

CITY OF CHOCTAW, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

CONTENTS

	Page Number
BASIC FINANCIAL STATEMENTS:	
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-12
<i>Government-Wide Financial Statements:</i>	
Statement of Net Position	13
Statement of Activities	14-15
<i>Fund Financial Statements:</i>	
Balance Sheet - Governmental Funds	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Net Position - Proprietary Funds	19
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	20
Statement of Cash Flows - Proprietary Funds	21
Notes to Basic Financial Statements	22-47
REQUIRED SUPPLEMENTAL INFORMATION:	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	48
Notes to Required Supplemental Information	49
OTHER SUPPLEMENTAL INFORMATION:	
Combining Financial Statements Nonmajor Governmental Funds Combining Balance Sheet	50
Combining Statement of Revenues, Expenditures, and Changes in Fund Net Position	51
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	52-53
Schedule of Expenditures of Federal Awards	54
Notes to Schedule of Expenditures of Federal Awards	55
Schedule of Reportable Findings and Responses	56-57
Summary Schedule of Prior Audit Findings	58

**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

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

INDEPENDENT AUDITOR'S REPORT

City Council
City of Choctaw
Choctaw, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Choctaw, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Choctaw, Oklahoma, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Choctaw's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information as listed in the Table of Contents are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures., including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information section is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2013 on our consideration of the City of Choctaw's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Choctaw's internal control over financial reporting and compliance.

Dillon & Associates, P.C.

Midwest City, Oklahoma
December 3, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF CHOCTAW, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended June 30, 2013

As management of the City of Choctaw (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$12,260,998. Of this amount, \$1,627,982 may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's net position decreased by \$1,516,418 from the prior year restated amount.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,407,442, a decrease of \$817,548 in comparison with the prior year amount. Of this total amount, \$1,462,114 is *unassigned fund balance* for governmental funds.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$750,660, or approximately 19.5% of total General Fund expenditures and net transfers.
- During the current fiscal year, the City's total long-term obligations increased by \$6,311,587 (74%). The debt was increased by the issuance of Choctaw Utilities Authority Utility System and Sales Tax Notes, Series 2013A and 2013B in the amount of \$6,290,000 and increased by drawdowns on the Choctaw Utilities Authority Tax Increment Revenue Note, Series 2012 in the amount of \$3,917,476, reduced by principal payments of \$3,905,000, and a net increase in compensated absences payable of \$16,392.
- Sales and use taxes increased by \$124,137 or 4.5% over the prior fiscal year.
- The City implemented Governmental Accounting Standards Board Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*" (GASB #63) for the current fiscal year ended June 30, 2013. GASB No. 63 establishes financial reporting requirements and related disclosures for certain elements of a statement of financial position that were discussed in the GASB's 2007 Concepts Statement No. 4, "*Elements of Financial Statements.*" In Concepts Statement No. 4, the GASB defined a *deferred outflow of resources* as a consumption of net position by a government that is applicable to a future reporting period; a *deferred inflow of resources* as an acquisition of net position by a government that is applicable to a future reporting period; and *net position* as a residual of all other elements presented in a statement of financial position (the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources). Under GASB #63, amounts for items that GASB has designated to be deferred outflows of resources are to be presented in a statement of

financial position in a separate section following assets, while amounts for items that the GASB has designated to be deferred inflows of resources are to be presented in a separate section following liabilities. The residual of assets and deferred outflows of resources over liabilities and deferred inflows of resources is to be reported as net position rather than as net assets in a statement of financial position. Since the City had no deferred outflows or inflows of resources at June 30, 2013, the City's implementation of GASB #63 has no material effect on the presentation of its fiscal year 2012-2013 financial statements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City'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 position* presents information on all of the City's residual of assets and deferred outflows of resources over liabilities and deferred inflows of resources. Over time, increases or decreases in *net position* may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

The government-wide financial statements include not only the City itself, but also the legally separate Choctaw Utilities Authority as blended component unit. The Authority, although also legally separate, functions for all practical purposes as departments of the City, and therefore have been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 13-15 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, 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 can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

The City maintains thirteen 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, which is considered to be a major fund.

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 as listed in the table of contents.

Proprietary funds. The City maintains one type of proprietary fund. 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.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its risk management and insurance activities. These services have been allocated to governmental and business-type functions in the government-wide financial statements.

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 a major fund of the City.

The basic proprietary fund financial statements can be found as listed in the table of contents.

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 as listed in the table of contents.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's (a) variances in budget to actual revenues and expenditures for the General Fund. Required supplementary information can be found as listed in table of contents.

The combining statements referred to earlier in connection with non-major governmental funds is presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found as listed in the table of contents.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$12,260,998 at the close of the most recent fiscal year. The following table provides a summary of the City's net position at June 30, 2013 compared to June 30, 2012.

Table 1
Net Position
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 2,963	4,167	3,975	817	6,938	4,984
Capital assets	15,619	10,167	5,269	5,489	20,888	15,656
Total assets	<u>18,582</u>	<u>14,334</u>	<u>9,244</u>	<u>6,306</u>	<u>27,826</u>	<u>20,640</u>
Long-term debt outstanding	8,457	8,156	6,247	663	14,704	8,819
Other liabilities	636	168	225	32	861	200
Total liabilities	<u>9,093</u>	<u>8,324</u>	<u>6,472</u>	<u>695</u>	<u>15,565</u>	<u>9,019</u>
Net position:						
Net investment in capital assets	6,719	2,011	1,879	4,826	8,598	6,837
Restricted	2,036	1,999	-	95	2,036	2,094
Unrestricted	734	2,000	893	690	1,627	2,690
Total net position	\$ <u>9,489</u>	<u>6,010</u>	<u>2,772</u>	<u>5,611</u>	<u>12,261</u>	<u>11,621</u>

By far the largest portion of the City's Net Position (70.1%) 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.

An additional portion of the City's net position (16.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (13.3%) may be used to meet the government's ongoing obligations to citizens and creditors.

During the current fiscal year the City's net position decreased by \$1,516,418 during the current fiscal year. This decrease represents the overall excess of expenses, including depreciation of \$1,049,998 over revenues.

Governmental activities. Governmental activities increased the City's net position by \$1,410,500. A key element was a non-cash charge for depreciation on capital assets of \$654,923.

Business-type activities. Business-type activities decreased the City's net position by \$2,926,918. The increase in net position included a non-cash charge for depreciation on capital assets of \$395,075.

Table 2
Changes in Net Position
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program revenues						
Charges for services \$	1,238	418	2,008	1,927	3,246	2,345
Operating grants	9	4	-	-	9	4
Capital grants	-	-	-	-	-	-
General revenues						
Sales and use taxes	2,883	2,759	-	-	2,883	2,759
Franchise tax (fees)	436	447	-	-	436	447
Other taxes	605	438	-	-	605	438
Land sales, net	1,259	-	-	-	1,259	-
Investment income	66	2	-	-	66	2
Other	148	173	-	-	148	173
Total revenues	<u>6,644</u>	<u>4,241</u>	<u>2,008</u>	<u>1,927</u>	<u>8,652</u>	<u>6,168</u>

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Expenses:						
General government	2,075	1,878	39	-	2,114	1,878
Public safety	1,520	1,516	-	-	1,520	1,516
Public works	799	915	-	-	799	915
Cultural & recreation	297	488	-	-	297	488
Water	-	-	773	708	773	708
Wastewater	-	-	463	502	463	502
Sanitation	-	-	696	670	696	670
Stormwater	-	-	169	154	169	154
Debt issuance and defeasement costs	-	-	2,786	-	2,786	-
Interest on debt	513	431	38	34	551	465
Total expenses	<u>5,204</u>	<u>5,228</u>	<u>4,964</u>	<u>2,068</u>	<u>10,168</u>	<u>7,296</u>
Increase in net position before transfers	1,440	(987)	(2,956)	(141)	(1,516)	(1,128)
Transfers	(29)	-	29	-	-	-
Change in net position	<u>1,411</u>	<u>(987)</u>	<u>(2,927)</u>	<u>(141)</u>	<u>(1,516)</u>	<u>(1,128)</u>
Beginning net position	5,568	6,997	5,571	5,072	11,139	12,069
Contributed capital	2,510	-	128	680	2,638	680
Ending net position \$	<u>9,489</u>	<u>6,010</u>	<u>2,772</u>	<u>5,611</u>	<u>12,261</u>	<u>11,621</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, *unassigned 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 \$2,407,442, a decrease of \$817,548, in comparison with the prior year. Of this total amount, \$1,462,114 is *unassigned fund balance* for the governmental funds.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$750,660. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. *Unassigned fund balance* and *total fund balance* represents approximately 19.5% and 19.5% of total General Fund expenditures and net transfers, respectively.

During the current fiscal year, the fund balance of the City's General Fund decreased by \$88,649.

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

Unrestricted net position of the Choctaw Utilities Authority at the end of the year amounted to \$893,487. The total decrease in net position was \$2,926,918.

- Operating revenues increased by \$81,359 over the prior year due to increased utility revenues.
- Operating expenses increased by \$66,720, mainly due to a general increase utility operating expense.

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 \$3,755,097 were \$40,046 more than the estimated revenues in the budget of \$3,715,051. Actual expenditures of \$2,486,592 were \$6,534 less than the \$2,493,126 approved in budget appropriations. After a net transfer out of \$1,357,154 to other funds, the City decreased by \$88,649 its carry forward funds to cover the overall excess of expenditures over receipts. The amount of carryover funds budget for expenditure was \$902,617.

Capital Asset and Long-term Obligations

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounts to \$20,887,708 (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:

- Minor equipment purchases in various funds.
- Infrastructure improvements related to the Town Square project.

Table 3
Capital Assets
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land and construction	\$ 10,082	2,868	22	22	10,104	2,890
Buildings	4,043	4,142	-	-	4,043	4,142
Machinery and equipment	1,452	1,381	538	468	1,990	1,849
Vehicles	1,208	1,108	47	65	1,255	1,173
Infrastructure	46,021	47,391	16,106	15,998	62,127	63,389
Less: Accum. depreciation	(47,187)	(46,723)	(11,444)	(11,064)	(58,631)	(57,787)
Total capital assets, net	\$ 15,619	10,167	5,269	5,489	20,888	15,656

Additional information of the City’s capital assets can be found in Note 2.D. in the Notes to the Basic Financial Statements as listed in the table of contents.

Long-term debt. As of the end of the current fiscal year, the City had total debt outstanding of \$15,044,071. This represents debt secured solely by specified revenue sources (i.e., revenue notes and bonds) of \$8,900,000 and advalorem taxes including (general obligation bonds) of \$1,340,000 and (tax increment financing note - TIF) of \$4,884,771.

Table 4
Long-term Debt
(In Thousands)

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$ 1,340	1,610	-	-	1,340	1,610
Notes payable	2,610	6,035	-	-	2,610	6,035
Tax increment note (TIF)	4,885	967	-	-	4,885	967
Revenue bonds	-	-	6,290	725	6,290	725
Total long-term debt	\$ 8,835	8,612	6,290	725	15,125	9,337

The City’s total debt increased by \$10,207,476 during the current fiscal year. The key factors in this increase were the issuance of CUA Revenue Notes - Series 2013A and 2013B in the amount of \$6,290,000 and drawdowns against the TIF note in the amount of \$3,917,476.

Additional information on the City’s long-term debt can be found in Notes 2.G. in the Notes to the Basic Financial Statements as listed in the table of contents.

Economic Factors and Next Year’s Budgets and Rates

The City’s elected and appointed officials considered many factors when setting the fiscal-year 2013-2014 budget, tax rates, and fees that will be charged for the proprietary fund type activities. One of these factors is the economy. Slower growth of the national economy has affected the local economy. Unemployment is up, sales tax revenues, however, have shown steady growth for the last several years, and utility revenues were strong and have shown moderate growth.

These indicators were taken into account when adopting the general fund budget for 2013-2014.

- 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, 2013.
- As for the City’s proprietary fund activities, we expect moderate growth in the revenues and expenses over those received in 2013.

All of these factors were considered in preparing the City's budget for the 2013-2014 fiscal year.

Requests for Information

This financial report is designed to provide our citizens, funding agencies, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the City of Choctaw, P.O. Box 567, Choctaw, Oklahoma 73020.

BASIC FINANCIAL STATEMENTS

City of Choctaw, Oklahoma
Statement of Net Position
June 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Authority
ASSETS				
Current assets:				
Pooled cash and cash equivalents	\$ 2,177,463	644,782	2,822,245	86,295
Restricted cash and investments	709,034	3,000,037	3,709,071	-
Receivables (net of allowance for uncollectibles)	10,731	130,267	140,998	-
Internal balances	(200,000)	200,000	-	-
Receivables from other governments	265,828	-	265,828	-
Total current assets	2,963,056	3,975,086	6,938,142	86,295
Non-current assets:				
Capital assets:				
Land, improvements, and construction in progress	10,082,077	22,185	10,104,262	-
Other capital assets, net of depreciation	5,536,844	5,246,602	10,783,446	-
Total non-current assets	15,618,921	5,268,787	20,887,708	-
Total assets	18,581,977	9,243,873	27,825,850	86,295
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	25,656	-	25,656	-
Accrued interest payable	-	7,060	7,060	-
Deposits	-	152,199	152,199	-
Current portion of long-term debt	610,000	65,000	675,000	-
Total current liabilities	635,656	224,259	859,915	-
Non-current liabilities:				
Long-term debt and other liabilities	8,457,597	6,247,340	14,704,937	-
Total non-current liabilities	8,457,597	6,247,340	14,704,937	-
Total liabilities	9,093,253	6,471,599	15,564,852	-
NET POSITION				
Net investment in capital assets	6,719,446	1,878,787	8,598,233	-
Restricted for:				
Debt service	347,365	-	347,365	-
Capital improvements	446,006	-	446,006	-
Risk management	527,373	-	527,373	-
Other purposes	714,039	-	714,039	86,295
Unrestricted (deficit)	734,495	893,487	1,627,982	-
Total net position	\$ 9,488,724	2,772,274	12,260,998	86,295

See accompanying notes to financial statements.

City of Choctaw, Oklahoma
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Primary government:					
Governmental activities:					
General government	\$ 2,075,038	975,496	-	-	(1,099,542)
Public safety	1,519,726	235,966	9,307	-	(1,274,453)
Public works	798,773	-	-	-	(798,773)
Culture and recreation	297,145	26,530	-	-	(270,615)
Interest on long-term debt	513,319	-	-	-	(513,319)
Total government activities	<u>5,204,001</u>	<u>1,237,992</u>	<u>9,307</u>	<u>-</u>	<u>(3,956,702)</u>
Business-type activities:					
Water	772,523	696,560	-	-	(75,963)
Wastewater	463,413	440,128	-	-	(23,285)
Sanitation	696,156	711,459	-	-	15,303
Stormwater	168,418	159,747	-	-	(8,671)
Debt issuance costs	176,000	-	-	-	(176,000)
Debt defeasement costs	2,610,219	-	-	-	(2,610,219)
Interest on long-term debt	38,476	-	-	-	(38,476)
Total business-type activities	<u>4,925,205</u>	<u>2,007,894</u>	<u>-</u>	<u>-</u>	<u>(2,917,311)</u>
Total primary government	<u>10,129,206</u>	<u>3,245,886</u>	<u>9,307</u>	<u>-</u>	<u>(6,874,013)</u>
Component Unit:					
Economic Development	\$ <u>7,522</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,522)</u>

City of Choctaw, Oklahoma
Statement of Activities
For the Year Ended June 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Authority
Change in Net Position:				
Net (expense) revenue	\$ (3,956,702)	(2,917,311)	(6,874,013)	(7,522)
General revenues:				
Taxes:				
Sales taxes	2,690,141	-	2,690,141	-
Use taxes	193,031	-	193,031	-
Franchise taxes (fees)	435,665	-	435,665	-
Other taxes	604,682	-	604,682	-
Proceeds from land sales	1,258,511	-	1,258,511	-
Unrestricted investment income	65,694	10	65,704	326
Miscellaneous	148,344	(38,483)	109,861	-
Transfers	(28,866)	28,866	-	-
Total general revenues and transfers	5,367,202	(9,607)	5,357,595	326
Change in Net Position	1,410,500	(2,926,918)	(1,516,418)	(7,196)
Net Position - beginning	5,568,224	5,571,192	11,139,416	93,491
Contributed capital - fixed assets	2,510,000	128,000	2,638,000	-
Net Position - ending	\$ 9,488,724	2,772,274	12,260,998	86,295

See accompanying notes to the basic financial statement.

City of Choctaw, Oklahoma
Governmental Funds
Balance Sheet
June 30, 2013

	General Fund	Debt Service Fund	Dedicated Sales Tax Fund	Town Square Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 497,833	70,045	-	127,650	754,118	1,449,646
Cash - Police fines account	12,655	-	-	-	-	12,655
Restricted cash and cash equivalents	151,957	-	115,637	709,033	-	976,627
Receivables, net	265,828	-	-	-	5,927	271,755
Due from other funds	-	-	741,489	-	400,000	1,141,489
Total assets	<u>928,273</u>	<u>70,045</u>	<u>857,126</u>	<u>836,683</u>	<u>1,160,045</u>	<u>3,852,172</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	15,635	-	-	-	2,585	18,220
Police bonds outstanding	10,021	-	-	-	-	10,021
Due to other funds	-	-	-	1,416,489	-	1,416,489
Total liabilities (Note 2)	<u>25,656</u>	<u>-</u>	<u>-</u>	<u>1,416,489</u>	<u>2,585</u>	<u>1,444,730</u>
Fund balances:						
Reserved for:						
Capital improvements	-	-	857,114	(1,288,836)	446,006	14,284
Debt service	-	70,045	12	709,030	-	779,087
Accrued leave	151,957	-	-	-	-	151,957
Unreserved, reported in:						
General fund	750,660	-	-	-	-	750,660
Special revenue funds	-	-	-	-	711,454	711,454
Total fund balances	<u>902,617</u>	<u>70,045</u>	<u>857,126</u>	<u>(579,806)</u>	<u>1,157,460</u>	<u>2,407,442</u>
Total liabilities and fund balances	<u>\$ 928,273</u>	<u>70,045</u>	<u>857,126</u>	<u>836,683</u>	<u>1,160,045</u>	

Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not required in the governmental fund statements.	15,618,921
Internal service funds are used by management to charge the costs of certain activities to individual funds. Assets and liabilities of the internal service funds are allocated in the statement of net assets.	527,373
Long-term liabilities, including bonds and notes payable are not due and payable in the current period and therefore are not reported in the funds.	(8,896,890)
Accrued compensated absences payable is not reported on the governmental fund statements.	(168,122)
Net assets of governmental activities	<u>\$ 9,488,724</u>

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, 2013

	General Fund	Debt Service Fund	Dedicated Sales Tax Fund	Town Square Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 3,318,837	258,200	164,288	23,555	-	3,764,880
Intergovernmental	88,706	-	-	-	107,140	195,846
Licenses and permits	66,432	-	-	-	-	66,432
Charge for services	-	-	-	-	72,106	72,106
Fines and forfeitures	231,646	-	-	-	-	231,646
Interest	599	162	197	64,385	179	65,522
Proceeds from debt issuance	-	-	-	3,917,476	-	3,917,476
Proceeds from land sales	-	-	-	1,258,511	-	1,258,511
Miscellaneous	48,877	-	89	599	147,061	196,626
Total revenues	<u>3,755,097</u>	<u>258,362</u>	<u>164,574</u>	<u>5,264,526</u>	<u>326,486</u>	<u>9,769,045</u>
EXPENDITURES						
Current:						
General government	974,216	-	150,118	-	-	1,124,334
Public safety	1,355,989	-	-	-	22,931	1,378,920
Public works	50,989	-	32,565	-	381,172	464,726
Culture and recreation	105,398	-	-	-	126,558	231,956
Capital outlay	-	-	-	3,917,475	199,597	4,117,072
Debt issuance costs	-	-	-	2,000,001	-	2,000,001
Debt service	-	263,000	893,663	78,328	5,727	1,240,718
Total expenditures	<u>2,486,592</u>	<u>263,000</u>	<u>1,076,346</u>	<u>5,995,804</u>	<u>735,985</u>	<u>10,557,727</u>
Excess (deficiency) of revenues over expenditures	<u>1,268,505</u>	<u>(4,638)</u>	<u>(911,772)</u>	<u>(731,278)</u>	<u>(409,499)</u>	<u>(788,682)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	627,127	74,813	730,027	1,431,967
Transfers out	(1,357,154)	-	(103,679)	-	-	(1,460,833)
Total other financing sources and uses	<u>(1,357,154)</u>	<u>-</u>	<u>523,448</u>	<u>74,813</u>	<u>730,027</u>	<u>(28,866)</u>
Net change in fund balances	(88,649)	(4,638)	(388,324)	(656,465)	320,528	(817,548)
Fund balances-beginning	991,266	74,683	1,245,450	76,659	836,932	3,224,990
Fund balances-ending	<u>\$ 902,617</u>	<u>70,045</u>	<u>857,126</u>	<u>(579,806)</u>	<u>1,157,460</u>	<u>2,407,442</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, 2013

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

Net change in fund balances - total governmental funds	\$	(817,548)
--	----	-----------

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 outlays exceeded depreciation in the current period.		5,361,996
---	--	-----------

Debt service principal retirement expensed in the fund level financial statements but treated as a reduction in outstanding debt in government-wide financial statements.		754,298
---	--	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.		2,585
---	--	-------

Increase in liability for incurred claims and compensated absences expensed in government-wide financial statements.		(25,797)
--	--	----------

The issuance of long-term debt provides current financial resources to governmental funds.		(3,917,476)
--	--	-------------

Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.		<u>52,442</u>
---	--	---------------

Change in net assets of governmental activities	\$	<u><u>1,410,500</u></u>
---	----	-------------------------

City of Choctaw, Oklahoma
Proprietary Funds
Statement of Net Position
June 30, 2013

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Choctaw</u> <u>Utilities</u> <u>Authority</u>	<u>Debt</u> <u>Service</u>	<u>Total</u> <u>Enterprise</u> <u>Funds</u>	<u>Internal</u> <u>Service</u> <u>Fund</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 492,583	-	492,583	447,569
Cash - Meter deposits	152,199	-	152,199	-
Accounts receivable, net of allowance for uncollectibles of \$ 73,783	130,267	-	130,267	4,804
Due from other funds	200,000	-	200,000	75,000
Restricted assets - cash and investments	-	3,000,037	3,000,037	-
Total current assets	<u>975,049</u>	<u>3,000,037</u>	<u>3,975,086</u>	<u>527,373</u>
Non-current assets:				
Capital assets, net of accumulated depreciation	5,268,787	-	5,268,787	-
Total non-current assets	<u>5,268,787</u>	<u>-</u>	<u>5,268,787</u>	<u>-</u>
Total assets	<u><u>6,243,836</u></u>	<u><u>3,000,037</u></u>	<u><u>9,243,873</u></u>	<u><u>527,373</u></u>
LIABILITIES				
Current liabilities:				
Accrued interest payable	-	7,060	7,060	-
Utility customer deposits	152,199	-	152,199	-
Current portion of long-term obligations	-	65,000	65,000	-
Total current liabilities	<u>152,199</u>	<u>72,060</u>	<u>224,259</u>	<u>-</u>
Non-current liabilities:				
Revenue bonds payable	-	6,225,000	6,225,000	-
Accrued compensated absences	22,340	-	22,340	-
Total non-current liabilities	<u>22,340</u>	<u>6,225,000</u>	<u>6,247,340</u>	<u>-</u>
Total liabilities	<u>174,539</u>	<u>6,297,060</u>	<u>6,471,599</u>	<u>-</u>
Net Position				
Net investment in capital assets	5,268,787	(3,390,000)	1,878,787	-
Restricted:				
Capital projects	-	-	-	-
Debt service	-	-	-	-
Payment of claims	-	-	-	527,373
Unrestricted	<u>800,510</u>	<u>92,977</u>	<u>893,487</u>	<u>-</u>
Total Net Position	<u><u>\$ 6,069,297</u></u>	<u><u>(3,297,023)</u></u>	<u><u>2,772,274</u></u>	<u><u>527,373</u></u>

See accompanying notes to the basic financial statement.

City of Choctaw, Oklahoma
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds			Governmental
	Choctaw		Total	Internal
	Utilities Authority	Debt Service	Enterprise Funds	Service Fund
<u>OPERATING REVENUES:</u>				
Charges for services -				
Water	\$ 695,191	-	695,191	-
Wastewater	440,128	-	440,128	-
Sanitation	711,459	-	711,459	-
Stormwater and drainage fees	159,747	-	159,747	-
Other	1,369	-	1,369	867,808
Total operating revenues	<u>2,007,894</u>	<u>-</u>	<u>2,007,894</u>	<u>867,808</u>
<u>OPERATING EXPENSES:</u>				
Water	567,634	-	567,634	-
Wastewater	86,335	-	86,335	-
Wastewater plant	186,892	-	186,892	-
Sanitation	696,156	-	696,156	-
Stormwater	168,418	-	168,418	-
Insurance claims and expense	-	-	-	815,538
Depreciation and amortization	395,075	-	395,075	-
Total operating expenses	<u>2,100,510</u>	<u>-</u>	<u>2,100,510</u>	<u>815,538</u>
Operating income (loss)	<u>(92,616)</u>	<u>-</u>	<u>(92,616)</u>	<u>52,270</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>				
Miscellaneous revenues	(38,483)	-	(38,483)	-
Interest income	-	10	10	172
Interest expense and fiscal charges	-	(38,476)	(38,476)	-
Debt defeasement - 2010 refunding	-	(2,553,939)	(2,553,939)	-
Debt defeasement - 2005 refunding	-	(56,280)	(56,280)	-
Debt issuance costs	-	(176,000)	(176,000)	-
Total nonoperating revenues (expenses)	<u>(38,483)</u>	<u>(2,824,685)</u>	<u>(2,863,168)</u>	<u>172</u>
<u>OPERATING TRANSFERS</u>				
Transfers in	-	107,992	107,992	-
Transfers out	(79,126)	-	(79,126)	-
Total operating transfers	<u>(79,126)</u>	<u>107,992</u>	<u>28,866</u>	<u>-</u>
Change in Net Position	<u>(210,225)</u>	<u>(2,716,693)</u>	<u>(2,926,918)</u>	<u>52,442</u>
Net Position - beginning	6,151,522	(580,330)	5,571,192	474,931
Contributed capital - fixed assets	128,000	-	128,000	-
Net Position - ending	<u>\$ 6,069,297</u>	<u>(3,297,023)</u>	<u>2,772,274</u>	<u>527,373</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, 2013

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Choctaw</u> <u>Utilities</u> <u>Authority</u>	<u>Debt</u> <u>Service</u>	<u>Total</u> <u>Enterprise</u> <u>Funds</u>	<u>Internal</u> <u>Service</u> <u>Fund</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Receipts from customers	\$ 2,007,128	7,060	2,014,188	863,004
Payments to suppliers	(1,357,224)	-	(1,357,224)	(815,538)
Payments to employees	(356,246)	-	(356,246)	-
Net cash provided (used) by operating activities	<u>293,658</u>	<u>7,060</u>	<u>300,718</u>	<u>47,466</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>				
Miscellaneous revenues	(38,483)	-	(38,483)	-
Operating transfers in (out)	(79,126)	107,992	28,866	-
Net cash provided (used) by noncapital financing activities	<u>(117,609)</u>	<u>107,992</u>	<u>(9,617)</u>	<u>-</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>				
Proceeds from long-term debt issuance	-	3,492,606	3,492,606	-
Principal paid on long-term debt	-	(675,000)	(675,000)	-
Interest expense and fiscal charges	-	(27,302)	(27,302)	-
Decrease (increase) in due to (from) other funds	(200,000)	-	(200,000)	(75,000)
Decrease (increase) in restricted assets	-	(2,905,366)	(2,905,366)	-
(Acquisition) disposition of capital assets	(47,126)	-	(47,126)	-
Net cash provided (used) by capital and related financing activities	<u>(247,126)</u>	<u>(115,062)</u>	<u>(362,188)</u>	<u>(75,000)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Interest received	-	10	10	172
Net cash provided (used) by investing activities	<u>-</u>	<u>10</u>	<u>10</u>	<u>172</u>
Net increase (decrease) in cash and cash equivalents	(71,077)	-	(71,077)	(27,362)
Cash and cash equivalents, beginning of the year	563,660	-	563,660	474,931
Cash and cash equivalents, end of the year	<u>\$ 492,583</u>	<u>-</u>	<u>492,583</u>	<u>447,569</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>				
Operating income (loss)	(92,616)	-	(92,616)	52,270
Adjustments to reconcile operating income to net cash provided by operating activities:				
Cash flows reported in other categories:				
Depreciation and amortization expense	395,075	-	395,075	-
Change in assets and liabilities:				
Receivable, net	604	7,060	7,664	(4,804)
Accrued expenses	(9,405)	-	(9,405)	-
Total adjustments	<u>386,274</u>	<u>7,060</u>	<u>393,334</u>	<u>(4,804)</u>
Net cash provided by (used in) operating activities	<u>\$ 293,658</u>	<u>7,060</u>	<u>300,718</u>	<u>47,466</u>

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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the City of Choctaw, Oklahoma (the City) conform to accounting principles generally accepted in the United States of America for state and local governments. General accepted accounting principles for municipalities are defined as those principles promulgated by the Governmental Accounting Standards Board (“GASB”). Business-type activities and enterprise funds apply Financial Accounting Standards Board (“FASB”) and Accounting Principles Board (“APB”) opinions issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The following represents the more significant accounting and reporting policies of the City:

Reporting Entity - The City is a municipal corporation organized as a Town on May 12, 1893. The City is governed by an elected mayor and six-member council. As required by accounting principles generally accepted in the United States of America (primarily Governmental Accounting Standards Board Statement No. 14, *Reporting Entity*), these financial statements present the government and its component units, entities for which the City is considered to be financial accountable. Blended component units, although legally separate entities, are, in substance, part of the City’s operations and therefore data from these units are combined with the data of the City. Each blended component unit has a June 30 year end.

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.

Basis of Presentation - The City follows Governmental Accounting Standards Board (“GASB”) Statement No. 34 “Basic Financial Statements and Management’s Discussion and Analysis - for States and Local Governments” and related pronouncements in the preparation of its financial statements. Additional information regarding the basis of accounting and the differences in presentation are contained in Management’s Discussion and Analysis, which preceded the financial statements.

Government-wide and Fund Financial Statements - The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of Interfund activity has been removed from these financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for services.

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation - The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Sales taxes, excise taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Debt Service Sinking Fund - accounts for the accumulation of financial resources for the payment of principal and interest on the general long-term debt of the City, other than debt service payments made by enterprise funds. Ad Valorem taxes and interest earned on investments of the Debt Service Fund are used for the payment of principal, interest and commissions to fiscal agents on the City's general obligation bonds.

Dedicated Sales Tax Fund - accounts for designated revenues, the purchase and construction of capital projects.

Town Square Fund - accounts for designated revenues, the purchase and construction of designated capital projects.

The following are the City's major proprietary funds:

Choctaw Utilities Authority (CUA) - accounts for the revenues from operations of water, sanitary sewer, solid waste systems.

Risk Management Internal Service Fund - accounts for unemployment insurance, worker's compensation liability insurance and other risk management functions provided to various funds of the City.

The following are the City's agency funds:

Municipal Court Fund - accounts for municipal court bonds related intergovernmental payments.

Meter Deposit Fund - accounts for utility customer deposits.

The following are the City's non-major governmental funds:

Special Revenue Funds - accounts for the proceeds of government grants or specific revenue sources (other than grants applicable to enterprise fund activities, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

- Street & Alley Fund
- Parks and Tourism Funds
- Public Safety Fund
- Emergency Management Fund
- Industrial Park Fund

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cemetery Perpetual Care Fund - accounts for and reports resources that are restricted, committed, or assigned to expenditure for the maintenance and care of the cemetery.

Capital Project Funds - accounts for and report financial resources that are restricted, committed, or assigned to expenditure for the purchase, construction and repair of capital assets.

- Capital Projects Fund
- Community Development Fund
- Library Construction Fund

As a general rule the effect of Interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are payments-in-lieu of taxes and other charges between governments risk management internal service fund. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

Accounting Policies - The City's significant accounting policies related to the following financial statement categories are summarized below:

Assets, Liabilities, and Fund Equity

- a. *Cash and Cash Equivalent*s - The City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- b. *Pooled Cash and Investments* - The City Charter requires all cash belonging to the City to be placed in the custody of the Financial Services Department of the City. A “Pooled Cash” concept is used in maintaining the cash and investment accounts in the accounting records. Under this method, all cash is pooled for investment purposes and each fund has an equity in the pooled amounts. Investments are allocated to the individual participating funds based upon a percentage determined by the Financial Services Department of the City. An interfund receivable/payable is recognized if the allocation of investments to a particular fund exceeds the fund’s pooled cash amount before the allocation of the pooled investments.

Purchases and maturities of the pooled investments, as reported in the fund’s statement of cash flow, are allocated to the participating proprietary funds based on their portion of total pooled investments.

- c. *Investments* - Investments are stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The City considers quoted market price at June 30, 2013, to be the fair value of its investments.

Oklahoma Statutes authorize the City to invest in obligations of the United States government, its agencies and instrumentalities; collateralized or insured certificates of deposit and other evidences of deposit at banks, savings banks, savings and loan associations and credit unions located in this state, or fully insured certificates of deposit at banks, savings bank, savings and loan associations and credit unions located out of state; negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings bank, a savings and loan association or a state-licensed branch of a foreign bank; prime banker’s acceptances which are eligible for purchases by the Federal Reserve System and which do not exceed 270 days’ maturity; prime commercial paper which shall not have a maturity that exceeds 180 days nor represent more than 10% of the outstanding paper of an issuing corporation; repurchase agreements that have underlying collateral consisting of those items specified above; and money market funds regulated by the Securities and Exchange Commission and which investments consist of those items noted above.

- d. *Receivables and payables* - In the government-wide financial statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

In the governmental fund financial statements, receivables are recorded when they are both measurable and available. Proprietary fund receivables consist of all revenues earned at year-end and not yet received.

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- e. *Interfund Receivable and Payables* - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to / due from other funds” (i.e., the current portion of interfund loans) or “advances to / from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to / from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”
- f. *Restricted Assets* - Restricted assets include cash and investments of both governmental activities and business-type activities that are legally restricted as to their use. The restricted assets are primarily related to debt trustee accounts and guaranty deposits.
- g. *Capital Assets* - Capital assets, which include property, plant and equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with initial, individual cost of more than \$2,500 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, the majority of which generally consists of donated land and infrastructure which is recorded in the governmental funds and donated water and sewer distribution systems which are recorded in the proprietary funds, are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment is depreciated using the straight line method over the following estimated useful lives:

Buildings	40 - 65 years
Infrastructure	25 - 50 years
Improvements other than buildings & infrastructure	10 - 20 years
Machinery and equipment	3 - 20 years
Vehicles	3 - 7 years

- h. *Inventory* - The City records parts and fuel inventory within the General Fund. Parts inventory is recorded using actual cost. Fuel inventory is recorded using average cost.

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- i. *Long-term Debt* - In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt is reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, issuance costs and losses on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred losses on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issues is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt services expenditures.

- j. *Claims and Judgments Payable* - Under state law, judgments against the City can be paid over three years or can be paid immediately. The General Fund pays all claims and judgments. A liability has been recorded within the government-wide, proprietary and fiduciary fund financial statements for claims and judgments payable. A liability for these amounts is reported in governmental funds only if they will be paid from current financial resources.
- k. *Compensated Absences* - Under the terms of union contracts and City personnel policies, City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for vacation leave accumulated and vested accumulated sick leave. Vesting of sick leave by employees and maximum number of hours that can be accumulated for vacation and sick leave are dependent upon an employees' years of service. Upon retirement, one-half of accumulated sick leave is converted to vacation time, subject to the above limitation for maximum compensation for unused compensated absences.
- l. *Fund Equity* - In the government-wide financial statements, equity is classified as net position and displayed in three components:
1. *Net investment in capital assets* - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings attributable to those assets.
 2. *Restricted net position* - Consists of net position with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation. The most significant restriction as of June 30, 2013 related to three ordinances benefiting the City's wastewater system which provide funds that are being held to complete capital projects.

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. *Unrestricted net position* - All other assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted net position are available for use, generally it is the City’s policy to use restricted resources first. For projects funded with tax-exempt debt proceeds and other sources, the debt proceeds are used first.

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

- a) *Nonspendable* - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements.
- b) *Restricted* - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- c) *Committed* - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City through formal action of the highest level of decision making authority. To commit these funds, formal action is required by the City Council either by resolution or ordinance that identifies the specific circumstances under which the resources may be expended.
- d) *Assigned* - Includes fund balance amount that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. Intent can be stipulated by the governing body, another body (such as Finance Committee), or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance of the classification for all governmental funds with positive balances.
- e) *Unassigned* - Includes the residual balance of the General Fund that has not been assigned to other funds and that has not be restricted, committed, or assigned to specific purposes with the General Fund.

Revenues, Expenditures and Expenses

- a. *Property Tax Revenue* - Property taxes attach an enforceable lien on property as of January 1. Taxes are levied annually on November 1 and are due one-half by December 31 and one-half by March 31. The Tax Assessor’s office bills and collects the property taxes and remits to the City its portion. Property taxes not paid prior to April are considered delinquent. Such delinquent tax payments have not historically been material. Delinquent tax payments are received throughout the year and are recognized as revenue in the year received, except those received within 60 days of year end, which are recognized as revenues as of June 30, 2013 in both the government-wide and fund financial statements.

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- b. *Sales Taxes* - Sales taxes are collected by vendors and required to be remitted to the State of Oklahoma by the 20th of the month following collection. The tax is then paid to the City by the 10th of the next month. A two month lag exists between collection by the vendor and payment to the City by the State. Revenue received in July and August from sales made in May and June, respectively, is available for prior year expenses and is accrued in both the government-wide and fund financial statements.
- c. *Charges for Services* - Charges for service consist primarily of charges made by the General Fund for services such as motor pool usage, printing, accounting, data processing, facilities usage and other benefits provided to the other funds of the City.
- d. *Intergovernmental Revenues/Capital Grants Earned* - Revenues from Federal and State operating grants are recognized when expenditures are made. Similarly, capital grants are considered earned when the expenditures are made. The earned portion of capital grants in Proprietary Funds is treated as a capital contribution within the statement of revenues, expenses and changes in fund net position.
- e. *Investment Earnings* - Investment earnings on pooled cash and investments are allocated on a pro-rata basis to the City's funds based on the percentage of each fund's average month-end pooled cash balance.

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

Reclassifications - Certain amounts in prior-year financial statements have been reclassified to conform with the current-year presentation.

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
June 30, 2013

NOTE 2 - DETAILED NOTES ON ALL 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 position/fund balances, revenues and expenditures/expenses.

A. - CASH AND INVESTMENTS

A summary of cash and investments shown in the statement of Net Position is as follows:

Cash and equivalents	\$ 2,822,245
Investments	<u>-</u>
Total	<u>\$ 2,822,245</u>

The local government had the following deposits and investments at June 30, 2013:

	Credit rating	Fair value	Maturities in Years		
			On demand	Less than 1	1-5
Demand deposits and cash on hand	(1)	\$ 2,070,355	2,070,355	-	-
Money market mutual funds	AAA	751,890	751,890	-	-
Time deposits	(1)	-	-	-	-
Total		<u>\$ 2,822,245</u>	<u>2,822,245</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.

Custodial Credit Risk

At June 30, 2013, the City held deposits of approximately \$2,871,121 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.

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
June 30, 2013

NOTE 2 - DETAILED NOTES ON ALL FUNDS - Continued

A. - CASH AND INVESTMENTS - Continued

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 \$751,890.

B. - RECEIVABLES AND UNCOLLECTIBLE ACCOUNTS

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Choctaw Utilities <u>Authority</u>	<u>Total</u>
Receivables:				
Taxes	\$ -	5,926	-	5,926
Accounts	-	-	204,050	204,050
Due from other governments	265,828	-	-	265,828
Gross receivables	<u>265,828</u>	<u>5,926</u>	<u>204,050</u>	<u>475,804</u>
Less: Allowance for uncollectibles	-	-	73,783	73,783
Net total receivables	<u>\$ 265,828</u>	<u>5,926</u>	<u>130,267</u>	<u>402,021</u>

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
June 30, 2013

NOTE 2 - DETAILED NOTES ON ALL FUNDS - Continued

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:	
Project account	\$ 3
Debt service	709,030
Sales Tax Revenue Bonds, Series 2007A:	
Debt service	1
Sales Tax Revenue Bonds, Series 2013A:	
Debt service	37
Sales Tax Revenue Bonds, Series 2013B:	
Project account	2,900,000
Debt service	<u>100,000</u>
Total restricted assets	<u>\$ 3,709,071</u>

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
June 30, 2013

NOTE 2 - DETAILED NOTES ON ALL FUNDS - Continued

D. - CAPITAL ASSETS

Capital asset balances and activities for the year ended June 30, 2013, were as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>
<i>Governmental activities</i>				
Capital assets not being depreciated :				
Land	\$ 2,868,369	-	-	2,868,369
Construction in progress	1,369,450	5,844,258	-	7,213,708
Total capital assets not being depreciated	<u>4,237,819</u>	<u>5,844,258</u>	<u>-</u>	<u>10,082,077</u>
Capital assets being depreciated :				
Buildings and improvements	4,142,000	4,414	(103,000)	4,043,414
Machinery and equipment	1,381,364	170,301	(99,955)	1,451,710
Vehicles	1,108,029	166,914	(67,199)	1,207,744
Infrastructure	46,020,963	-	-	46,020,963
Total capital assets being depreciated	<u>52,652,356</u>	<u>341,629</u>	<u>(270,154)</u>	<u>52,723,831</u>
Less accumulated depreciation for :				
Buildings and improvements	(1,511,764)	(161,038)	41,486	(1,631,316)
Machinery and equipment	(911,286)	(114,064)	91,044	(934,306)
Vehicles	(841,104)	(66,659)	58,856	(848,907)
Infrastructure	(43,459,296)	(313,162)	-	(43,772,458)
Total accumulated depreciation	<u>(46,723,450)</u>	<u>(654,923)</u>	<u>191,386</u>	<u>(47,186,987)</u>
Total capital assets being depreciated, net	<u>5,928,906</u>	<u>(313,294)</u>	<u>(78,768)</u>	<u>5,536,844</u>
Governmental activities capital assets, net	<u>\$ 10,166,725</u>	<u>5,530,964</u>	<u>(78,768)</u>	<u>15,618,921</u>
<i>Business-type activities</i>				
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	467,652	70,463	-	538,115
Vehicles	65,175	35,225	(53,276)	47,124
Infrastructure	15,997,982	107,814	-	16,105,796
Total capital assets being depreciated	<u>16,530,809</u>	<u>213,502</u>	<u>(53,276)</u>	<u>16,691,035</u>
Less accumulated depreciation for :				
Buildings and improvements	-	-	-	-
Machinery and equipment	(282,741)	(33,595)	-	(316,336)
Vehicles	(38,074)	(5,584)	14,900	(28,758)
Infrastructure	(10,743,443)	(355,896)	-	(11,099,339)
Total accumulated depreciation	<u>(11,064,258)</u>	<u>(395,075)</u>	<u>14,900</u>	<u>(11,444,433)</u>
Total capital assets being depreciated, net	<u>5,466,551</u>	<u>(181,573)</u>	<u>(38,376)</u>	<u>5,246,602</u>
Business-type activities capital assets, net	<u>\$ 5,488,736</u>	<u>(181,573)</u>	<u>(38,376)</u>	<u>5,268,787</u>

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
June 30, 2013

NOTE 2 - DETAILED NOTES ON ALL FUNDS - Continued

D. - CAPITAL ASSETS - Continued

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 87,983
Public safety	167,704
Public works	334,047
Cultural and recreation	65,189
Total depreciation expense - governmental activities	<u>\$ 654,923</u>
Business-type activities:	
Water	\$ 204,889
Sewer	190,186
Total depreciation expense - business-type activities	<u>\$ 395,075</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, 2013, cash and investments included \$152,199 available for refund of customer deposits, while the liability to customers was \$152,199.

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, 2013, \$10,021 was being held that was subject to refund.

F. CAPITAL LEASES

The City has entered into a lease agreement as lessee for financing the acquisition of equipment. This lease agreement qualifies as capital leases for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. The capital lease obligations are as follows:

Governmental activities:

Lease purchase agreement for the purchase of various vehicles for the Police Department dated August 3, 2012, payable in monthly installments of \$2,597, including interest at 2.30%, through July 25, 2015.	\$ 63,302
Total governmental activities capital lease obligations	<u>\$ 63,302</u>

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
June 30, 2013

NOTE 2 - DETAILED NOTES ON ALL FUNDS - Continued

F - CAPITAL LEASES - Continued

The assets acquired through capital leases are as follows:

Various police vehicles	\$ 90,200
Less: Accumulated depreciation	<u>11,812</u>
Net capital asset cost	<u>\$ 78,388</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
2014	\$ 31,159
2015	31,159
2016	<u>2,597</u>
Total required payments	64,915
Less: Interest expense	<u>1,613</u>
Total principal payments	<u>\$ 63,302</u>

G. LONG-TERM DEBT

Long-term liabilities of the City of Choctaw as of June 30, 2013, 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%.

\$ 190,000

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
June 30, 2013

NOTE 2 - DETAILED NOTES ON ALL FUNDS - Continued

G. LONG-TERM DEBT - Continued

Long-term liabilities of the City of Choctaw as of June 30, 2013, 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%.	1,070,000
Net general obligation bonds	1,340,000
Revenue notes:	
\$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.	2,610,000
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.	4,884,771
Total governmental activities	\$ 8,834,771

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
June 30, 2013

NOTE 2 - DETAILED NOTES ON ALL FUNDS - Continued

G. LONG-TERM DEBT - Continued

Business-type activities:

Revenue bonds:

\$3,185,000 Choctaw Utilities Authority Utility System and Sales Tax Revenue Note, Refunding Series 2013A, dated June 1, 2013. Due in annual principal installments of \$15,000 to \$200,000 through September 1, 2022, with interest at 2.20%, secured by a lien against gross utility revenues and a sales tax pledge.

\$ 3,185,000

\$3,105,000 Choctaw Utilities Authority Utility System and Sales Tax Revenue Note, Series 2013B, dated June 1, 2013. Due in semi-annual principal installments beginning September 1, 2017 of \$10,000 to \$200,000 through March 1, 2031 interest at a fixed rate of 3.20% until March 1, 2028, converting to variable rate of LIBOR plus 2.50%, secured by a lien against gross utility revenues and a sales tax pledge.

3,105,000

Total business-type activities

\$ 6,290,000

Long-term liabilities transactions for the year ended June 30, 2013, 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>
Governmental activities					
General obligation bonds:					
Series 2000	\$ 270,000	-	80,000	190,000	80,000
Series 2009 Funding Bonds	1,165,000	-	95,000	1,070,000	95,000
Sales Tax Revenue Notes-2006	435,000	-	435,000	-	-
Sales Tax Revenue Notes-2007	2,720,000	-	110,000	2,610,000	120,000
Sales Tax Revenue Notes-2010	2,510,000	-	2,510,000	-	-
Tax Increment Note (TIF)-2012	967,295	3,917,476	-	4,884,771	315,000
Total governmental activities	<u>8,067,295</u>	<u>3,917,476</u>	<u>3,230,000</u>	<u>8,754,771</u>	<u>610,000</u>
Business-type activities					
Revenue bonds payable:					
Series 2005	675,000	-	675,000	-	-
Series 2013A	-	3,185,000	-	3,185,000	65,000
Series 2013B	-	3,105,000	-	3,105,000	-
Total business-type activities	<u>\$ 675,000</u>	<u>6,290,000</u>	<u>675,000</u>	<u>6,290,000</u>	<u>65,000</u>

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
June 30, 2013

NOTE 2 - DETAILED NOTES ON ALL FUNDS - Continued

G. 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 and capital leases, with interest rates applicable at June 30, 2013 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>
	2014	\$ 610,000	257,297	65,000
2015	980,000	354,991	330,000	166,240
2016	905,000	300,918	345,000	158,870
2017	950,000	252,022	360,000	151,170
2018	990,000	201,797	380,000	143,090
2019-2023	3,204,771	369,907	1,970,000	582,485
2024-2028	1,115,000	45,702	1,685,000	336,880
2029-2033	-	-	1,155,000	65,520
Totals	<u>\$ 8,754,771</u>	<u>1,782,634</u>	<u>6,290,000</u>	<u>1,695,865</u>

The City, through its public trust, has, in substance, defeased certain outstanding bond issues by placing deposits in an irrevocable trust escrow account for the purchase of U.S. Government securities to pay the principal and interest on the refunded bonds as they are due and payable. For financial reporting purposes both the defeased bonds outstanding and the escrowed securities have been excluded from the financial statements. As of June 30, 2013, the remaining outstanding defeased bonds were as follows:

2005 Utility System Revenue Bonds	\$ 620,000
2006 Sales Tax Revenue Notes	150,000
2010 Sales Tax Revenue Notes	<u>2,510,000</u>
Total outstanding defeased bonds	<u>\$ 3,280,000</u>

Pledge of Future Revenues

Sales Tax Pledge - The City has entered into a Sales Tax Agreements dated December 3, 2006, June 1, 2007 and June 1, 2013 of future sales tax revenues to repay the 2007 and 2013 Revenue Notes which are payable through 2031. 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 \$10,970,410. Pledged sales tax received in the current year was \$2,690,141. Scheduled debt service payments on the 2006, 2007, 2010, and 2013 Revenue Notes of \$583,047 for the current fiscal year were 22% of pledged sales tax. The 2006 and 2010 issues were defeased in June, 2013. The 2012 Tax Increment Revenue Note created a subordinate lien of the sales tax pledged to the Series 2007 Revenue Notes.

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
June 30, 2013

NOTE 2 - DETAILED NOTES ON ALL FUNDS - Continued

G. LONG-TERM DEBT - Continued

Utility Revenue Pledge - The City has pledged future gross revenues from the water and sanitary sewer systems to repay the Series 2013 revenue notes. 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 \$7,985,865. Water and sewer revenues received in the current year were \$1,295,066. The City did not have a debt service payments for the current fiscal year.

H. COMPENSATED ABSENCES

Compensated absences of the City of Choctaw as of June 30, 2013, are as summarized as follows:

Governmental activities	\$	168,122
Business-type activities		22,340
Total compensated absences	\$	190,462

I. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund transactions:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Street & Alley Fund	Town Square Fund	\$ 100,000
Emergency Management Fund	Town Square Fund	200,000
Choctaw Utilities Authority	Town Square Fund	200,000
Capital Project Fund	Town Square Fund	100,000
Insurance Fund	Town Square Fund	75,000
Dedicated Sales Tax Fund	Town Square Fund	741,489
		\$ 1,416,489

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

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
June 30, 2013

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 no deductible.
- Physical Property - Covered through purchased insurance with a \$2,000 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 deductible of \$2,000 per employee and \$6,000 per family.

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, 2013

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, 2013, 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 63rd 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, 2013

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
2013	\$ 47,055	47,055
2012	47,265	47,265
2011	46,405	46,405

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.

Oklahoma Firefighters' Pension and Retirement Plan - Continued

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

Fiscal Year	Required Contribution	Amount Contributed
2013	\$ 25,787	25,787
2012	24,055	24,055
2011	23,467	23,467

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
June 30, 2013

NOTE 3 - OTHER INFORMATION - Continued

D. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS - Continued

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:

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

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

Funding Policy - The employee contributes 3% of compensation to the Plan, and the employer contributes 8% of employee compensation. Contributions to the Plan for the year ended June 30, 2013, for employees and employer were \$14,480 and \$38,613, respectively. For the year ended June 30, 2013, the City's covered payroll was \$482,665. 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, 2013 and 2012, the City's net assessed valuation of taxable real and personal property aggregated \$71,818,601 and \$71,357,591 while the property taxes levied per \$1,000 of net assessed valuation were \$3.42 and \$3.66, respectively.

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
June 30, 2013

NOTE 3 - OTHER INFORMATION - Continued

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, 2013, 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 2013, 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, 2013 since no one is participating at this time.

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
June 30, 2013

NOTE 3 - OTHER INFORMATION - Continued

F. OTHER POST-EMPLOYMENT BENEFITS - Continued

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.

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.

G. COMPLIANCE WITH DEBT INDENTURES

The 2013 note indenture requires the Authority to maintain the net revenue available for debt service of at least 1.25 times the maximum annual amount to be paid into the Sinking Fund. The amount available is computed as follows:

Gross revenue available for debt service :	
Pledged sales tax	\$ 2,690,141
System-wide Gross Revenues - Water & Sewer	1,135,319
System-wide Operating Expense - Exclusive of capital improvements, debt service and depreciation	
Water and Sewer	(653,969)
Net revenues available for debt service	\$ <u>3,171,491</u>
Annual amount to be paid into Sinking Fund	\$ <u>525,140</u>
Coverage	<u>6.04</u>
Coverage requirement	<u>1.25</u>

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
June 30, 2013

4. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 14, 2013, which is the date the financial statements were available to be issued.

Construction of a Wal-Mart Super Store commenced in September 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 2013.

**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, 2013

	Budget		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
REVENUES				
Taxes	\$ 3,300,694	3,260,097	3,318,837	58,740
Intergovernmental	96,609	81,829	88,706	6,877
Licenses and permits	65,620	81,255	66,432	(14,823)
Fines and forfeitures	251,000	241,597	231,646	(9,951)
Interest	675	675	599	(76)
Miscellaneous	53,824	49,598	48,877	(721)
Total revenues	<u>3,768,422</u>	<u>3,715,051</u>	<u>3,755,097</u>	<u>40,046</u>
EXPENDITURES				
General government:				
Administration	750,242	708,764	684,134	24,630
General government	218,292	259,325	283,920	(24,595)
Community services	11,376	6,520	6,162	358
Public safety:				
Police	956,934	902,589	901,300	1,289
Fire	565,885	460,858	454,689	6,169
Public works:				
Fleet	52,382	50,173	50,989	(816)
Culture and recreation:				
Parks	152,817	104,897	105,398	(501)
Total expenditures	<u>2,707,928</u>	<u>2,493,126</u>	<u>2,486,592</u>	<u>6,534</u>
Excess (deficiency) of revenues over (under) expenditures	1,060,494	1,221,925	1,268,505	46,580
OTHER FINANCING SOURCES (USES)				
Transfers	<u>(1,375,981)</u>	<u>(1,348,518)</u>	<u>(1,357,154)</u>	<u>(8,636)</u>
Net change in fund balances	(315,487)	(126,593)	(88,649)	37,944
Fund balances - beginning	335,203	335,203	991,266	656,063
Fund balances - ending	<u>\$ 19,716</u>	<u>208,610</u>	<u>902,617</u>	<u>694,007</u>

See accompanying notes to the basic financial statement.

City of Choctaw, Oklahoma
Notes to Required Supplemental Information
For the Year Ended June 30, 2013

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, 2013

	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	
ASSETS										
Cash and cash equivalents	\$ 163,576	49,447	53,981	38,015	9,032	94,061	295,531	10,267	40,208	754,118
Receivables, net	5,927	-	-	-	-	-	-	-	-	5,927
Due from other funds	100,000	-	-	200,000	-	-	100,000	-	-	400,000
TOTAL	269,503	49,447	53,981	238,015	9,032	94,061	395,531	10,267	40,208	1,160,045
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	-	2,585	-	-	-	-	-	-	-	2,585
Total Liabilities	-	2,585	-	-	-	-	-	-	-	2,585
Fund balances:										
Reserved for:										
Capital improvements	-	-	-	-	-	-	395,531	10,267	40,208	446,006
Unreserved:										
Designated	269,503	46,862	53,981	238,015	9,032	94,061	-	-	-	711,454
Total Fund Balances	269,503	46,862	53,981	238,015	9,032	94,061	395,531	10,267	40,208	1,157,460
TOTAL	\$ 269,503	49,447	53,981	238,015	9,032	94,061	395,531	10,267	40,208	1,160,045

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, 2013

	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
REVENUES										
Intergovernmental	\$ 101,317	-	2,534	3,289	-	-	-	-	-	107,140
Charge for services	-	5,870	4,320	-	-	20,660	7,915	33,341	-	72,106
Interest	-	-	-	-	-	100	-	-	79	179
Miscellaneous	5,747	3,426	20,157	-	3,075	3,600	111,056	-	-	147,061
Total revenues	<u>107,064</u>	<u>9,296</u>	<u>27,011</u>	<u>3,289</u>	<u>3,075</u>	<u>24,360</u>	<u>118,971</u>	<u>33,341</u>	<u>79</u>	<u>326,486</u>
EXPENDITURES										
Current:										
Public safety	-	-	20,813	-	-	-	2,118	-	-	22,931
Public works	381,172	-	-	-	-	-	-	-	-	381,172
Cultural and recreational	-	76,147	-	-	-	3,081	330	47,000	-	126,558
Capital outlay	-	-	-	-	-	-	199,597	-	-	199,597
Debt service	-	-	-	-	-	-	-	5,727	-	5,727
Total expenditures	<u>381,172</u>	<u>76,147</u>	<u>20,813</u>	<u>-</u>	<u>-</u>	<u>3,081</u>	<u>202,045</u>	<u>52,727</u>	<u>-</u>	<u>735,985</u>
Excess (deficiency) of revenues over expenditures	<u>(274,108)</u>	<u>(66,851)</u>	<u>6,198</u>	<u>3,289</u>	<u>3,075</u>	<u>21,279</u>	<u>(83,074)</u>	<u>(19,386)</u>	<u>79</u>	<u>(409,499)</u>
OTHER FINANCING SOURCES (USES)										
Transfers in	343,175	74,875	-	-	-	-	311,977	-	-	730,027
Transfers out	-	-	-	-	-	-	-	-	-	-
Total other financing sources and uses	<u>343,175</u>	<u>74,875</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>311,977</u>	<u>-</u>	<u>-</u>	<u>730,027</u>
Net change in fund balances	69,067	8,024	6,198	3,289	3,075	21,279	228,903	(19,386)	79	320,528
Fund balances-beginning	200,436	38,838	47,783	234,726	5,957	72,782	166,628	29,653	40,129	836,932
Fund balances-ending	<u>\$ 269,503</u>	<u>46,862</u>	<u>53,981</u>	<u>238,015</u>	<u>9,032</u>	<u>94,061</u>	<u>395,531</u>	<u>10,267</u>	<u>40,208</u>	<u>1,157,460</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

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

INDEPENDENT AUDITOR'S REPORT
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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Choctaw, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Choctaw's basic financial statements and have issued our report thereon dated December 3, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Choctaw's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Choctaw's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Choctaw's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of reportable findings and responses that we consider to be significant deficiencies, referred to as Findings 2013-01.

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*.

City of Choctaw's Response to Findings

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

Purpose of this Report

The purpose of this report is intended solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dillon & Associates, P.C.

Midwest City, Oklahoma
December 3, 2013

CITY OF CHOCTAW, OKLAHOMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

	FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ <u>PROGRAM TITLE</u>	FEDERAL CFDA <u>NUMBER</u>	PASS - THROUGH GRANTOR <u>NUMBER</u>	FEDERAL <u>EXPENDITURES</u>
NONE				\$ <u> -</u>
	Total Federal Assistance			<u> -</u>
 <u>STATE PROGRAMS</u>				
<u>State of Oklahoma</u>				
	Oklahoma Department of Agriculture			
	Rural Fire Program		OP GT CHOCTAW FD ACOG	9,307
				<u> </u>
	Total State of Oklahoma			<u> 9,307</u>
	Total Federal and State Assistance			\$ <u> 9,307</u>

**CITY OF CHOCTAW, OKLAHOMA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

NOTE A - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal awards activity of the City of Choctaw, Oklahoma (the "City"), and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**CITY OF CHOCTAW, OKLAHOMA
SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

Finding 2013-01 - Internal Control - Material Adjusting Journal Entries

Criteria - The government's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implementation of controls over the fair and complete presentation of the government's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balance required that are detected and corrected solely as a result of the financial statement audit. In other words, government management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balance prior to audit.

Condition - The government's trial balance for the year ended June 30, 2013, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: yearend revenue accruals, depreciation expense, and transactions related to debt service.

Cause - Although the government's accounting and financial reporting staff possess the necessary knowledge and expertise to provide reasonable assurance that the trial balances used for preparing the governmental GAAP financial statements are complete and accurate prior to audit, because of work load and other time constraints sufficient efforts were not expended to correct these misstatements prior to the auditor's arrival to perform fieldwork. As a result, management had to rely on the external auditors to identify and correct a number of material misstatements in the trial balance. However, management was able to review, understand and accept the adjusting entries proposed by the external auditor in order to take responsibility for them and the financial statements.

Effect or Potential Effect - As a result of this condition, without reliance on its external auditors, the government did not comply with its internal controls over completeness and accuracy of the trial balances that are used in the preparation of financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management continues to rely on the external auditor. To detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence since management is responsible for the completeness and accuracy of the financial statements.

**CITY OF CHOCTAW, OKLAHOMA
SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

Recommendation - The accounting and financial reporting staff should spend sufficient time in evaluating the completeness and accuracy of trial balances that will be used to prepare the government's annual financial statements. If accounting staff doesn't have sufficient time because of workload constraints the government might consider outsourcing certain activities to other individuals or a qualified accounting firm other than the external auditor.

Management's Response - The City concurs with the recommendation, and will strive to prepare and post material adjusting journal entries to the financial statements.

CITY OF CHOCTAW, OKLAHOMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2013

None to report.