



CITY OF CHOCTAW, OKLAHOMA

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

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2014**

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**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, 2014, 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 October 1, 2014 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
October 1, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF CHOCTAW, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

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, 2014.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$11,882,290. Of this amount, \$635,714 may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's net position decreased by \$210,346 from the prior year amount.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,407,037, a decrease of \$405 in comparison with the prior year amount. Of this total amount, \$405,632 is *unassigned fund balance* for governmental funds.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$405,632, or approximately 13.0% of total General Fund expenditures.
- During the current fiscal year, the City's total long-term obligations increased by \$1,056,640 (6.9%). The primary changes in the debt were increases in drawdowns on the Choctaw Utilities Authority Tax Increment Revenue Note, Series 2012 in the amount of \$1,649,992 and reduced by aggregate principal payments of \$675,000.
- Sales and use taxes increased by \$878,456 or 30.5% over the prior fiscal year.

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 12-14 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, 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 \$11,882,290 at the close of the most recent fiscal year. The following table provides a summary of the City's net position at June 30, 2014 compared to June 30, 2013.

Table 1
Net Position
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 2,938	2,963	4,072	3,975	7,010	6,938
Capital assets	16,620	15,619	5,184	5,269	21,804	20,888
Total assets	<u>19,558</u>	<u>18,582</u>	<u>9,256</u>	<u>9,244</u>	<u>28,814</u>	<u>27,826</u>
Long-term debt outstanding	10,102	8,457	6,335	6,247	16,437	14,704
Other liabilities	236	840	259	225	495	1,065
Total liabilities	<u>10,338</u>	<u>9,297</u>	<u>6,594</u>	<u>6,472</u>	<u>16,932</u>	<u>15,769</u>
Net position:						
Net investment in capital assets	7,408	6,719	1,733	1,879	9,141	8,598
Restricted	2,001	1,832	104	-	2,105	1,832
Unrestricted	(189)	734	825	893	636	1,627
Total net position	<u>\$ 9,220</u>	<u>9,285</u>	<u>2,662</u>	<u>2,772</u>	<u>11,882</u>	<u>12,057</u>

By far the largest portion of the City's Net Position (76.9%) 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 (17.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (5.4%) 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 \$210,346 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 decreased the City's net position by \$64,921. 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 \$145,425. 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>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues						
Charges for services \$	1,193	1,238	1,952	2,008	3,145	3,246
Operating grants	62	9	-	-	62	9
Capital grants	-	-	-	-	-	-
General revenues						
Sales and use taxes	3,762	2,883	-	-	3,762	2,883
Franchise tax (fees)	448	436	-	-	448	436
Other taxes	488	605	-	-	488	605
Land sales, net	-	1,259	-	-	-	1,259
Investment income	1	66	1	-	2	66
Other	296	148	2	-	298	148
Total revenues	<u>6,250</u>	<u>6,644</u>	<u>1,955</u>	<u>2,008</u>	<u>8,205</u>	<u>8,652</u>
Expenses:						
General government	2,480	2,075	-	39	2,480	2,114
Public safety	1,752	1,520	-	-	1,752	1,520
Public works	1,040	799	-	-	1,040	799
Cultural & recreation	301	297	-	-	301	297
Water	-	-	1,093	773	1,093	773
Wastewater	-	-	386	463	386	463
Sanitation	-	-	723	696	723	696
Stormwater	-	-	149	169	149	169
Debt issuance and defeasement costs	-	-	-	2,786	-	2,786
Interest on debt	491	513	-	38	491	551
Total expenses	<u>6,064</u>	<u>5,204</u>	<u>2,351</u>	<u>4,964</u>	<u>8,415</u>	<u>10,168</u>
Increase in net position						
before transfers	186	1,440	(396)	(2,956)	(210)	(1,516)
Transfers	(251)	(29)	251	29	-	-
Change in net position	(65)	1,411	(145)	(2,927)	(210)	(1,516)
Beginning net position	9,285	5,364	2,772	5,571	12,057	10,935
Contributed capital	-	2,510	35	128	35	2,638
Ending net position \$	<u>9,220</u>	<u>9,285</u>	<u>2,662</u>	<u>2,772</u>	<u>11,882</u>	<u>12,057</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 \$2,407,037, a decrease of \$405, in comparison with the prior year. Of this total amount, \$405,632 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 \$405,632. 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 13.0% and 13.0% 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 \$94,697.

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 \$825,336. The total decrease in net position was \$145,425.

- Operating revenues decreased by \$55,435 over the prior year.
- Operating expenses increased by \$28,401.

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 \$4,702,553 were \$70,271 more than the estimated revenues in the budget of \$4,632,282. Actual expenditures of \$3,125,877 were \$46,397 more than the \$3,079,480 approved in budget appropriations. After a net transfer out of \$1,357,154 to other funds, the City increased by \$219,522 its carry forward funds to cover the overall excess of expenditures over receipts. The amount of carryover funds budget for expenditure was \$1,122,139.

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, 2014, amounts to \$21,803,604 (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		Business-type		Total	
	Activities		Activities		Primary Government	
	2014	2013	2014	2013	2014	2013
Land and construction	\$ 2,868	10,082	22	22	2,890	10,104
Buildings	4,074	4,043	-	-	4,074	4,043
Machinery and equipment	1,594	1,452	651	538	2,245	1,990
Vehicles	1,298	1,208	73	47	1,371	1,255
Infrastructure	54,967	46,021	16,196	16,106	71,163	62,127
Less: Accum. depreciation	(48,181)	(47,187)	(11,758)	(11,444)	(59,939)	(58,631)
Total capital assets, net	\$ 16,620	15,619	5,184	5,269	21,804	20,888

Additional information of the City's capital assets can be found in Note 2 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 \$16,019,763. This represents debt secured solely by specified revenue sources (i.e., revenue notes and bonds) of \$8,715,000 and advalorem taxes including (general obligation bonds) of \$1,085,000 and (tax increment financing note - TIF) of \$6,219,763.

Table 4
Long-term Debt
(In Thousands)

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ 1,085	1,340	-	-	1,085	1,340
Notes payable	2,490	2,610	-	-	2,490	2,610
Tax increment note (TIF)	6,220	4,885	-	-	6,220	4,885
Revenue notes	-	-	6,225	6,290	6,225	6,290
Total long-term debt	\$ 9,795	8,835	6,225	6,290	16,020	15,125

The City's total debt increased by \$1,056,640 during the current fiscal year. The key factor in this increase were drawdowns against the TIF note in the amount of \$1,649,992.

Additional information on the City's long-term debt can be found in Note 2 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 2014-2015 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 2014-2015.

- 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, 2014.
- As for the City's proprietary fund activities, we expect moderate growth in the revenues and expenses over those received in 2014.

All of these factors were considered in preparing the City's budget for the 2014-2015 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, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Authority
ASSETS				
Pooled cash and cash equivalents	\$ 2,032,881	565,499	2,598,380	9,556
Restricted cash and investments	783,832	3,164,453	3,948,285	-
Investments			-	75,000
Receivables (net of allowance for uncollectibles)	8,237	142,644	150,881	-
Internal balances	(200,000)	200,000	-	-
Due from other governments	312,863	-	312,863	-
Capital assets:				
Land, improvements, and construction in progress	2,868,369	22,185	2,890,554	-
Other capital assets, net of depreciation	13,751,476	5,161,574	18,913,050	-
Total assets	<u>19,557,658</u>	<u>9,256,355</u>	<u>28,814,013</u>	<u>84,556</u>
DEFERRED OUTFLOW OF RESOURCES	-	-	-	-
LIABILITIES				
Accounts payable and accrued expenses	2,695	-	2,695	-
Accrued interest payable	203,750	56,000	259,750	-
Deferred revenues	-	46,738	46,738	-
Due to bondholders	6,272	-	6,272	-
Deposits subject to refund	23,243	156,448	179,691	-
Long-term liabilities:				
Due within one year	483,166	353,335	836,501	-
Due in more than one year	9,618,479	5,981,597	15,600,076	-
Total liabilities	<u>10,337,605</u>	<u>6,594,118</u>	<u>16,931,723</u>	-
DEFERRED INFLOW OF RESOURCES	-	-	-	-
NET POSITION				
Net investment in capital assets	7,408,270	1,733,157	9,141,427	-
Restricted for:				
Debt service	174,905	103,744	278,649	-
Capital improvements	616,488	-	616,488	-
Other purposes	1,210,012	-	1,210,012	-
Unrestricted (deficit)	<u>(189,622)</u>	<u>825,336</u>	<u>635,714</u>	<u>84,556</u>
Total net position	<u>\$ 9,220,053</u>	<u>2,662,237</u>	<u>11,882,290</u>	<u>84,556</u>

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

City of Choctaw, Oklahoma
Statement of Activities
For the Year Ended June 30, 2014

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	\$ 2,480,312	936,226	-	-	(1,544,086)
Public safety	1,751,956	256,417	6,885	-	(1,488,654)
Public works	1,039,949	-	55,550	-	(984,399)
Culture and recreation	300,993	-	-	-	(300,993)
Interest on long-term debt	491,067	-	-	-	(491,067)
Total governmental activities	<u>6,064,277</u>	<u>1,192,643</u>	<u>62,435</u>	<u>-</u>	<u>(4,809,199)</u>
Business-type activities:					
Water	1,092,741	614,817	-	-	(477,924)
Wastewater	386,234	441,990	-	-	55,756
Sanitation	722,556	737,101	-	-	14,545
Stormwater	149,829	158,551	-	-	8,722
Total business-type activities	<u>2,351,360</u>	<u>1,952,459</u>	<u>-</u>	<u>-</u>	<u>(398,901)</u>
Total primary government	<u>8,415,637</u>	<u>3,145,102</u>	<u>62,435</u>	<u>-</u>	<u>(5,208,100)</u>
Component Unit:					
Economic Development	\$ <u>2,176</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,176)</u>

City of Choctaw, Oklahoma
Statement of Activities
For the Year Ended June 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Authority
Change in net position:				
Net (expense) revenue	\$ (4,809,199)	(398,901)	(5,208,100)	(2,176)
General revenues:				
Taxes:				
Sales taxes	3,382,264	-	3,382,264	-
Use taxes	379,364	-	379,364	-
Franchise taxes (fees)	448,220	-	448,220	-
Other taxes	487,926	-	487,926	-
Unrestricted investment income	1,024	813	1,837	257
Miscellaneous	296,072	2,071	298,143	180
Transfers	(250,592)	250,592	-	-
Total general revenues and transfers	4,744,278	253,476	4,997,754	437
Change in Net Position	(64,921)	(145,425)	(210,346)	(1,739)
Net Position - beginning	9,284,974	2,772,274	12,057,248	86,295
Contributed capital - fixed assets	-	35,388	35,388	-
Net Position - ending	\$ 9,220,053	2,662,237	11,882,290	84,556

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

City of Choctaw, Oklahoma
Balance Sheet - Governmental Funds
June 30, 2014

	General Fund	Debt Service Fund	Dedicated Sales Tax Fund	Town Square Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 521,319	66,073	-	-	1,019,545	1,606,937
Cash - Police fines account	10,615	-	-	-	-	10,615
Restricted cash and cash equivalents	-	-	133,171	650,661	-	783,832
Receivables:						
Due from other governments	306,936	-	-	-	5,927	312,863
Due from other funds	-	-	741,489	-	400,000	1,141,489
	838,870	66,073	874,660	650,661	1,425,472	3,855,736
Total assets						
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES						
Liabilities:						
Accounts payable	2,695	-	-	-	-	2,695
Police bonds outstanding	6,272	-	-	-	-	6,272
Deposits subject to refund	21,983	-	-	-	1,260	23,243
Due to other funds	-	-	-	1,416,489	-	1,416,489
	30,950	-	-	1,416,489	1,260	1,448,699
Total liabilities (Note 2)						
DEFERRED INFLOW OF RESOURCES	-	-	-	-	-	-
Fund balances:						
Reserved for:						
Nonspendable	402,288	66,073	874,660	(765,828)	1,424,212	2,001,405
Unassigned	405,632	-	-	-	-	405,632
	807,920	66,073	874,660	(765,828)	1,424,212	2,407,037
Total fund balances						
Total liabilities, deferred inflows and fund balances	\$ 838,870	66,073	874,660	650,661	1,425,472	

Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not required in the governmental fund statements.		16,619,845
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 position.		498,566
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.		(9,902,065)
Accrued interest payable on long-term governmental debt		(203,750)
Accrued compensated absences payable is not reported on the governmental fund statements.		(199,580)
Net position of governmental activities		\$ 9,220,053

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

City of Choctaw, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2014

	General Fund	Debt Service Fund	Dedicated Sales Tax Fund	Town Square Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 4,266,674	244,953	-	75,803	110,344	4,697,774
Intergovernmental	27,900	-	-	-	62,435	90,335
Licenses and permits	98,096	-	-	-	-	98,096
Charge for services	-	-	-	-	86,245	86,245
Fines and forfeitures	256,417	-	-	-	-	256,417
Interest	329	113	263	62	132	899
Proceeds from debt issuance	-	-	-	1,649,992	-	1,649,992
Miscellaneous	53,137	-	179,380	19,239	49,433	301,189
Total revenues	<u>4,702,553</u>	<u>245,066</u>	<u>179,643</u>	<u>1,745,096</u>	<u>308,589</u>	<u>7,180,947</u>
EXPENDITURES						
Current:						
General government	1,419,279	-	3,856	-	-	1,423,135
Public safety	1,526,596	-	-	-	64,059	1,590,655
Public works	49,363	-	101,785	-	541,294	692,442
Culture and recreation	130,639	-	-	-	103,565	234,204
Capital outlay	-	-	-	1,670,720	211,137	1,881,857
Debt service	-	249,038	166,492	692,937	-	1,108,467
Total expenditures	<u>3,125,877</u>	<u>249,038</u>	<u>272,133</u>	<u>2,363,657</u>	<u>920,055</u>	<u>6,930,760</u>
Excess (deficiency) of revenues over expenditures	<u>1,576,676</u>	<u>(3,972)</u>	<u>(92,490)</u>	<u>(618,561)</u>	<u>(611,466)</u>	<u>250,187</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	786,154	432,539	898,218	2,116,911
Transfers out	(1,671,373)	-	(676,130)	-	(20,000)	(2,367,503)
Total other financing sources and uses	<u>(1,671,373)</u>	<u>-</u>	<u>110,024</u>	<u>432,539</u>	<u>878,218</u>	<u>(250,592)</u>
Net change in fund balances	(94,697)	(3,972)	17,534	(186,022)	266,752	(405)
Fund balances-beginning	902,617	70,045	857,126	(579,806)	1,157,460	2,407,442
Fund balances-ending	<u>\$ 807,920</u>	<u>66,073</u>	<u>874,660</u>	<u>(765,828)</u>	<u>1,424,212</u>	<u>2,407,037</u>

The accompanying notes are an integral part of these 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, 2014

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

Net change in fund balances - total governmental funds	\$	(405)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
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.		1,000,924
Debt service principal retirement expensed in the fund level financial statements but treated as a reduction in outstanding debt in government-wide financial statements.		647,402
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.		
Increase in liability for incurred claims and compensated absences expensed in government-wide financial statements.		(34,043)
The issuance of long-term debt provides current financial resources to governmental funds.		(1,649,992)
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>(28,807)</u>
Change in net assets of governmental activities	\$	<u><u>(64,921)</u></u>

City of Choctaw, Oklahoma
Statement of Net Position - Proprietary Funds
June 30, 2014

	Business-type Activities - Enterprise Funds			Governmental
	Choctaw Utilities Authority		Total	Activities
	Operating Fund	Debt Service	Enterprise Funds	Internal Service Fund
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 565,499	-	565,499	415,329
Restricted:				
Cash and investments	158,520	3,005,933	3,164,453	-
Accounts receivable, net of allowance for uncollectibles of \$ 87,945	142,644	-	142,644	8,237
Due from other funds	200,000	-	200,000	75,000
Total current assets	<u>1,066,663</u>	<u>3,005,933</u>	<u>4,072,596</u>	<u>498,566</u>
Non-current assets:				
Land	22,185	-	22,185	-
Other capital assets, net of accumulated depreciation	5,161,574	-	5,161,574	-
Total non-current assets	<u>5,183,759</u>	<u>-</u>	<u>5,183,759</u>	<u>-</u>
Total assets	<u><u>6,250,422</u></u>	<u><u>3,005,933</u></u>	<u><u>9,256,355</u></u>	<u><u>498,566</u></u>
DEFERRED OUTFLOW OF RESOURCES				
	-	-	-	-
LIABILITIES				
Current liabilities:				
Accrued interest payable	-	56,000	56,000	-
Deferred revenues	46,738	-	46,738	-
Deposits subject to refund	156,448	-	156,448	-
Current portion of long-term obligations	23,335	330,000	353,335	-
Total current liabilities	<u>226,521</u>	<u>386,000</u>	<u>612,521</u>	<u>-</u>
Non-current liabilities:				
Revenue notes payable	-	5,895,000	5,895,000	-
Capital lease	48,457	-	48,457	-
Accrued compensated absences	38,140	-	38,140	-
Total non-current liabilities	<u>86,597</u>	<u>5,895,000</u>	<u>5,981,597</u>	<u>-</u>
Total liabilities	<u>313,118</u>	<u>6,281,000</u>	<u>6,594,118</u>	<u>-</u>
DEFERRED INFLOW OF RESOURCES				
	-	-	-	-
NET POSITION				
Net investment in capital assets	5,111,968	(3,378,811)	1,733,157	-
Restricted for:				
Debt service	-	103,744	103,744	-
Capital projects	-	-	-	-
Unrestricted	825,336	-	825,336	498,566
Total net position	<u><u>\$ 5,937,304</u></u>	<u><u>(3,275,067)</u></u>	<u><u>2,662,237</u></u>	<u><u>498,566</u></u>

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

City of Choctaw, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds
For the Year Ended June 30, 2014

	Business-type Activities - Enterprise Funds			Governmental
	<u>Choctaw Utilities Authority</u>		Total	Internal
	<u>Operating</u> <u>Fund</u>	<u>Debt</u> <u>Service</u>	Enterprise <u>Funds</u>	Service <u>Fund</u>
REVENUES				
Water	\$ 614,817	-	614,817	-
Wastewater	441,990	-	441,990	-
Sanitation	737,101	-	737,101	-
Stormwater and drainage fees	158,551	-	158,551	-
Insurance premiums	-	-	-	723,985
Total operating revenues	<u>1,952,459</u>	<u>-</u>	<u>1,952,459</u>	<u>723,985</u>
OPERATING EXPENSES				
Water	656,987	-	656,987	-
Wastewater	103,553	-	103,553	-
Wastewater plant	182,356	-	182,356	-
Sanitation	722,556	-	722,556	-
Stormwater	149,829	-	149,829	-
Insurance claims and expense	-	-	-	755,619
Depreciation and amortization	313,630	-	313,630	-
Total operating expenses	<u>2,128,911</u>	<u>-</u>	<u>2,128,911</u>	<u>755,619</u>
Operating income (loss)	<u>(176,452)</u>	<u>-</u>	<u>(176,452)</u>	<u>(31,634)</u>
NONOPERATING REVENUES (EXPENSES)				
Miscellaneous revenues	2,071	-	2,071	2,702
Interest income	-	813	813	125
Capital projects	-	(49,802)	(49,802)	-
Interest expense and fiscal charges	-	(172,647)	(172,647)	-
Total nonoperating revenues (expenses)	<u>2,071</u>	<u>(221,636)</u>	<u>(219,565)</u>	<u>2,827</u>
OPERATING TRANSFERS AND CAPITAL ITEMS				
Transfers in	20,000	243,592	263,592	-
Transfers out	(13,000)	-	(13,000)	-
Total operating transfers	<u>7,000</u>	<u>243,592</u>	<u>250,592</u>	<u>-</u>
Change in net position	<u>(167,381)</u>	<u>21,956</u>	<u>(145,425)</u>	<u>(28,807)</u>
Net position - beginning	6,069,297	(3,297,023)	2,772,274	527,373
Contributed capital - fixed assets	35,388	-	35,388	-
Net position - ending	<u>\$ 5,937,304</u>	<u>(3,275,067)</u>	<u>2,662,237</u>	<u>498,566</u>

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

City of Choctaw, Oklahoma
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2014

	<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>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 1,940,082	-	1,940,082	723,985
Payments to suppliers and employees	(1,750,672)	-	(1,750,672)	(756,350)
Other receipts (payments)	-	48,940	48,940	-
Net cash provided (used) by operating activities	<u>189,410</u>	<u>48,940</u>	<u>238,350</u>	<u>(32,365)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating transfers in (out)	<u>7,000</u>	<u>243,592</u>	<u>250,592</u>	<u>-</u>
Net cash provided (used) by noncapital financing activities	<u>7,000</u>	<u>243,592</u>	<u>250,592</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from the issuance of debt	71,792	-	71,792	-
Principal paid on long-term debt	-	(65,000)	(65,000)	-
Interest expense and fiscal charges	-	(172,647)	(172,647)	-
(Acquisition) disposition of capital assets	<u>(188,965)</u>	<u>(49,802)</u>	<u>(238,767)</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>(117,173)</u>	<u>(287,449)</u>	<u>(404,622)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	-	813	813	125
Net cash provided (used) by investing activities	<u>-</u>	<u>813</u>	<u>813</u>	<u>125</u>
Net increase (decrease) in cash and cash equivalents	79,237	5,896	85,133	(32,240)
Cash and cash equivalents, beginning of the year	<u>644,782</u>	<u>3,000,037</u>	<u>3,644,819</u>	<u>447,569</u>
Cash and cash equivalents, end of the year	<u>724,019</u>	<u>3,005,933</u>	<u>3,729,952</u>	<u>415,329</u>
Reconciliation to Statement of Net Position:				
Cash and cash equivalents	565,499	3,005,933	3,571,432	415,329
Restricted cash and cash equivalents	158,520	-	158,520	-
Total cash and cash equivalents, end of year	<u>\$ 724,019</u>	<u>3,005,933</u>	<u>3,729,952</u>	<u>415,329</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	(176,452)	-	(176,452)	(31,634)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization expense	313,630	-	313,630	-
Miscellaneous revenue	2,071	-	2,071	2,702
Change in assets and liabilities:			-	
(Increase) decrease in receivables	(12,377)	-	(12,377)	(3,433)
Increase (decrease) in accounts payable / accrued expenses	15,800	48,940	64,740	-
Increase (decrease) in deferred revenues	<u>46,738</u>	<u>-</u>	<u>46,738</u>	<u>-</u>
Total adjustments	<u>365,862</u>	<u>48,940</u>	<u>414,802</u>	<u>(731)</u>
Net cash provided by (used in) operating activities	<u>\$ 189,410</u>	<u>48,940</u>	<u>238,350</u>	<u>(32,365)</u>

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

**NOTES TO BASIC
FINANCIAL STATEMENTS**

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 1 - ORGANIZATION

The City of Choctaw, Oklahoma (the City) is a municipal corporation, incorporated in 1893. The City is governed by an elected mayor and six-member council. The City operates under a Council-Manager Charter form of government under Title 11 of the *Oklahoma Statutes*. The City provides the following services to its citizens: public safety (police and fire), streets and highways, sanitation, social services, culture and recreation, public improvements, utilities, planning and zoning, and general administrative services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity - The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations. Each blended unit has a June 30 fiscal year end.

Blended Component Units. The Choctaw Utilities Authority (CUA) was created pursuant to a Trust Indenture, for the benefit of the City of Choctaw. The CUA was created December 1, 1961, to finance, develop, and operate the water, wastewater, and solid waste activities of the City. Council members serve as Trustees and the City Manager is the General Manager. The rates for user charges and debt authorization are approved by the city council. 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. All Board members shall be approved by the City Council.

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" as amended by Statement 61, and includes all component units for which the City is financially accountable. Each component unit is a Public Trust established pursuant to Title 60 of the Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance City services through the issuance of revenue bonds or other non-general obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Authority. In accordance with state law, all debt obligations incurred by public trusts require 2/3 approval by the City Council. In addition, the City has leased certain existing assets at the creation for the Authority to the Trustees on a long-term basis. The City, as beneficiary of the Public Trust, receives title to any residual assets when a Public Trust is dissolved.

Basis of Presentation and Accounting:

Government-Wide and Fund Financial Statements - The statements of net position and activities are reported on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses (including depreciation and amortization) are recorded when the liability is incurred or economic asset used.

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Program revenues within the statement of activities that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. The City has the following program revenues in each activity:

- Public Safety - Police and Fire - fines and forfeitures, fire run charges, 911 revenue, operating and capital grants
- Streets - commercial vehicle and gasoline excise tax shared by the State, operating and capital grants
- Culture and Recreation - recreation fees, library fees and operating grants
- Cemetery - cemetery revenues
- General Government - licenses and permits, rentals, operating and capital grants

All governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

Governmental Funds:

Major Fund:

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.

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Aggregated Non-Major Funds (reported as Other Governmental Funds):

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

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

The governmental funds are reported on the modified accrual basis of accounting. On the modified accrual basis of accounting revenues are reported when earned and measurable and available to pay current financial obligations, while expenditures are recorded when incurred and normally payable from current financial resources. The City defines revenue available as collected within 60 days of the period end.

The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statement is the result of the use of the economic resources measurement focus and accrual basis of accounting at the government-wide level.

The General Fund is considered a major fund and therefore displayed in a separate column. All other governmental funds are considered non-major funds and are aggregated under the column Other Governmental Funds.

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Proprietary Funds:

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.

For purposes of the statement of revenues, expenses and changes in financial position, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

Assets, Deferred Outflows, Liabilities, Deferred Inflows and Fund Equity

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

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

- b. *Restricted Cash and Investments* - The restricted debt fund cash and investments are the result of financial requirements of debt issues and consist of funds held in accounts with the Trustee bank. Under terms and provisions of the Bond Indenture, these special accounts and reserves funds are maintained for the benefit of the holders of the bonds and notes and are not subject to lien or attachment by any other creditors. These accounts and reserve funds are to be maintained so long as any of the related bonds or notes are outstanding. Monies contained in the accounts and reserve funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the trust indenture.
- c. *Fair Value of Financial Instruments* - The City's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The City's estimates of fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- 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.

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

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- h. *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.

- 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.

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- k. *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, 2014 relates to three ordinances which provide funds that are being held to complete capital projects.
 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.

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- a) *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 October 11 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, 2014 in both the government-wide and fund financial statements.
- 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.

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

New Accounting Pronouncements - There were no new accounting pronouncements applicable to the City's financial reporting for the year ended June 30, 2014.

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS

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

Cash and Investments

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

Cash and equivalents	\$ 2,598,380
Investments	<u>-</u>
Total	<u>\$ 2,598,380</u>

The local government had the following deposits and investments at June 30, 2014:

	Credit rating	Fair value	Maturities in Years		
			On demand	Less than 1	1-5
Demand deposits and cash on hand	(1)	\$ 2,598,380	2,598,380	-	-
Time deposits	(1)	-	-	-	-
Total		<u>\$ 2,598,380</u>	<u>2,598,380</u>	<u>-</u>	<u>-</u>

(1) Not subject to rating

Custodial Credit Risk

At June 30, 2014, the City held deposits of approximately \$3,359,410 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.

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Investment Interest Credit Risk

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

Investment Credit Risk

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

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

Concentration of Investment Credit Risk

The City places no limit on the amount it may invest in any one issuer.

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Receivables and Uncollectible Accounts

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Choctaw Utilities <u>Authority</u>	<u>Total</u>
Receivables:				
Accounts	\$ -	-	230,589	230,589
Due from other governments	306,936	5,926	-	312,862
Gross receivables	306,936	5,926	230,589	543,451
Less: Allowance for uncollectibles	-	-	87,945	87,945
Net total receivables	<u>\$ 306,936</u>	<u>5,926</u>	<u>142,644</u>	<u>455,506</u>

Restricted Assets

Restricted assets include restricted cash and investments for unexpended construction funds and debt service funds for repayment of the principal and interest when due. In addition, restricted assets include funds held on utility customer deposits. Funds related to the revenue notes are on deposit with trustee banks.

Tax Increment Revenue Note, Taxable Series 2012:		
Project account		\$ 3
Debt service		783,829
Sales Tax Revenue Bonds, Series 2013A:		
Debt service		129,551
Sales Tax Revenue Bonds, Series 2013B:		
Project account		2,846,189
Debt service		30,193
Utility customer deposits		<u>158,520</u>
Total restricted assets		<u>\$ 3,948,285</u>

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Capital Assets

Capital asset balances and activities for the year ended June 30, 2014, 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	7,213,708	-	7,213,708	-
Total capital assets not being depreciated	<u>10,082,077</u>	<u>-</u>	<u>7,213,708</u>	<u>2,868,369</u>
Capital assets being depreciated :				
Buildings and improvements	4,043,414	30,818	-	4,074,232
Machinery and equipment	1,451,710	142,558	-	1,594,268
Vehicles	1,207,744	90,236	-	1,297,980
Infrastructure	46,020,963	8,945,251	-	54,966,214
Total capital assets being depreciated	<u>52,723,831</u>	<u>9,208,863</u>	<u>-</u>	<u>61,932,694</u>
Less accumulated depreciation for :				
Buildings and improvements	(1,631,316)	(157,609)	-	(1,788,925)
Machinery and equipment	(934,306)	(138,570)	-	(1,072,876)
Vehicles	(848,907)	(56,570)	-	(905,477)
Infrastructure	(43,772,458)	(641,482)	-	(44,413,940)
Total accumulated depreciation	<u>(47,186,987)</u>	<u>(994,231)</u>	<u>-</u>	<u>(48,181,218)</u>
Total capital assets being depreciated, net	<u>5,536,844</u>	<u>8,214,632</u>	<u>-</u>	<u>13,751,476</u>
Governmental activities capital assets, net	<u>\$ 15,618,921</u>	<u>8,214,632</u>	<u>7,213,708</u>	<u>16,619,845</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	538,115	112,399	-	650,514
Vehicles	47,124	26,023	-	73,147
Infrastructure	16,105,796	90,180	-	16,195,976
Total capital assets being depreciated	<u>16,691,035</u>	<u>228,602</u>	<u>-</u>	<u>16,919,637</u>
Less accumulated depreciation for :				
Buildings and improvements	-	-	-	-
Machinery and equipment	(316,336)	(48,666)	-	(365,002)
Vehicles	(28,758)	(7,629)	-	(36,387)
Infrastructure	(11,099,339)	(257,335)	-	(11,356,674)
Total accumulated depreciation	<u>(11,444,433)</u>	<u>(313,630)</u>	<u>-</u>	<u>(11,758,063)</u>
Total capital assets being depreciated, net	<u>5,246,602</u>	<u>(85,028)</u>	<u>-</u>	<u>5,161,574</u>
Business-type activities capital assets, net	<u>\$ 5,268,787</u>	<u>(85,028)</u>	<u>-</u>	<u>5,183,759</u>

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 418,295
Public safety	161,640
Public works	347,507
Cultural and recreation	66,789
Total depreciation expense - governmental activities	<u>\$ 994,231</u>
Business-type activities:	
Water	\$ 213,305
Sewer	100,325
Total depreciation expense - business-type activities	<u>\$ 313,630</u>

Deposits Subject to Refund

Utility customers are required to make a meter deposit, which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2014, cash and investments included \$158,520 available for refund of customer deposits, while the liability to customers was \$156,448.

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, 2014, \$6,272 was being held that was subject to refund.

Leases

Capital Leases

The City has entered into lease agreements 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.	\$ 33,301
Total governmental activities capital lease obligations	<u>\$ 33,301</u>

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

The assets acquired through capital leases are as follows:

Various police vehicles	\$ 90,200
Less: Accumulated depreciation	24,698
Net capital asset cost	\$ 65,502

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, are as follows:

<u>Year Ending June 30,</u>	
2015	\$ 31,159
2016	2,597
Total required payments	33,756
Less: Interest expense	455
Total principal payments	\$ 33,301

Business-type activities:

Lease purchase agreement for the purchase of a backhoe dated June 12, 2014, payable in monthly installments of \$2,072, including interest at 2.50%, through July 12, 2017.

	\$ 71,792
Total business-type activities capital lease obligations	\$ 71,792

The assets acquired through capital leases are as follows:

2014 Chase Backhoe	\$ 71,792
Less: Accumulated depreciation	7,179
Net capital asset cost	\$ 64,613

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, are as follows:

<u>Year Ending June 30,</u>	
2015	\$ 24,864
2016	24,864
2017	24,864
Total required payments	74,592
Less: Interest expense	2,800
Total principal payments	\$ 71,792

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Long-term Debt

Long-term liabilities of the City of Choctaw as of June 30, 2014, 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%. \$ 110,000

\$1,450,000 Funding Bonds of 2009, dated June 30, 2009, due in annual principal installments of \$95,000 through April 1, 2023 with a final installment of \$120,000 due April 1, 2024, with interest at 4.5% to 10.0%. 975,000

Net general obligation bonds 1,085,000

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. 2,490,000

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. 6,219,763

Total governmental activities \$ 9,794,763

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Business-type activities:

Revenue notes:

\$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.

\$ 3,120,000

\$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

\$ 6,225,000

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

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>	Amounts Due Within <u>One Year</u>
Governmental activities					
General obligation bonds:					
Series 2000	\$ 190,000	-	80,000	110,000	80,000
Series 2009 Funding Bonds	1,070,000	-	95,000	975,000	95,000
Sales Tax Revenue Notes-2007	2,610,000	-	120,000	2,490,000	125,000
Tax Increment Note (TIF)-2012	4,884,771	1,649,992	315,000	6,219,763	320,000
Total governmental activities	<u>8,754,771</u>	<u>1,649,992</u>	<u>610,000</u>	<u>9,794,763</u>	<u>620,000</u>
Business-type activities					
Revenue notes payable:					
Series 2013A	3,185,000	-	65,000	3,120,000	330,000
Series 2013B	3,105,000	-	-	3,105,000	-
Total business-type activities	<u>\$ 6,290,000</u>	<u>-</u>	<u>65,000</u>	<u>6,225,000</u>	<u>330,000</u>

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - 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, 2014 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>
	2015	\$ 980,000	449,866	330,000
2016	905,000	395,792	345,000	158,870
2017	950,000	346,897	360,000	151,170
2018	990,000	296,671	380,000	143,090
2019	1,030,000	246,685	390,000	134,475
2020-2024	4,169,763	473,788	1,895,000	536,410
2025-2029	770,000	24,008	1,740,000	282,480
2030-2034	-	-	785,000	31,520
Totals	<u>\$ 9,794,763</u>	<u>2,233,707</u>	<u>6,225,000</u>	<u>1,604,255</u>

Applicability of Federal Arbitrage Regulations - Debt issuances of the City and Authorities issued after the Tax Reform Act of 1986 are subject to the federal arbitrage regulations. The arbitrage rebate regulations require that all earnings from investment of gross proceeds of a bond issue in excess of the amount that could have been earned had the yield on the investment been equal to the yield on the bonds be remitted to the federal government. These carry strict penalties for noncompliance including taxability of interest retroactive to the date of the issue. The City's management believes the City is in compliance with these rules and regulations.

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, 2014, the remaining outstanding defeased bonds were as follows:

2005 Utility System Revenue Bonds	\$ 580,000
2010 Sales Tax Revenue Notes	2,510,000
Total outstanding defeased bonds	<u>\$ 3,090,000</u>

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Pledge of Future Revenues

Sales Tax Pledge - The City has entered into a Sales Tax Agreements dated October 1, 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 notes is \$10,649,078. Pledged sales tax received in the current year was \$1,572,309. Scheduled debt service payments on the 2007 and 2013 Revenue Notes of \$348,629 for the current fiscal year were 22% of pledged sales tax. The 2012 Tax Increment Revenue Note created a subordinate lien of the sales tax pledged to the Series 2007 Revenue Notes.

Utility Revenue Pledge - The City has pledged 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 \$7,829,255. Water and sewer revenues received in the current year were \$1,056,807. Debt service payments of \$164,722 for the current fiscal year were 15.5% of the pledged water and sewer revenues.

Compensated Absences

Compensated absences of the City of Choctaw as of June 30, 2014, are as summarized as follows:

Governmental activities	\$	199,581
Business-type activities		<u>38,140</u>
Total compensated absencies	\$	<u><u>237,721</u></u>

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
		<u>\$ 1,416,489</u>

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

		Transfers In				
		General	Dedicated	Town	Other	Choctaw
		<u>Fund</u>	<u>Sales</u>	<u>Square</u>	<u>Governmental</u>	<u>Utilities</u>
		<u>Fund</u>	<u>Tax</u>	<u>Fund</u>	<u>Funds</u>	<u>Authority</u>
Transfer out:						
General fund	\$	-	786,154	-	898,218	-
Ded. sales tax		-	-	432,539	-	243,592
Other govt. funds		-	-	-	-	20,000
Totals	\$	-	786,154	432,539	898,218	263,592

NOTE 4 - OTHER INFORMATION

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.

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 4 - OTHER INFORMATION - Continued

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 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.

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.

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, 2014, the City did not have deficits in any funds.

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. Copies of the State of Oklahoma sponsored multiple-employer plans and a schedule of funding progress is available, for each from the respective Plan. The State of Oklahoma is responsible for any funding deficiencies. 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.

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 4 - OTHER INFORMATION - Continued

Oklahoma Police Pension and Retirement System (OPPRS)

Plan Description - The OPPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of OPPRS. The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information for the police employees of the City. That report may be obtained by writing to the Oklahoma State Police Pension and Retirement System, 1001 N.W. 63rd Street, Suite 305, Oklahoma City, Oklahoma 73116-7335, or by calling (405) 840-3555.

Funding Policy - Plan members are required to contribute 8.0% of their annual covered salary, and the City of Choctaw contributes 13.0% of annual covered payroll. The contribution requirements of the plan members and the City are established and may be amended by the state legislature. Contributions to the OPPRS for the year ended June 30, 2014, for employees and employer were \$64,155 and \$118,715, respectively, on covered payroll of \$916,231. The state made on-behalf payments for the police pension system of \$109,948 (or 12% of covered payroll). These on-behalf payments were recognized as both revenue and expenditures in the current year.

The required employer contributions and actual employer contributions made to OPPRS for the current and past two years 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 System (OFPRS)

Plan Description - The OFPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of OFPRS. The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the police employees of the City. That report may be obtained by writing to the Oklahoma State Firefighters' Pension and Retirement System, 4545 North Lincoln Boulevard, Suite 265, Oklahoma City, Oklahoma 73105-3414, or by calling (405) 525-7813.

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 4 - OTHER INFORMATION - Continued

Funding Policy - Plan members are required to contribute 8.0% of their annual covered salary, and the City of Choctaw contributes 13.0% of annual covered payroll through October, 2013. Effective November 1, 2013 the required contribution rates for the employee and employer are 9.0% and 14.0%, respectively. The contribution requirements of the plan members and the City are established and may be amended by the state legislature. Contributions to the OFPRS for the year ended June 30, 2014, for employees and employer were \$46,537 and \$73,549, respectively, on covered payroll of \$555,259. The state made on-behalf payments for the fire pension system of \$166,578 (or 30% of covered payroll). These on-behalf payments were recognized as both revenue and expenditures in the current year.

The required employer contributions and actual employer contributions made to OPPRS for the current and past two years are as follows:

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

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.

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 4 - OTHER INFORMATION - Continued

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, 2014, for employees and employer were \$14,480 and \$38,613, respectively. For the year ended June 30, 2014, 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.

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 October 11 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, 2014 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.

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, 2014, approximately no retired employees are receiving benefits under this plan.

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 4 - OTHER INFORMATION - Continued

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 2014, 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, 2014 since no one is participating at this time.

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

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.

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 4 - OTHER INFORMATION - Continued

New Accounting Pronouncements

The GASB has issued several new accounting pronouncements, which will be effective in subsequent years. A description of the new accounting pronouncements, the fiscal year effective, and the City's consideration of the impact of these pronouncements are described below:

Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. GASB No. 68 establishes standards of measuring and recognizing liabilities, deferred outflow of resources, deferred inflow of resources, and pension expense. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB No. 68 was issued in June, 2013, and the City has not yet determined the impact that implementation of GASB No. 68 will have on its net position. The Statement is effective for fiscal years ended June 30, 2015.

Statement No. 69, *Government Combinations and Disposals of Government Operations* - GASB No. 69 was issued in January 2013, and establishes accounting and financial reporting standards related to governmental combinations and disposals of government operations. Government combinations can include a variety of transactions, including mergers, acquisitions, and transfer of operations. A disposal of a government's operations results in a removal of specific activities of a government. The requirement of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* - GASB No. 70 required a government that extends a Nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The government is required to report the guaranteed obligation until it is legally released as an obligor, and when it is legally released, it should recognize revenue as a result of this release. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Early application is encouraged. Except for certain disclosure requirements which may be applied prospectively, the provisions of this Statement are required to be applied retroactively. The City has not yet evaluated the effects that GASB NO. 70 will have on its financial statements.

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2014

NOTE 4 - OTHER INFORMATION - Continued

Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - An Amendment of GASB No. 68* - amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with provisions of Statement No. 68. The City has not yet evaluated the effects that GASB NO. 71 will have on its financial statements.

Subsequent Events

Management has evaluated subsequent events through December 14, 2014, which is the date the financial statements were available to be issued.

The Choctaw Utilities Authority issued its \$6,455,000 Sales Tax Revenue Note, Subordinate Series 2014 on July 3, 2014. The purpose of the financing was to provide funds for certain park and recreation projects as well as water and sewer line extensions and replacements.

The City of Choctaw entered into a lease purchase agreement in the amount of \$151,015 on July 31, 2014 for the acquisition of police vehicles.

**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, 2014

	Budget		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
REVENUES				
Taxes	\$ 3,332,300	4,224,400	4,266,674	42,274
Intergovernmental	83,073	27,900	27,900	-
Licenses and permits	72,620	94,366	98,096	3,730
Fines and forfeitures	251,000	239,264	256,417	17,153
Interest	675	450	329	(121)
Miscellaneous	47,989	45,902	53,137	7,235
Total revenues	<u>3,787,657</u>	<u>4,632,282</u>	<u>4,702,553</u>	<u>70,271</u>
EXPENDITURES				
General government:				
Administration	737,624	688,807	756,797	(67,990)
General government	237,828	682,019	658,533	23,486
Community services	4,740	4,066	3,949	117
Public safety:				
Police	948,836	997,410	995,586	1,824
Fire	554,223	530,763	531,010	(247)
Public works:				
Fleet	47,998	49,312	49,363	(51)
Culture and recreation:				
Parks	133,168	127,103	130,639	(3,536)
Total expenditures	<u>2,664,417</u>	<u>3,079,480</u>	<u>3,125,877</u>	<u>(46,397)</u>
Excess (deficiency) of revenues over (under) expenditures	1,123,240	1,552,802	1,576,676	23,874
OTHER FINANCING SOURCES (USES)				
Transfers	<u>(1,337,988)</u>	<u>(1,658,786)</u>	<u>(1,357,154)</u>	<u>301,632</u>
Net change in fund balances	(214,748)	(105,984)	219,522	325,506
Fund balances - beginning	229,533	229,533	902,617	673,084
Fund balances - ending	<u>\$ 14,785</u>	<u>123,549</u>	<u>1,122,139</u>	<u>998,590</u>

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

City of Choctaw, Oklahoma
Debt Service Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2014

	Budget		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
REVENUES				
Ad Valorem taxes	\$ 258,977	244,556	244,953	397
Interest	159	141	113	(28)
Total revenues	259,136	244,697	245,066	369
EXPENDITURES				
Debt service	253,869	249,407	249,038	369
Total expenditures	253,869	249,407	249,038	369
Excess (deficiency) of revenues over (under) expenditures	5,267	(4,710)	(3,972)	738
OTHER FINANCING SOURCES (USES)				
Transfers	-	-	-	-
Net change in fund balances	5,267	(4,710)	(3,972)	738
Fund balances - beginning	70,815	70,815	70,045	(770)
Fund balances - ending	\$ 76,082	66,105	66,073	(32)

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

City of Choctaw, Oklahoma
Dedicated Sales Tax Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2014

	Budget		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
REVENUES				
Proceeds from debt issuance	\$ 1,000,000	1,000,000	-	(1,000,000)
Interest	400	283	263	(20)
Miscellaneous	-	179,380	179,380	-
Total revenues	<u>1,000,400</u>	<u>1,179,663</u>	<u>179,643</u>	<u>(1,000,020)</u>
EXPENDITURES				
General government:				
General government	-	3,856	3,856	-
Public works:				
Streets	1,000,000	1,063,027	63,027	1,000,000
CUA - Water improvements	25,000	25,000	7,182	17,818
CUA - Wastewater improvements	-	66,490	31,533	34,957
Debt service	362,151	362,151	166,492	195,659
Total expenditures	<u>1,387,151</u>	<u>1,520,524</u>	<u>272,090</u>	<u>1,248,434</u>
Excess (deficiency) of revenues over (under) expenditures	(386,751)	(340,861)	(92,447)	248,414
OTHER FINANCING SOURCES (USES)				
Transfers	<u>634,118</u>	<u>353,607</u>	<u>110,024</u>	<u>(243,583)</u>
Net change in fund balances	247,367	12,746	17,577	4,831
Fund balances - beginning	437,736	437,736	857,126	419,390
Fund balances - ending	<u>\$ 685,103</u>	<u>450,482</u>	<u>874,703</u>	<u>424,221</u>

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

City of Choctaw, Oklahoma
Town Square Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2014

	Budget		Actual	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES				
Ad Valorem taxes	\$ 24,000	75,803	75,803	-
Proceeds from debt issuance	2,988,449	2,103,617	1,649,992	(453,625)
Interest	-	-	62	62
Miscellaneous	-	18,647	19,239	592
Total revenues	<u>3,012,449</u>	<u>2,198,067</u>	<u>1,745,096</u>	<u>(452,971)</u>
EXPENDITURES				
Capital outlays	2,988,449	2,168,171	1,670,720	497,451
Debt service	572,524	475,616	692,937	(217,321)
Total expenditures	<u>3,560,973</u>	<u>2,643,787</u>	<u>2,363,657</u>	<u>280,130</u>
Excess (deficiency) of revenues over (under) expenditures	(548,524)	(445,720)	(618,561)	(172,841)
OTHER FINANCING SOURCES (USES)				
Transfers	-	432,546	432,539	(7)
Net change in fund balances	(548,524)	(13,174)	(186,022)	(172,848)
Fund balances - beginning	628,012	628,012	-	(628,012)
Fund balances - ending	<u>\$ 79,488</u>	<u>614,838</u>	<u>(186,022)</u>	<u>(800,860)</u>

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

City of Choctaw, Oklahoma
Notes to Required Supplemental Information
On Budgetary Accounting and Control
For the Year Ended June 30, 2014

BUDGETARY ACCOUNTING AND CONTROL

Budget Law

The City prepares its annual operating budget under the provisions of the Oklahoma Municipal Budget Act of 1979 (the "Budget Act"). In accordance with those provisions, the following process is used to adopt the annual budget:

- a. Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at regular Council meetings to obtain taxpayer comments. Public hearings are held no later than 15 days prior to the beginning of the budget year.
- c. Subsequent to the public hearings but no later than seven days prior to July 1, the budget is legally enacted through the passage of a resolution by the City Council.
- d. Subsequent to City Council enactment, the adopted budget is filed with the office of the State Auditor and Inspector.

All funds with revenues and/or expenditures/expenses as defined by State law are required to have annual budgets under this section of state law, except funds of public trusts or authorities. The legal level of control at which expenditures may not legally exceed appropriations is the department level within a fund. The following departments exceeded appropriations:

General Fund -	
Administration	\$67,990
Fire	247
Fleet	51
Parks	3,536

All supplemental appropriations require the approval of the City Council. All transfers of appropriation between funds also require the approval of the City Council. The City prepared and adopted a legal annual budget for all governmental funds.

In accordance with Title 60 of the Oklahoma State Statutes, the Choctaw City Utilities Authority is required to prepare an annual budget and submit a copy to the City as beneficiary. However, there are no further requirements such as form of budget, approval of budget or definition of a legal spending limit.

City of Choctaw, Oklahoma
Notes to Required Supplemental Information
On Budgetary Accounting and Control
For the Year Ended June 30, 2014

Budgetary Accounting

The annual operating budgets of the General Fund are prepared and presented on a modified accrual basis of accounting.

The City utilizes encumbrance accounting under which purchase orders, contracts, and other commitments for expenditure of funds are recorded in order to reserve a portion of the applicable appropriation. The City considers most all appropriations to lapse at year-end; any open purchase orders to be honored in the subsequent budget year are reappropriated in the next year's budget. As a result, encumbrances are not treated as the equivalent of expenditures in the budget and actual financial statements.

**OTHER SUPPLEMENTARY
INFORMATION**

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

	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	\$ 223,491	65,859	46,689	38,015	12,632	116,371	464,885	11,345	40,258	1,019,545
Receivables, net	5,927	-	-	-	-	-	-	-	-	5,927
Due from other funds	100,000	-	-	200,000	-	-	100,000	-	-	400,000
TOTAL	<u>329,418</u>	<u>65,859</u>	<u>46,689</u>	<u>238,015</u>	<u>12,632</u>	<u>116,371</u>	<u>564,885</u>	<u>11,345</u>	<u>40,258</u>	<u>1,425,472</u>
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	-	-	-	-	-	-	-	-	-	-
Deposits subject to refund	-	1,260	-	-	-	-	-	-	-	1,260
Total liabilities	<u>-</u>	<u>1,260</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,260</u>
Fund balances:										
Reserved for:										
Restricted	329,418	64,599	46,689	238,015	12,632	116,371	564,885	11,345	40,258	1,424,212
Assigned	-	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-	-	-
Total fund balances	<u>329,418</u>	<u>64,599</u>	<u>46,689</u>	<u>238,015</u>	<u>12,632</u>	<u>116,371</u>	<u>564,885</u>	<u>11,345</u>	<u>40,258</u>	<u>1,424,212</u>
TOTAL	<u>\$ 329,418</u>	<u>65,859</u>	<u>46,689</u>	<u>238,015</u>	<u>12,632</u>	<u>116,371</u>	<u>564,885</u>	<u>11,345</u>	<u>40,258</u>	<u>1,425,472</u>

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

City of Choctaw, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2014

	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										
Taxes	\$ 110,344	-	-	-	-	-	-	-	-	110,344
Intergovernmental	55,550	-	6,885	-	-	-	-	-	-	62,435
Charge for services	-	5,825	4,431	-	3,600	25,975	11,336	35,078	-	86,245
Interest	-	-	-	-	-	82	-	-	50	132
Miscellaneous	4,749	1,872	36,021	-	-	-	6,791	-	-	49,433
Total revenues	<u>170,643</u>	<u>7,697</u>	<u>47,337</u>	<u>-</u>	<u>3,600</u>	<u>26,057</u>	<u>18,127</u>	<u>35,078</u>	<u>50</u>	<u>308,589</u>
EXPENDITURES										
Current:										
Public safety	-	-	54,629	-	-	-	9,430	-	-	64,059
Public works	494,294	-	-	-	-	-	-	47,000	-	541,294
Cultural and recreational	-	78,535	-	-	-	3,747	21,283	-	-	103,565
Capital outlay	-	-	-	-	-	-	211,137	-	-	211,137
Debt service	-	-	-	-	-	-	-	-	-	-
Total expenditures	<u>494,294</u>	<u>78,535</u>	<u>54,629</u>	<u>-</u>	<u>-</u>	<u>3,747</u>	<u>241,850</u>	<u>47,000</u>	<u>-</u>	<u>920,055</u>
Excess (deficiency) of revenues over expenditures	<u>(323,651)</u>	<u>(70,838)</u>	<u>(7,292)</u>	<u>-</u>	<u>3,600</u>	<u>22,310</u>	<u>(223,723)</u>	<u>(11,922)</u>	<u>50</u>	<u>(611,466)</u>
OTHER FINANCING SOURCES (USES)										
Transfers in	403,566	88,575	-	-	-	-	393,077	13,000	-	898,218
Transfers out	(20,000)	-	-	-	-	-	-	-	-	(20,000)
Total other financing sources and uses	<u>383,566</u>	<u>88,575</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>393,077</u>	<u>13,000</u>	<u>-</u>	<u>878,218</u>
Net change in fund balances	59,915	17,737	(7,292)	-	3,600	22,310	169,354	1,078	50	266,752
Fund balances-beginning	269,503	46,862	53,981	238,015	9,032	94,061	395,531	10,267	40,208	1,157,460
Fund balances-ending	<u>\$ 329,418</u>	<u>64,599</u>	<u>46,689</u>	<u>238,015</u>	<u>12,632</u>	<u>116,371</u>	<u>564,885</u>	<u>11,345</u>	<u>40,258</u>	<u>1,424,212</u>

See accompanying notes to the basic financial statement.

City of Choctaw, Oklahoma
Debt Service Coverage Schedule
For the Year Ended June 30, 2014

Gross Revenue Available For Debt Service:

Pledged sales tax - Two cents	\$ 1,572,309	
System-wide gross revenues - Water and wastewater	1,056,807	<u> </u>
 Total Gross Revenues Available		 <u>2,629,116</u>
 System-wide operating expense - Exclusive of capital improvement and debt service		 <u>760,540</u>
 Net Revenues Available for Debt Service	 \$ 1,868,576	 <u><u> </u></u>

Debt Service Requirements:

Revenue notes - Series 2013A	114,079	
Revenue notes - Series 2013B	69,828	
Revenue notes - Series 2007A	164,722	<u> </u>
 Annual debt service	 \$ 348,629	 <u><u> </u></u>
 Coverage		 <u><u>5.36</u></u>
 Coverage requirement		 <u><u>1.25</u></u>

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, 2014, 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 October 1, 2014.

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.

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*.

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
October 1, 2014

City of Choctaw, Oklahoma
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS - THROUGH GRANTOR NUMBER	FEDERAL EXPENDITURES
FEDERAL ASSISTANCE			
<u>U.S. Federal Emergency Management Agency:</u>			
Passed through Okla. Dept. of Emergency Management: Emergency Management Assistance	97.036	FEMA DR 4117	<u>23,219</u>
<u>U.S. Department of Transportation</u>			
Passed through Oklahoma Highway Safety Department: Oklahoma Highway Safety Office	20.600	FFY2014	<u>1,009</u>
<u>U.S. Department of Justice</u>			
Passed through the Oklahoma District Attorneys Council:			
Justice Assistance Grant	16.738	JAG-LLE-2013	7,241
Bullet-proof Vests	16.607	FY 2012	<u>1,030</u>
Total U.S. Department of Justice			<u>8,271</u>
Total Federal Assistance			<u>\$ 32,499</u>

Footnotes to Schedule of Expenditures of Federal Awards:

1. The Schedule of Expenditures of Federal Awards is prepared on an accrual basis of accounting. The expenditures are recorded when the liability is incurred regardless of when the award proceeds are received.