	<u>5,228,289</u>	<u>417,875</u>	<u>4,413</u>	<u>(4,806,001)</u>
Business-type activities:				
Water	707,676	667,696	-	(39,980)
Wastewater	501,649	422,191	-	(79,458)
Sanitation	670,165	679,963	-	9,798
Stormwater	154,300	156,685	-	2,385
Other	34,362	-	-	(34,362)
Total business-type activities	<u>2,068,152</u>	<u>1,926,535</u>	<u>-</u>	<u>(141,617)</u>
Total primary government	<u>7,296,441</u>	<u>2,344,410</u>	<u>4,413</u>	<u>(4,947,618)</u>
 <b>Component Unit:</b>				
Economic Development	\$ <u>2,514</u>	<u>-</u>	<u>-</u>	<u>(2,514)</u>

City of Choctaw, Oklahoma  
Statement of Activities  
For the Year Ended June 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Authority
<b>Change in net assets:</b>				
<b>Net (expense) revenue</b>	\$ (4,806,001)	(141,617)	(4,947,618)	(2,514)
<b>General revenues:</b>				
<b>Taxes:</b>				
Sales taxes	2,629,041	-	2,629,041	-
Use taxes	129,994	-	129,994	-
Franchise taxes (fees)	447,407	-	447,407	-
Other taxes	437,551	-	437,551	-
Unrestricted investment income	1,709	8	1,717	536
Miscellaneous	173,444	304	173,748	-
<b>Transfers</b>	-	-	-	-
<b>Total general revenues and transfers</b>	3,819,146	312	3,819,458	536
<b>Change in net assets</b>	(986,855)	(141,305)	(1,128,160)	(1,978)
<b>Net assets - beginning</b>	6,996,539	5,072,149	12,068,688	95,469
<b>Contributed capital - fixed assets</b>	-	679,703	679,703	-
<b>Net assets - ending</b>	\$ 6,009,684	5,610,547	11,620,231	93,491

See accompanying notes to the basic financial statement.

**City of Choctaw, Oklahoma**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2012**

	General Fund	Debt Service Fund	Dedicated Sales Tax Fund	Town Square Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 631,637	74,683	-	69,437	831,841	1,607,598
Restricted cash and cash equivalents	151,357	-	1,245,450	7,222	-	1,404,029
Receivables, net	233,424	-	-	-	5,926	239,350
<b>Total assets</b>	<b><u>1,016,418</u></b>	<b><u>74,683</u></b>	<b><u>1,245,450</u></b>	<b><u>76,659</u></b>	<b><u>837,767</u></b>	<b><u>3,250,977</u></b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	25,152	-	-	-	835	25,987
<b>Total liabilities (Note 2)</b>	<b><u>25,152</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>835</u></b>	<b><u>25,987</u></b>
Fund balances:						
Reserved for:						
Capital improvements	-	-	1,108,468	69,439	241,455	1,419,362
Debt service	-	74,683	136,982	7,220	-	218,885
Accrued leave	151,357	-	-	-	-	151,357
Unreserved, reported in:						
General fund	839,909	-	-	-	-	839,909
Special revenue funds	-	-	-	-	595,477	595,477
<b>Total fund balances</b>	<b><u>991,266</u></b>	<b><u>74,683</u></b>	<b><u>1,245,450</u></b>	<b><u>76,659</u></b>	<b><u>836,932</u></b>	<b><u>3,224,990</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 1,016,418</u></b>	<b><u>74,683</u></b>	<b><u>1,245,450</u></b>	<b><u>76,659</u></b>	<b><u>837,767</u></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.	10,166,725
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.	474,931
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General obligation bonds	(1,523,802)
Notes payable	(6,632,295)
Bond issuance costs	441,460
Accrued compensated absences	(142,325)
<b>Net assets of governmental activities</b>	<b><u>\$ 6,009,684</u></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, 2012

	General Fund	Debt Service Fund	Dedicated Sales Tax Fund	Town Square Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes	\$ 3,206,442	248,345	-	12,424	-	3,467,211
Intergovernmental	80,529	-	-	-	100,666	181,195
Licenses and permits	70,045	-	-	-	-	70,045
Charge for services	-	-	-	-	127,848	127,848
Fines and forfeitures	219,982	-	-	-	-	219,982
Interest	661	338	433	2	275	1,709
Proceeds from debt issuance	-	-	-	967,295	-	967,295
Miscellaneous	48,160	-	-	-	30,296	78,456
Total revenues	<u>3,625,819</u>	<u>248,683</u>	<u>433</u>	<u>979,721</u>	<u>259,085</u>	<u>5,113,741</u>
<b>EXPENDITURES</b>						
Current:						
General government	926,215	-	-	-	-	926,215
Public safety	1,294,593	-	-	-	79,878	1,374,471
Public works	50,338	-	-	-	512,554	562,892
Culture and recreation	124,392	-	-	-	304,283	428,675
Capital outlay	-	-	1,371,242	932,164	152,122	2,455,528
Debt service	-	277,420	697,542	-	32,096	1,007,058
Total expenditures	<u>2,395,538</u>	<u>277,420</u>	<u>2,068,784</u>	<u>932,164</u>	<u>1,080,933</u>	<u>6,754,839</u>
Excess (deficiency) of revenues over expenditures	<u>1,230,281</u>	<u>(28,737)</u>	<u>(2,068,351)</u>	<u>47,557</u>	<u>(821,848)</u>	<u>(1,641,098)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	-	641,890	7,219	724,616	1,373,725
Transfers out	(1,366,506)	-	(7,219)	-	-	(1,373,725)
Total other financing sources and uses	<u>(1,366,506)</u>	<u>-</u>	<u>634,671</u>	<u>7,219</u>	<u>724,616</u>	<u>-</u>
Net change in fund balances	(136,225)	(28,737)	(1,433,680)	54,776	(97,232)	(1,641,098)
Fund balances-beginning	1,127,491	103,420	2,679,130	21,883	934,164	4,866,088
Fund balances-ending	<u>\$ 991,266</u>	<u>74,683</u>	<u>1,245,450</u>	<u>76,659</u>	<u>836,932</u>	<u>3,224,990</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, 2012*

Net change in fund balances - total governmental funds \$ (1,641,098)

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	1,362,278
Disposition of assets, net	101,293
Depreciation expense	(638,285)
	825,286

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

Proceeds from issuance of long-term debt, net of issuance costs	(712,295)
Repayment of long-term debt	568,294
Amortization of bond premium	(7,400)
Amortization of bond issuance costs	(29,371)
Change in accrued compensated absences	(8,494)
	(189,266)

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.

18,223

Change in net assets of governmental activities. \$ (986,855)

**City of Choctaw, Oklahoma**  
**Proprietary Funds**  
**Statement of Net Assets**  
**June 30, 2012**

	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>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 563,660	-	563,660	474,931
Accounts receivable, net of allowance for uncollectibles of \$ 66,863	130,871	-	130,871	-
Restricted assets - cash and investments	-	94,671	94,671	-
<b>Total current assets</b>	<u>694,531</u>	<u>94,671</u>	<u>789,202</u>	<u>474,931</u>
Non-current assets:				
Bond issuance costs, net of accumulated amortization	-	27,537	27,537	-
Capital assets, net of accumulated depreciation	5,488,736	-	5,488,736	-
<b>Total non-current assets</b>	<u>5,488,736</u>	<u>27,537</u>	<u>5,516,273</u>	<u>-</u>
<b>Total assets</b>	<u>6,183,267</u>	<u>122,208</u>	<u>6,305,475</u>	<u>474,931</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	-	-	-	-
Current portion of long-term obligations	-	55,000	55,000	-
<b>Total current liabilities</b>	<u>-</u>	<u>55,000</u>	<u>55,000</u>	<u>-</u>
Non-current liabilities:				
Revenue bonds payable	-	608,183	608,183	-
Accrued compensated absences	31,745	-	31,745	-
<b>Total non-current liabilities</b>	<u>31,745</u>	<u>608,183</u>	<u>639,928</u>	<u>-</u>
<b>Total liabilities</b>	<u>31,745</u>	<u>663,183</u>	<u>694,928</u>	<u>-</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	5,488,736	(663,094)	4,825,642	-
Restricted:				
Capital projects	-	90	90	-
Debt service	-	94,582	94,582	-
Payment of claims	-	-	-	474,931
Unrestricted	662,786	27,447	690,233	-
<b>Total net assets</b>	<u>\$ 6,151,522</u>	<u>(540,975)</u>	<u>5,610,547</u>	<u>474,931</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, 2012**

	Business-type Activities - Enterprise Funds			Governmental
	Choctaw		Total	Internal
	<u>Utilities</u> <u>Authority</u>	<u>Debt</u> <u>Service</u>	<u>Enterprise</u> <u>Funds</u>	<u>Service</u> <u>Fund</u>
<b><u>OPERATING REVENUES:</u></b>				
Charges for services -				
Water	\$ 667,696	-	667,696	-
Wastewater	422,191	-	422,191	-
Sanitation	679,963	-	679,963	-
Stormwater and drainage fees	156,685	-	156,685	-
Other	-	-	-	745,169
Total operating revenues	<u>1,926,535</u>	<u>-</u>	<u>1,926,535</u>	<u>745,169</u>
<b><u>OPERATING EXPENSES:</u></b>				
Water	512,377	-	512,377	-
Wastewater	94,710	-	94,710	-
Wastewater plant	138,842	-	138,842	-
Sanitation	670,165	-	670,165	-
Stormwater	154,300	-	154,300	-
Insurance claims and expense	-	-	-	727,182
Depreciation and amortization	461,264	2,132	463,396	-
Total operating expenses	<u>2,031,658</u>	<u>2,132</u>	<u>2,033,790</u>	<u>727,182</u>
Operating income (loss)	<u>(105,123)</u>	<u>(2,132)</u>	<u>(107,255)</u>	<u>17,987</u>
<b><u>NONOPERATING REVENUES (EXPENSES):</u></b>				
Miscellaneous revenues	304	-	304	-
Interest income	-	8	8	236
Interest expense and fiscal charges	-	(34,362)	(34,362)	-
Total nonoperating revenues (expenses)	<u>304</u>	<u>(34,354)</u>	<u>(34,050)</u>	<u>236</u>
<b><u>OPERATING TRANSFERS</u></b>				
Transfers in	-	83,596	83,596	-
Transfers out	(83,596)	-	(83,596)	-
Total operating transfers	<u>(83,596)</u>	<u>83,596</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>(188,415)</u>	<u>47,110</u>	<u>(141,305)</u>	<u>18,223</u>
Net assets - beginning	5,660,234	(588,085)	5,072,149	456,708
Contributed capital - fixed assets	679,703	-	679,703	-
Net assets - ending	<u>\$ 6,151,522</u>	<u>(540,975)</u>	<u>5,610,547</u>	<u>474,931</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, 2012**

	Business-type Activities - Enterprise Funds			Governmental
	Choctaw		Total	Internal
	Utilities Authority	Debt Service	Enterprise Funds	Service Fund
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>				
Receipts from customers	\$ 1,920,045	-	1,920,045	745,169
Payments to suppliers	(1,214,340)	-	(1,214,340)	(727,182)
Payments to employees	(352,372)	-	(352,372)	-
Net cash provided (used) by operating activities	<u>353,333</u>	<u>-</u>	<u>353,333</u>	<u>17,987</u>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>				
Miscellaneous revenues	304	909	1,213	-
Operating transfers in (out)	(83,596)	83,596	-	-
Net cash provided (used) by noncapital financing activities	<u>(83,292)</u>	<u>84,505</u>	<u>1,213</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	-	(34,362)	(34,362)	-
Decrease (increase) in restricted assets	-	(151)	(151)	-
(Acquisition) disposition of capital assets	(154,324)	-	(154,324)	-
Net cash provided (used) by capital and related financing activities	<u>(154,324)</u>	<u>(84,513)</u>	<u>(238,837)</u>	<u>-</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>				
Interest received	-	8	8	236
Net cash provided (used) by investing activities	<u>-</u>	<u>8</u>	<u>8</u>	<u>236</u>
Net increase (decrease) in cash and cash equivalents	115,717	-	115,717	18,223
Cash and cash equivalents, beginning of the year	447,943	-	447,943	456,708
Cash and cash equivalents, end of the year	<u>\$ 563,660</u>	<u>-</u>	<u>563,660</u>	<u>474,931</u>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u></b>				
Operating income (loss)	(105,123)	(2,132)	(107,255)	17,987
Adjustments to reconcile operating income to net cash provided by operating activities:				
Cash flows reported in other categories:				
Depreciation and amortization expense	461,264	2,132	463,396	-
Change in assets and liabilities:				
Receivable, net	13	-	13	-
Accrued expenses	(2,821)	-	(2,821)	-
Total adjustments	<u>458,456</u>	<u>2,132</u>	<u>460,588</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>\$ 353,333</u>	<u>-</u>	<u>353,333</u>	<u>17,987</u>

See accompanying notes to the basic financial statement.

**City of Choctaw, Oklahoma**  
**Statement of Fiduciary Net Assets**  
**Agency Funds**  
**June 30, 2012**

	Agency Funds	
	Municipal Court Fund	Meter Deposit Fund
<b>ASSETS</b>		
Cash and cash equivalents	\$ 13,469	145,741
Total assets	13,469	145,741
<b>LIABILITIES</b>		
Customer deposits	-	145,741
Due to bondholders	9,303	-
Due to other governments	4,166	-
Total liabilities	13,469	145,741
<b>NET ASSETS</b>	\$ -	-

See accompanying notes to the basic financial statement.

**NOTES TO BASIC  
FINANCIAL STATEMENTS**

**City of Choctaw, Oklahoma**  
**Notes to the Basic Financial Statements**  
*June 30, 2012*

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

The City of Choctaw, Oklahoma (the City) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

**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.

As required by accounting principles generally accepted in the United States of America, these financial statements present the activities of the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with the data of the primary government.

**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.

**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.

**B. - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION - FUND ACCOUNTING**

The City's basic financial statements consist of government-wide statements, including a statement of net assets, a statement of activities, and fund financial statements, which provide a more detailed level of financial statement information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

City of Choctaw, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

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

**B. - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION - FUND ACCOUNTING - Continued**

**Government-wide Financial Statements** - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specially associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the city, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

**Fund Financial Statements** - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. A major fund represents 10% of assets, liabilities, revenues, or expenditures of the corresponding element for all funds of that category *and* is at least 5% of the corresponding element total for all governmental and enterprise funds combined *or* is a fund that government believes is important enough for financial statement users to be reported as a major fund. Each is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**Fund Accounting** - The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are three categories of funds: governmental, proprietary and fiduciary.

City of Choctaw, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

**B. - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION - FUND ACCOUNTING - Continued**

**Governmental Funds** - are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurements focus and the modified accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Sales and use taxes, gasoline excise taxes, cigarette taxes and motor vehicle taxes collected and held by the state and county at year-end on behalf of the City are susceptible to accrual and are recognized as revenue. Other receipts and taxes (franchise taxes, licenses, etc.) become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The following are the City's major governmental funds:

General Fund - is the general operating fund of the City. It accounts and reports for all financial resources not required to be reported in another fund.

**Proprietary Funds** - are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with Governmental Accounting Standards Board (GASB) Statement No. 20 the City adopted only Financial Accounting Standards Board (FASB), Accounting Principles Board (APB), and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do not conflict with GASB. Proprietary funds are classified as enterprise.

City of Choctaw, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

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

**B. - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION - FUND ACCOUNTING - Continued**

Enterprise Funds - are used to account for those operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that the determination of revenues earned, costs, incurred and/or net income is necessary for capital maintenance, public policy, or management accountability. The following is the City's major enterprise fund:

Choctaw Utilities Authority - accounts for the operations of providing public works (water, sewer, and refuse) to the City.

**Fiduciary Funds** - account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement. Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in agency capacity. The City has two fiduciary funds - a fund to account for municipal court bonds and a fund to account for utility customer deposits.

**C. - ASSETS, LIABILITIES AND EQUITY**

**1. Deposits and Investments**

Oklahoma Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the City can invest in direct debt securities of the United States unless law expressly prohibits such investment.

For financial statement presentation and for purposes of the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with maturity date of three months or less. Debt investments with a maturity date of more than three months from the date of issue are considered to be investments. Investments are stated at cost.

**City of Choctaw, Oklahoma**  
**Notes to the Basic Financial Statements**  
*June 30, 2012*

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

**C. - ASSETS, LIABILITIES AND EQUITY - Continued**

**2. Restricted Cash and Investments**

The restricted bond fund cash and investments are the result of financial requirements of bond issues and consist of funds held at the Trustee Bank in Escrow, Debt Service, Reserve and Construction Accounts. Under the terms and provisions of the Debt Indenture, these special accounts and reserve funds are maintained with the Trustee bank for the benefit of the holders of the debt and are not subject to lien or attachment by any other creditors. These accounts and reserve funds are to be maintained so long as any debt is outstanding. Monies contained in accounts and reserve funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the trust indenture.

**3. Fair Value of Financial Statements**

The City's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The City's estimates of fair value of all financial instruments do not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

**4. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of American requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**5. Receivables and Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from other/due to other funds".

**6. Inventories**

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of such inventories are recorded as expenditures when purchased rather than when consumed.

City of Choctaw, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

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

**C. - ASSETS, LIABILITIES AND EQUITY - Continued**

**7. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net assets and in the respective funds. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000 for the governmental and proprietary funds.

The City's infrastructure consists of roads, bridges, culverts, curbs and gutter, streets and sidewalks, drainage systems, lighting systems and similar assets that immovable and of value only to the City. Such infrastructure assets acquired are capitalized in accordance with the requirements of GASB 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings	35-60 years	35-60 years
Building improvements	35-60 years	35-60 years
Furniture and fixtures	5-10 years	5-10 years
Machinery and equipment	5-20 years	5-20 years
Vehicles	5-10 years	5-10 years
Infrastructure - Parks	25-99 years	25-99 years
Infrastructure - Water/sewer	25-99 years	25-99 years
Infrastructure - Streets	15-25 years	15-25 years

City of Choctaw, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

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

**C. - ASSETS, LIABILITIES AND EQUITY - Continued**

**8. Deferred Charges**

Debt issuance costs are amortized ratably over the repayment period of the applicable bond or note using the straight-line method. Deferred loss on early retirement of debt is being amortized over the life of the refunded issue and is presented net of related debt as required by Governmental Accounting Standards Board Statement No. 23.

**9. Compensated Absences**

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.

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 \$151,357 of the General Fund fund balance to pay future compensated absence liabilities. The Choctaw Utilities Authority has accrued a liability of \$31,745 for compensated absences payable at June 30, 2012.

**10. Long-term Obligations**

The accounting and reporting treatment applied to long-term liabilities associates with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditure and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

City of Choctaw, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. - ASSETS, LIABILITIES AND EQUITY - Continued

11. Net Assets/Fund Balance

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance between amounts that are considered *nonspendable* (i.e. fund balance associated with assets that are *not in spendable form*, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments and receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

**Committed** fund balance represents amount that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment. The City Ordinance is the highest level of decision-making authority of the City.

**Assigned** fund balance represents amounts that are *intended* to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

**Unassigned** fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

City of Choctaw, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

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

**C. - ASSETS, LIABILITIES AND EQUITY - Continued**

**12. Resource Use Policy**

It is in the City's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the City considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the City's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balances, are available, the City considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

**NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS**

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.

**A. - CASH AND INVESTMENTS**

A summary of cash and investments shown in the statement of net assets is as follows:

Cash and equivalents	\$ 2,233,886
Investments	<u>563,660</u>
Total	<u>\$ 2,797,546</u>

The local government had the following deposits and investments at June 30, 2012:

	Credit rating	Fair value	Maturities in Years		
			On demand	Less than 1	1-5
Demand deposits and cash on hand	(1)	\$ 2,233,886	2,233,886	-	-
Money market mutual funds	AAA	563,660	563,660	-	-
Time deposits	(1)	-	-	-	-
Total		<u>\$ 2,797,546</u>	<u>2,797,546</u>	<u>-</u>	<u>-</u>

(1) Note subject to rating

Standard and Poor's (S&P) was the source for all credit ratings reported above.

City of Choctaw, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

**NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

**A. - CASH AND INVESTMENTS - Continued**

*Custodial Credit Risk*

At June 30, 2012, the City held deposits of approximately \$4,086,725 at financial institutions. The City's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with the securities held by the City or by its agent in the City's name.

*Investment Interest Credit Risk*

The City does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Investment Credit Risk*

The City has no policy that limits its investment choice other than the limitation of the state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by Federal Housing Administrator, and obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraph (a.-d.).

*Concentration of Investment Credit Risk*

The City places no limit on the amount it may invest in any one issuer. The City has the following of credit risk: Money Market funds of \$563,660.

City of Choctaw, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

**NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

**B. - RECEIVABLES AND UNCOLLECTIBLE ACCOUNTS**

	General Fund	Nonmajor Governmental Funds	Choctaw Utilities Authority	Total
Receivables:				
Taxes	\$ 233,424	5,926	-	239,350
Accounts	-	-	197,734	197,734
Due from other governments	-	-	-	-
Gross receivables	<u>233,424</u>	<u>5,926</u>	<u>197,734</u>	<u>437,084</u>
Less: Allowance for uncollectibles	-	-	66,863	66,863
Net total receivables	<u><u>\$ 233,424</u></u>	<u><u>5,926</u></u>	<u><u>130,871</u></u>	<u><u>370,221</u></u>

**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.

Tax Increment Revenue Note, Taxable Series 2012:		
Debt service		\$ 7,222
Sales Tax Revenue Bonds, Series 2010:		
Project account		918,722
Debt service		38,488
Sales Tax Revenue Bonds, Series 2007A:		
Project account		16,559
Sales Tax Revenue Bonds, Series 2006:		
Project account		78,385
Debt service		98,625
Utility Revenue Refunding Bonds, Series 2005:		
Project account		89
Debt service		7,203
Debt service reserve		<u>87,379</u>
Total restricted assets		<u><u>\$ 1,252,672</u></u>

**City of Choctaw, Oklahoma**  
**Notes to the Basic Financial Statements**  
**June 30, 2012**

**NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

**D. - CAPITAL ASSETS**

Capital asset balances and activities for the year ended June 30, 2012, were as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>
<b><i>Governmental activities</i></b>				
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	3,994,621	147,379	-	4,142,000
Machinery and equipment	1,389,272	53,830	(61,738)	1,381,364
Vehicles	1,113,926	46,454	(52,351)	1,108,029
Infrastructure	46,275,798	1,114,615	-	47,390,413
Total capital assets being depreciated	<u>52,773,617</u>	<u>1,362,278</u>	<u>(114,089)</u>	<u>54,021,806</u>
Less accumulated depreciation for :				
Buildings and improvements	(1,362,080)	(149,684)	-	(1,511,764)
Machinery and equipment	(865,577)	(105,697)	59,988	(911,286)
Vehicles	(837,874)	(55,581)	52,351	(841,104)
Infrastructure	(43,131,973)	(327,323)	-	(43,459,296)
Total accumulated depreciation	<u>(46,197,504)</u>	<u>(638,285)</u>	<u>112,339</u>	<u>(46,723,450)</u>
Total capital assets being depreciated, net	<u>6,576,113</u>	<u>723,993</u>	<u>(1,750)</u>	<u>7,298,356</u>
Governmental activities capital assets, net	<u>\$ 9,444,482</u>	<u>723,993</u>	<u>(1,750)</u>	<u>10,166,725</u>
<b><i>Business-type activities</i></b>				
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	395,695	71,957	-	467,652
Vehicles	47,374	17,801	-	65,175
Infrastructure	15,263,714	734,268	-	15,997,982
Total capital assets being depreciated	<u>15,706,783</u>	<u>824,026</u>	<u>-</u>	<u>16,530,809</u>
Less accumulated depreciation for :				
Buildings and improvements	-	-	-	-
Machinery and equipment	(257,822)	(34,919)	10,000	(282,741)
Vehicles	(32,767)	(5,307)	-	(38,074)
Infrastructure	(10,322,405)	(421,038)	-	(10,743,443)
Total accumulated depreciation	<u>(10,612,994)</u>	<u>(461,264)</u>	<u>10,000</u>	<u>(11,064,258)</u>
Total capital assets being depreciated, net	<u>5,093,789</u>	<u>362,762</u>	<u>10,000</u>	<u>5,466,551</u>
Business-type activities capital assets, net	<u>\$ 5,115,974</u>	<u>362,762</u>	<u>10,000</u>	<u>5,488,736</u>

City of Choctaw, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

**NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

**D. - CAPITAL ASSETS - Continued**

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 84,988
Public safety	142,368
Public works	352,100
Cultural and recreation	58,829
Total depreciation expense - governmental activities	<u>\$ 638,285</u>
Business-type activities:	
Water	\$ 193,167
Sewer	268,097
Total depreciation expense - business-type activities	<u>\$ 461,264</u>

**E. DEPOSITS SUBJECT TO REFUND**

Utility customers are required to make a meter deposit, which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2012, cash and investments included \$145,741 available for refund of customer deposits, while the liability to customers was \$145,741.

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, 2012, \$9,303 was being held that was subject to refund.

**F. LONG-TERM DEBT**

Long-term liabilities of the City of Choctaw as of June 30, 2012, 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%.

\$ 270,000

City of Choctaw, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

**NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

**F. LONG-TERM DEBT - Continued**

Long-term liabilities of the City of Choctaw as of June 30, 2012, are as summarized as follows:

\$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%.	1,165,000
---	-----------

Add: Unamortized bond premium	88,801
Net general obligation bonds	1,523,801

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.	435,000
---	---------

\$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 plus 1.0% in 2012.	2,720,000
--	-----------

\$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
--	-----------

Tax Increment Revenue Note:

\$7,800,000 Choctaw Utilities Authority Tax Increment Revenue Note, Series 2012 dated March 9, 2012. Proceeds are to be drawn as needed to pay project costs to finance economic development. Note matures on July 1, 2023 and bears interest at 5.75% per annum. The Note will be paid by the incremental increase in Ad Valorem tax and sales tax revenue generated by the development within Increment District No. 1 of the City of Choctaw, a subordinate lien on 1% sales tax pledged to the 2007 Note and proceeds received from property sales within District No. 1.	967,295
---	---------

Total governmental activities	\$ <u>8,156,096</u>
-------------------------------	---------------------

**City of Choctaw, Oklahoma**  
**Notes to the Basic Financial Statements**  
*June 30, 2012*

**NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

**F. LONG-TERM DEBT - Continued**

**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.

\$ 675,000

Less: Unamortized bond discount

(11,817)

Total business-type activities

\$ 663,183

Long-term liabilities transactions for the year ended June 30, 2012, and changes therein were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental activities</b>					
General obligation bonds:					
Series 2000	\$ 350,000	-	80,000	270,000	80,000
Series 2009 Funding Bonds	1,260,000	-	95,000	1,165,000	95,000
Sales Tax Revenue Notes-2006	700,000	-	265,000	435,000	285,000
Sales Tax Revenue Notes-2007	2,825,000	-	105,000	2,720,000	110,000
Sales Tax Revenue Notes-2010	2,510,000	-	-	2,510,000	-
Tax Increment Note (TIF)-2012	-	967,295	-	967,295	-
Total governmental activities	<u>7,645,000</u>	<u>967,295</u>	<u>545,000</u>	<u>8,067,295</u>	<u>570,000</u>
<b>Business-type activities</b>					
Revenue bonds payable:					
Series 2005	725,000	-	50,000	675,000	55,000
Total business-type activities	<u>\$ 725,000</u>	<u>-</u>	<u>50,000</u>	<u>675,000</u>	<u>55,000</u>

City of Choctaw, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued

F. LONG-TERM DEBT - 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, 2012 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>
2013	\$ 570,000	329,154	55,000	31,328
2014	1,052,500	275,798	40,000	28,990
2015	919,795	221,944	40,000	27,290
2016	470,000	184,379	45,000	25,590
2017	490,000	163,600	45,000	23,520
2018-2022	2,810,000	512,154	260,000	83,883
2023-2027	1,755,000	83,103	190,000	18,672
Totals	\$ <u>8,067,295</u>	<u>1,770,132</u>	<u>675,000</u>	<u>239,273</u>

***Pledge of Future Revenues***

Sales Tax Pledge - The City has entered into a Sales Tax Agreements dated September 1, 2006 and June 1, 2007 of future sales tax revenues to repay the 2006, 2007 and 2010 Revenue Notes which are payable through 2027. Proceeds from the notes provided financing for construction of various capital projects. The total principal and interest payable for the remaining life of the bonds is \$6,904,977. Pledged sales taxes received in the current year was \$2,629,041. Debt service payments on the 2006, 2007 and 2010 Revenue Notes of \$690,003 for the current fiscal year were 26% of pledged sales tax. The 2012 Tax Increment Revenue Note created a subordinate lien of the sales tax pledged to the Series 2007 Revenue Notes.

Utility Revenue Pledge - The City has pledged the revenues from future sale of water to repay the Series 2005 revenue notes which are payable through 2025. Proceeds from the notes provided funding for improvements and expansion of the water and sanitary sewer systems. The total principal and interest payable for the remainder of the life of the notes is \$914,273. Water and sewer revenues received in the current year was \$1,089,887. Debt service payments of \$83,453 for the current fiscal year were 7.7% of the pledged water and sewer revenues.

City of Choctaw, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

**NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

**G. DEBT ISSUANCE COSTS**

Debt issuance costs of \$543,460 in governmental activities and \$42,637 in business-type activities have been capitalized on sales tax revenue notes, general obligation bonds and tax increment revenue notes (TIF), and are being amortized on the straight-line basis over the term of the relevant debt issues. During the year ended June 30, 2012, \$29,371 in debt issuance costs in governmental activities and \$2,132 in business-type activities were amortized, leaving an unamortized balance of \$441,460 in governmental activities and \$27,537 in business-type activities.

**H. COMPENSATED ABSENCES**

Compensated absences of the City of Choctaw as of June 30, 2012, are as summarized as follows:

Governmental activities	\$	142,325
Business-type activities		<u>31,745</u>
Total compensated absences	\$	<u><u>174,070</u></u>

**I. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund transactions:

	Transfers In			<u>Totals</u>
	Dedicated Sales Tax	Town Square	Dedicated Sales Tax	
Transfer out:				
General fund	\$ 641,890	7,219	724,616	1,373,725
Totals	<u>\$ 641,890</u>	<u>7,219</u>	<u>724,616</u>	<u>1,373,725</u>

**NOTE 3 - OTHER INFORMATION**

**A. - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; unemployment; and natural disasters. The City manages these various risks of loss as follows:

- General Liability - Covered through purchased insurance with a \$50,000 deductible, per occurrence.

**City of Choctaw, Oklahoma**  
**Notes to the Basic Financial Statements**  
*June 30, 2012*

**NOTE 3 - OTHER INFORMATION - Continued**

**A. - RISK MANAGEMENT - Continued**

- Physical Property - Covered through purchased insurance with a \$50,000 deductible, per occurrence.
- Workers' Compensation - The City is a member of the Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the Plan year.

As a matter of the Plan, the City is required to pay fees set by the Plan according to an established payment schedule. The City is responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. A loss Fund has been established from the proceeds of the fees paid by the City. The City expensed these fees when paid. The State Insurance Fund provides coverage in excess of the Loss Fund so the City's Liability for claim loss is limited to the balance of that fund. However, failure of the State Insurance Fund to honor its obligations could result in losses to the Plan.

- Employee's Group Medical - Covered through purchased insurance with a \$50,000 deductible, per occurrence.

**B. CONTINGENT LIABILITIES**

***General Litigation***

The City and Utilities Authority are parties to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City "Sinking Fund" for the payment of any court assessed judgment rendered against the City.

While the outcome of the above noted proceedings cannot be predicted, due to the self-insurance reserves maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance reserves would not have a material adverse effect on the financial condition of the City.

City of Choctaw, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

**NOTE 3 - OTHER INFORMATION**

**B. CONTINGENT LIABILITIES - Continued**

***Grant Program Involvement***

In the normal course of operations, the City participates in various federal and state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement which may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

**C. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

By its nature as a local government entity, the City and its component units are subject to various federal, state and local laws and contractual regulations. 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, 2012, the City did not have deficits in any funds

**D. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS**

The City of Choctaw participates in the Oklahoma State Police Pension and Retirement System and the Oklahoma State Firefighters' Pension and Retirement System, both of which are cost sharing multiple-employer defined benefit plans administered by the State of Oklahoma. Additionally, for other City employees not covered by the other plans, the City maintains the Oklahoma Municipal Retirement Fund, an agent multiple employer defined contribution pension plan.

***Oklahoma Police Pension and Retirement Plan***

All City police department employees hired before age 45 are covered by a statewide cost sharing multi-employer defined benefit plan adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Police Pension and Retirement System (OPPRS). Under this plan, police department personnel contribute 8.0% of base salary and the City contributes an additional 13.0%. The OPPRS issue publicly available financial reports that include financial statements and required supplemental information for the fund. These reports may be obtained by writing to the Oklahoma Police Pension and Retirement System, 101 NW 63<sup>rd</sup> Street, Suite 305, Oklahoma City, OK 73116-7335, or by calling 1-800-347-6552.

City of Choctaw, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

NOTE 3 - OTHER INFORMATION

D. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS - Continued

*Oklahoma Police Pension and Retirement Plan - Continued*

The required contributions from the City for the OPPRS plan are as follows:

Fiscal Year	Required Contribution	Amount Contributed
2012	\$ 47,265	47,265
2011	46,405	46,405
2010	46,166	46,166

*Oklahoma Firefighters' Pension and Retirement Plan*

All City fire department employees hired before age 45 are covered by a statewide cost sharing multi-employer defined benefit plan adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Firefighters' Pension and Retirement System (OFPRS). Under this plan, fire department personnel contribute 8.0% of base salary and the City contributes an additional 13.0%. The OFPRS issue publicly available financial reports that include financial statements and required supplemental information for the fund. These reports may be obtained by writing to the Oklahoma Firefighters Pension and Retirement System, 4545 north Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414, or by calling 1-800-525-7461.

The required contributions from the City for the OFPRS plan are as follows:

Fiscal Year	Required Contribution	Amount Contributed
2012	\$ 24,055	24,055
2011	23,467	23,467
2010	23,973	23,973

*City of Choctaw, Oklahoma Employee Retirement Plan (the DC 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:

City of Choctaw, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

**NOTE 3 - OTHER INFORMATION - Continued**

**D. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS - Continued**

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

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 4% of compensation to the Plan, and the employer contributes 7% of employee compensation. Contributions to the Plan for the year ended June 30, 2012, for employees and employer were \$41,460 and \$69,515, respectively. For the year ended June 30, 2012, the City's covered payroll was \$965,098. Covered payroll refers to all compensation paid by the City of Choctaw to active employees covered by the Plan on which contributions are based.

**E. PROPERTY TAXES**

Property taxes levied by the City are billed and collected by the county treasurer's office and remitted to the City in the month following collection. Property taxes are levied annually in October and are due in equal installments on December 31 and March 31. Property taxes unpaid for the fiscal year are attached by an enforceable lien on the property in the following October. The City recognizes the tax in the year it is collected, which is not considered to be materially different from the year earned. For years ended June 30, 2012 and 2011, the City's net assessed valuation of taxable real and personal property aggregated \$71,357,591 and \$69,590,553 while the property taxes levied per \$1,000 of net assessed valuation were \$3.66 and \$3.57, respectively.

City of Choctaw, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

**F. OTHER POST-EMPLOYMENT BENEFITS**

*Plan Description:* City provides post-retirement benefit options for health care, prescription drug, dental and vision benefits for retired employees and their dependents that elect to make required contributions. The benefits are provided in accordance with State Law, police and firefighter's union contracts and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The relationship for these benefits is not formalized in a contract or plan document, only a few sentences in the administrative policy. These benefits are considered for accounting purposes to be provided in accordance with a single employer substantive plan. A substantive plan is one in which the plan terms are understood by the City and plan members. This understanding is based on communications between the employers and plan member and the historical pattern of practice with regard to the sharing of benefit costs.

Substantially all of the government's employees may become eligible for those post-retirement benefits if they reach normal retirement age while working for the City. The plan is only provided for employees between the ages of 62 and 65. As of June 30, 2012, approximately no retired employees are receiving benefits under this plan.

*Funding Policy.* The contribution requirement of the City is an implicit subsidy. The implicit subsidy is not a direct payment from the employer on behalf of the member but rather stems from retiree contribution levels that are less than the claims cost at retiree ages. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retiree. The amount required to fund the implicit rate is based on projected pay-as-you-go financing requirements. For fiscal year 2012, the City contributed 0% to the plan for previously retired employees (0 retirees) and 0% of premiums on newly retired employees (0 retirees).

*Annual OPEB Cost and Net OPEB Obligation.* The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. GASB 45 requires entities with over 200 employees to have the actuarial valuation performed biennially. The City is not required to perform the actuarial valuation of the OPEB cost and related OPEB obligation for the year ended June 30, 2012 since no one is participating at this time.

Actuarial valuations of an ongoing plan involve estimates of the value of reporting amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

City of Choctaw, Oklahoma  
Notes to the Basic Financial Statements  
*June 30, 2012*

**F. OTHER POST-EMPLOYMENT BENEFITS - Continued**

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**4. SUBSEQUENT EVENTS**

On December 14, 2012, the City of Choctaw completed the sale of two lots related to the Town Square Economic Development Project. The lots were sold to the Wal-Mart Real Estate Business Trust for \$880,000. In addition, Wal-Mart reimbursed the City for Stabilization Costs in the amount of \$378,411. The City paid \$2,000,000 for related closing costs.

Construction of a Wal-Mart Super Store is scheduled to commence in early Spring of 2013 with an estimated construction time of 270 days. The City of Choctaw has completed an infrastructure project at a cost of \$9,675,000. A majority of the funding for the infrastructure was paid for from the proceeds of the \$7,800,000 Choctaw Utilities Authority Tax Increment Revenue Note, Series 2012.

Management has evaluated subsequent events through December 14, 2012, which is the date the financial statements were available to be issued.

**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, 2012

	Budget		Actual	Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
<b>REVENUES</b>				
Taxes	\$ 3,292,821	3,269,410	3,206,442	(62,968)
Intergovernmental	91,424	95,949	80,529	(15,420)
Licenses and permits	56,055	66,573	70,045	3,472
Fines and forfeitures	183,233	214,098	219,982	5,884
Interest	672	675	661	(14)
Miscellaneous	60,159	54,446	48,160	(6,286)
Total revenues	<u>3,684,364</u>	<u>3,701,151</u>	<u>3,625,819</u>	<u>(75,332)</u>
<b>EXPENDITURES</b>				
General government:				
Administration	735,673	710,001	691,662	18,339
General government	199,158	228,252	229,395	(1,143)
Community services	5,499	6,112	5,158	954
Public safety:				
Police	891,862	896,439	859,462	36,977
Fire	470,553	459,103	435,131	23,972
Public works:				
Fleet	51,854	51,034	50,338	696
Culture and recreation:				
Parks	148,029	143,705	124,392	19,313
Total expenditures	<u>2,502,628</u>	<u>2,494,646</u>	<u>2,395,538</u>	<u>99,108</u>
Excess (deficiency) of revenues over (under) expenditures	1,181,736	1,206,505	1,230,281	23,776
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers	<u>(1,392,755)</u>	<u>(1,363,505)</u>	<u>(1,366,506)</u>	<u>(3,001)</u>
Net change in fund balances	(211,019)	(157,000)	(136,225)	20,775
Fund balances - beginning	735,899	735,899	1,127,491	391,592
Fund balances - ending	<u>\$ 524,880</u>	<u>578,899</u>	<u>991,266</u>	<u>412,367</u>

See accompanying notes to the basic financial statement.

**City of Choctaw, Oklahoma**  
**Notes to Required Supplemental Information**  
***For the Year Ended June 30, 2012***

**BUDGETARY INFORMATION**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) for all governmental funds. The enterprise fund adopts budgets on the non-GAAP basis wherein service fees, bond and note proceeds are recognized as revenue, principal payments on debt and capital expenditures are recognized as expenses, and depreciation expense is not budgeted. Annual appropriated budgets are not adopted for agency funds. Budgetary data for enterprise funds, internal service, and permanent funds are not presented in these financial statements.

Prior to July 1, the City Manager (not an elected official) submits a proposed operating budget for the fiscal year commencing July 1, to the Council Members (elected officials). Public hearings are held at regular or special meetings to obtain taxpayer input. Prior to July 1, the budget is legally enacted through passage of a budget resolution. The operating budget, for all budgeted funds, includes proposed expenditures and the means of financing. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, maintenance and operations, capital outlay, transfers and debt service. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. A more detailed budget is used for operating purposes. All budget revisions at the legal level are subject to final approval by the City Council. Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made during the year in accordance with the provisions of the Oklahoma Statutes. All annual appropriations lapse at year-end.

The City uses encumbrance accounting. Encumbrances are recorded when purchase orders are issued but generally are not considered expenditures until liabilities for payments are incurred. At year-end, open purchase orders are reviewed and payments are made on those where receipt of goods and services is eminent. The remaining purchase orders (and encumbrances) are cancelled and reissued during the following year. There are no outstanding encumbrances at year-end.

**OTHER SUPPLEMENTARY  
INFORMATION**

**City of Choctaw, Oklahoma**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
*June 30, 2012*

	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	\$ 194,510	39,673	47,783	234,726	5,957	72,782	166,628	29,653	40,129	831,841
Receivables, net	5,926	-	-	-	-	-	-	-	-	5,926
<b>TOTAL</b>	<u>200,436</u>	<u>39,673</u>	<u>47,783</u>	<u>234,726</u>	<u>5,957</u>	<u>72,782</u>	<u>166,628</u>	<u>29,653</u>	<u>40,129</u>	<u>837,767</u>
<b>LIABILITIES AND FUND BALANCES</b>										
Liabilities:										
Accounts payable	-	835	-	-	-	-	-	-	-	835
<b>Total Liabilities</b>	<u>-</u>	<u>835</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>835</u>
Fund balances:										
Reserved for:										
Capital improvements	-	-	-	-	-	5,045	166,628	29,653	40,129	241,455
Unreserved:										
Designated	200,436	38,838	47,783	234,726	5,957	67,737	-	-	-	595,477
<b>Total Fund Balances</b>	<u>200,436</u>	<u>38,838</u>	<u>47,783</u>	<u>234,726</u>	<u>5,957</u>	<u>72,782</u>	<u>166,628</u>	<u>29,653</u>	<u>40,129</u>	<u>836,932</u>
<b>TOTAL</b>	<u>\$ 200,436</u>	<u>39,673</u>	<u>47,783</u>	<u>234,726</u>	<u>5,957</u>	<u>72,782</u>	<u>166,628</u>	<u>29,653</u>	<u>40,129</u>	<u>837,767</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, 2012**

	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	\$ 100,666	-	-	-	-	-	-	-	-	100,666
Charge for services	-	5,055	4,213	-	-	25,888	60,356	32,336	-	127,848
Interest	-	-	-	-	-	99	-	-	176	275
Miscellaneous	1,358	7,327	9,259	-	8,600	3,752	-	-	-	30,296
Total revenues	<u>102,024</u>	<u>12,382</u>	<u>13,472</u>	<u>-</u>	<u>8,600</u>	<u>29,739</u>	<u>60,356</u>	<u>32,336</u>	<u>176</u>	<u>259,085</u>
<b>EXPENDITURES</b>										
Current:										
Public safety	-	-	17,571	29,824	-	-	32,483	-	-	79,878
Public works	395,460	-	-	-	66,423	-	50,671	-	-	512,554
Cultural and recreational	-	124,515	-	-	-	31,129	103,199	44,743	697	304,283
Capital outlay	-	-	-	-	-	-	152,122	-	-	152,122
Debt service	-	-	-	-	-	-	32,096	-	-	32,096
Total expenditures	<u>395,460</u>	<u>124,515</u>	<u>17,571</u>	<u>29,824</u>	<u>66,423</u>	<u>31,129</u>	<u>370,571</u>	<u>44,743</u>	<u>697</u>	<u>1,080,933</u>
Excess (deficiency) of revenues over expenditures	<u>(293,436)</u>	<u>(112,133)</u>	<u>(4,099)</u>	<u>(29,824)</u>	<u>(57,823)</u>	<u>(1,390)</u>	<u>(310,215)</u>	<u>(12,407)</u>	<u>(521)</u>	<u>(821,848)</u>
<b>OTHER FINANCING SOURCES (USES)</b>										
Transfers in	340,631	74,320	-	-	-	-	309,665	-	-	724,616
Transfers out	-	-	-	-	-	-	-	-	-	-
Total other financing sources and uses	<u>340,631</u>	<u>74,320</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>309,665</u>	<u>-</u>	<u>-</u>	<u>724,616</u>
Net change in fund balances	47,195	(37,813)	(4,099)	(29,824)	(57,823)	(1,390)	(550)	(12,407)	(521)	(97,232)
Fund balances-beginning	153,241	76,651	51,882	264,550	63,780	74,172	167,178	42,060	40,650	934,164
Fund balances-ending	<u>\$ 200,436</u>	<u>38,838</u>	<u>47,783</u>	<u>234,726</u>	<u>5,957</u>	<u>72,782</u>	<u>166,628</u>	<u>29,653</u>	<u>40,129</u>	<u>836,932</u>

See accompanying notes to the basic financial statement.

**DILLON & ASSOCIATES, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS  
1401 S. DOUGLAS BLVD., SUITE A  
MIDWEST CITY, OK 73130

ROBERT S. DILLON, CPA  
[bobdilloncpa@gmail.com](mailto:bobdilloncpa@gmail.com)

Phone: (405) 732-1800  
Fax : (405) 737-7446

**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, 2012, which collectively comprise the City of Choctaw's basic financial statements and have issued our report thereon dated December 14, 2012. 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'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'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 and correct 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 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 over financial reporting 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.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Choctaw'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 in a separate letter dated December 14, 2012.

This report is intended solely for the information and use of the City Council and management of the City of Choctaw, 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 14, 2012

CITY OF CHOCTAW, OKLAHOMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2012

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 EXPENDITURES
NONE			\$ -	-
Total Federal Assistance			-	-
<u>STATE PROGRAMS</u>				
<u>State of Oklahoma</u>				
Oklahoma Department of Agriculture				
Rural Fire Program		OP GT CHOCTAW FD ACOG	4,413	4,413
Total State of Oklahoma			4,413	4,413
Total Federal and State Assistance			\$ 4,413	4,413

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.