



CITY OF CHOCTAW, OKLAHOMA

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

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2015**

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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, 2015, 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, 2015, 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.

Emphasis of Matter

As described in Note 2 to the financial statements, effective July 1, 2014 the City adopted provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB 27*, and GASB Statement No. 71, *Pension Transition from Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*. The implementation of GASB Statements No. 68 and 71 resulted in the restatement of beginning net position. Our opinion is not modified with respect to this matter.

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, 2015 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, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF CHOCTAW, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2015
Unaudited

Our discussion and analysis of the City of Choctaw's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The City's total net position decreased by \$2,548,219 and the assets of the City exceeded its liabilities \$10,189,749 (net position). Of this amount, the City has an unrestricted net deficit of \$49,339.
- At June 30, 2015, the City's governmental funds reported combined ending fund balances of \$7,106,555. Of this total amount, \$1,077,947 is available for spending at the government's discretion (unassigned fund balance).
- At the end of fiscal year 2015, unassigned fund balance for the General Fund was \$1,077,947, or approximately 32.0% of total General Fund expenditures.
- Sales and use taxes increased by \$1,487,725 or 39.6% over the prior fiscal year.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the City of Choctaw (the "City") and the Choctaw Utilities Authority (CUA). Included in this report are government-wide statements for each of three categories of activities - governmental and business-type, along with one discretely-presented component unit. This discussion and analysis focuses on the primary government, composed of the City of Choctaw and Choctaw Utilities Authority.

The government-wide financial statements present the complete financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately and combined. For governmental activities, these statements tell how their services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. These statements include all assets of the City (including infrastructure capital assets) as well as all liabilities (including all long-term debt).

The Statement of Net Position and the Statement of Activities

This discussion and analysis is intended to serve as an introduction to the City of Choctaw's basic financial statements. The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way determining

whether the City's overall financial condition improved, declined or remained steady over the past year. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's Net Position and changes in Net Position from the prior year. You can think of the City's Net Position - the difference between assets and deferred outflows and liabilities and deferred inflows - as one way to measure the City's financial condition, or position. Over time, increases or decreases in Net Position are one indicator of whether the financial position of the City is improving, deteriorating or remaining steady. However, you must consider other non-financial factors, such as changes in the City's tax base, the condition of the City's roads, and the quality of services to assess the overall health of the City.

The Statement of Net Position and the Statement of Activities are divided into three types of activities:

- Governmental activities - Most of the City's basic services are reported here, including the police, fire, general administration, streets and parks. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities.
- Business-type activities - The City's activities that charge a fee to customers to help cover all or most of the cost of certain services it provides. The City's water, sewer and solid waste utilities are reported here.
- Discretely-presented component units - This account for activities of the City's reporting entity that do not meet the criteria for blending, and include the Choctaw Economic Development Authority.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic service it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the Governmental Fund financial statements to those in the Government-Wide

financial statements are explained in a reconciliation following each Governmental Fund financial statement.

Proprietary funds. When the City charges customers for the services it provides - whether to outside customers or to other units of the City - these services are generally reported in proprietary funds. Enterprise funds are one type of proprietary funds and are essentially the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

For the year ended June 30, 2015, net position for governmental activities and business-type activities decreased \$2,548,219. The results indicate the City, as a whole, incurred an increase in its financial condition from the prior year.

The following is a summary comparison of changes in net position from last year for the City:

| | Governmental | | | Business-type | | | Total | | |
|---|--------------|--------|--------|---------------|-------|--------|--------------------|--------|--------|
| | Activities | | % Inc. | Activities | | % Inc. | Primary Government | | % Inc. |
| | 2015 | 2014 | (Dec.) | 2015 | 2014 | (Dec.) | 2015 | 2014 | (Dec.) |
| Current and other assets | \$ 7,722 | 2,938 | 163% | 1,777 | 4,072 | -56% | 9,499 | 7,010 | 36% |
| Capital assets | 20,219 | 16,620 | 22% | 5,099 | 5,184 | -2% | 25,318 | 21,804 | 16% |
| Total assets | 27,941 | 19,558 | 43% | 6,876 | 9,256 | -26% | 34,817 | 28,814 | 21% |
| Deferred outflow of resources | 93 | - | | - | - | | 93 | - | |
| Long-term debt outstanding | 17,533 | 10,102 | 74% | 5,993 | 6,335 | -5% | 23,526 | 16,437 | 43% |
| Other liabilities | 530 | 236 | 125% | 291 | 259 | 12% | 821 | 495 | 66% |
| Total liabilities | 18,063 | 10,338 | 75% | 6,284 | 6,594 | -5% | 24,347 | 16,932 | 44% |
| Deferred inflow of resources | 373 | - | | - | - | | 373 | - | |
| Net assets: | | | | | | | | | |
| Invested in capital assets, net of debt | 8,683 | 7,408 | 17% | (200) | 1,733 | -112% | 8,483 | 9,141 | -7% |
| Restricted | 1,589 | 2,001 | -21% | 167 | 104 | 61% | 1,756 | 2,105 | -17% |
| Unrestricted (deficit) | (674) | (189) | 257% | 625 | 825 | -24% | (49) | 636 | -108% |
| Total net assets | \$ 9,598 | 9,220 | 4% | 592 | 2,662 | -78% | 10,190 | 11,882 | -14% |

The largest portion of the City's net position 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. 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, \$1,756,075 represents resources that are subject to external restrictions on how they may be used. The City has an unrestricted net deficit of \$49,339.

Change in Net Position

For the year ended June 30, 2015 net position of the primary government changed as follows:

Table 2
Changes in Net Position (In Thousands)

| | <u>Activities</u> | | <u>% Inc.</u> | <u>Activities</u> | | <u>% Inc.</u> | <u>Primary Government</u> | | <u>% Inc.</u> |
|---------------------------------|-------------------|--------------|---------------|-------------------|--------------|---------------|---------------------------|---------------|---------------|
| | <u>2015</u> | <u>2014</u> | <u>(Dec.)</u> | <u>2015</u> | <u>2014</u> | <u>(Dec.)</u> | <u>2015</u> | <u>2014</u> | <u>(Dec.)</u> |
| Revenues | | | | | | | | | |
| Charges for services | \$ 1,309 | 1,193 | 10% | 2,072 | 1,952 | 6% | 3,381 | 3,145 | 8% |
| Operating grants | 244 | 62 | 294% | - | - | - | 244 | 62 | 294% |
| Capital grants | - | - | - | - | - | - | - | - | - |
| Sales and use taxes | 5,249 | 3,762 | 40% | - | - | - | 5,249 | 3,762 | 40% |
| Franchise tax (fees) | 469 | 448 | 5% | - | - | - | 469 | 448 | 5% |
| Other taxes | 484 | 488 | -1% | - | - | - | 484 | 488 | -1% |
| Investment income | 1 | 1 | 0% | - | 1 | -100% | 1 | 2 | -50% |
| Other | 254 | 296 | -14% | 1 | 2 | -50% | 255 | 298 | -14% |
| Total revenues | 8,010 | 6,250 | 28% | 2,073 | 1,955 | 6% | 10,083 | 8,205 | 23% |
| Expenses | | | | | | | | | |
| General government | 2,908 | 2,480 | 17% | - | - | - | 2,908 | 2,480 | 17% |
| Public safety | 1,987 | 1,752 | 13% | - | - | - | 1,987 | 1,752 | 13% |
| Public works | 1,075 | 1,040 | 3% | 2,233 | - | - | 3,308 | 1,040 | 218% |
| Cultural & recreation | 949 | 301 | 215% | - | - | - | 949 | 301 | 215% |
| Water | - | - | - | 1,174 | 1,093 | 7% | 1,174 | 1,093 | 7% |
| Sewer | - | - | - | 447 | 386 | 16% | 447 | 386 | 16% |
| Sanitation | - | - | - | 670 | 723 | -7% | 670 | 723 | -7% |
| Stormwater | - | - | - | 205 | 149 | 38% | 205 | 149 | 38% |
| Interest on debt | 982 | 491 | - | - | - | - | 982 | 491 | 100% |
| Total expenses | 7,901 | 6,064 | 30% | 4,729 | 2,351 | 101% | 12,630 | 8,415 | 50% |
| Increase in net position | | | | | | | | | |
| before transfers | 109 | 186 | -41% | (2,656) | (396) | 571% | (2,547) | (210) | 1113% |
| Transfers | (488) | (251) | 94% | 488 | 251 | 94% | - | - | |
| Change in net position | (379) | (65) | 483% | (2,168) | (145) | 1395% | (2,547) | (210) | 1113% |
| Beginning net position | 7,768 | 9,285 | -16% | 2,662 | 2,772 | -4% | 10,430 | 12,057 | -13% |
| Contributed capital | 2,209 | - | - | 98 | 35 | 180% | 2,307 | 35 | 6491% |
| Ending net position | \$ 9,598 | 9,220 | 4% | 592 | 2,662 | -78% | 10,190 | 11,882 | -14% |

The City's governmental activities tax revenues increase by \$1,504,385 due in large part to sales tax receipts from the Walmart Supercenter.

Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenditures, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note all taxes are classified as general revenue even if restricted for a specific purpose.

Table 3
Net Revenue (Expense) of Governmental Activities
(In Thousands)

| | Total Expenses | | % Inc. (Dec.) | Net Revenue | | % Inc. (Dec.) |
|----------------------------|-----------------|--------------|------------------|--------------------------|----------------|------------------|
| | of Services | | | (Expense) of Services | | |
| | 2015 | 2014 | | 2015 | 2014 | |
| General government | \$ 2,908 | 2,480 | 17% | (1,818) | (1,544) | 18% |
| Public safety | 1,987 | 1,752 | 13% | (1,615) | (1,489) | 8% |
| Public works | 1,074 | 1,040 | 3% | (983) | (984) | 0% |
| Cultural & recreation | 950 | 301 | 216% | (950) | (301) | 216% |
| Interest on long-term debt | 982 | 491 | 100% | (982) | (491) | 100% |
| Total | \$ 7,901 | 6,064 | 30% | (6,348) | (4,809) | 32% |

For the year ended June 30, 2015, total expenses for governmental activities amounted to \$7,900,815 which is a 30.2% increase from the prior year.

Business-type Activities

Table 4
Net Revenue (Expense) of Business-Type Activities
(In Thousands)

| | Total Expenses | | % Inc. (Dec.) | Net Revenue | | % Inc. (Dec.) |
|--------------|-----------------|--------------|------------------|--------------------------|--------------|------------------|
| | of Services | | | (Expense) of Services | | |
| | 2015 | 2014 | | 2015 | 2014 | |
| Water | \$ 1,174 | 1,093 | 7% | (437) | (478) | -9% |
| Sewer | 447 | 386 | 16% | 17 | 56 | -70% |
| Sanitation | 670 | 723 | -7% | (505) | 14 | -3707% |
| Stormwater | 206 | 149 | 38% | 500 | 9 | 5456% |
| Public works | 2,233 | - | 0% | (2,233) | - | - |
| Total | \$ 4,730 | 2,351 | 101% | (2,658) | (399) | 566% |

The City's business-type activities include utility services for water, sewer, sanitation and stormwater operations.

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2015 fiscal year, the governmental funds reported a combined fund balance of \$7,106,555. The enterprise funds reported combined net position of \$591,732.

Other Fund Highlights Include:

- For the year ended June 30, 2015, the General Fund's total fund balance increased by \$4,699,518, or 295%, due to the issuance of the 2014 Sales Tax Revenue Notes.
- The CUA Enterprise Fund reported a net position decrease of \$2,656,900 before contributions and transfers of \$488,395.

General Fund Budgetary Highlights

For the year ended June 30, 2015, the General Fund reported actual budgetary basis revenues above final estimates by \$193,865 or a 3.2% positive variance. General Fund actual expenditures were under final appropriations by \$46,170 or a 1.4% positive variance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2015, the City had \$25,318,219 invested in capital assets, net of depreciation, including land, buildings, machinery and equipment, park facilities, water, sewer and stormwater systems, roads and bridges. This represents a net increase of \$3,514,615 over last year.

Table 5
Capital Assets

| | Governmental | | Business-type | | Total | |
|---------------------------|------------------|---------------|---------------|--------------|--------------------|---------------|
| | Activities | | Activities | | Primary Government | |
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Land | \$ 2,868 | 2,868 | 22 | 22 | 2,890 | 2,890 |
| Buildings | 6,098 | 4,074 | - | - | 6,098 | 4,074 |
| Machinery and equipment | 1,754 | 1,594 | 666 | 651 | 2,420 | 2,245 |
| Vehicles | 1,563 | 1,298 | 75 | 73 | 1,638 | 1,371 |
| Infrastructure | 57,189 | 54,967 | 16,401 | 16,196 | 73,590 | 71,163 |
| Less: Accum. depreciation | (49,253) | (48,181) | (12,065) | (11,758) | (61,318) | (59,939) |
| Total capital assets, net | \$ <u>20,219</u> | <u>16,620</u> | <u>5,099</u> | <u>5,184</u> | <u>25,318</u> | <u>21,804</u> |

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

- Construction of park improvements.
- Major street construction.
- Purchase of various vehicles and equipment.

Long-term Debt

At year-end, the City had \$22,022,784 in long-term debt outstanding, which represents a \$6,003,021 increase from the prior year.

Table 4
Outstanding Debt

| | Governmental | | Business-type | | Total | |
|--------------------------|------------------|--------------|---------------|--------------|--------------------|---------------|
| | Activities | | Activities | | Primary Government | |
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| General obligation bonds | \$ 880 | 1,085 | - | - | 880 | 1,085 |
| Notes payable | 8,820 | 2,490 | - | - | 8,820 | 2,490 |
| Tax increment note (TIF) | 6,428 | 6,220 | - | - | 6,428 | 6,220 |
| Revenue notes | - | - | 5,895 | 6,225 | 5,895 | 6,225 |
| Total long-term debt | \$ <u>16,128</u> | <u>9,795</u> | <u>5,895</u> | <u>6,225</u> | <u>22,023</u> | <u>16,020</u> |

ECONOMIC OUTLOOK

- The unemployment rate for the Oklahoma City metropolitan area which includes Choctaw is currently 4.4 percent, which is a decrease of .4 percent from a year ago. This compares favorably to the state's average unemployment rate of 4.6 percent and favorably to the national average rate of 6.1 percent.
- Inflationary trends in the region compare favorably to national indices.
- The City's major source of revenue is sales tax revenue. Sales tax revenue increased 15.00% over the prior year total. A portion of the increase is attributable to a new Walmart Supercenter.

All of these factors were considered in preparing the City's budget for the 2016 fiscal year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

City of Choctaw, Oklahoma
Statement of Net Position
June 30, 2015

| | Primary Government | | | Component Unit |
|---|----------------------------|-----------------------------|-------------------|--------------------------------------|
| | Governmental Activities | Business-type Activities | Total | Economic Development Authority |
| ASSETS | | | | |
| Pooled cash and cash equivalents | \$ 1,902,427 | 433,766 | 2,336,193 | 4,029 |
| Restricted cash and investments | 5,461,736 | 967,630 | 6,429,366 | - |
| Investments | - | | - | 75,000 |
| Receivables (net of allowance for uncollectibles) | | 175,901 | 175,901 | - |
| Internal balances | (200,000) | 200,000 | - | - |
| Due from other governments | 498,891 | - | 498,891 | - |
| Net pension asset | 58,617 | - | 58,617 | - |
| Capital assets: | | | | |
| Land, improvements, and construction in progress | 2,868,369 | 22,185 | 2,890,554 | - |
| Other capital assets, net of depreciation | 17,351,045 | 5,076,618 | 22,427,663 | - |
| Total assets | <u>27,941,085</u> | <u>6,876,100</u> | <u>34,817,185</u> | <u>79,029</u> |
| DEFERRED OUTFLOW OF RESOURCES | | | | |
| Deferred amounts related to pensions | <u>92,868</u> | <u>-</u> | <u>92,868</u> | <u>-</u> |
| LIABILITIES | | | | |
| Accounts payable and accrued expenses | 1,413 | - | 1,413 | - |
| Accrued interest payable | 492,520 | 53,580 | 546,100 | - |
| Deferred revenues | - | 50,967 | 50,967 | - |
| Due to bondholders | 5,990 | - | 5,990 | - |
| Deposits subject to refund | 29,766 | 187,193 | 216,959 | - |
| Long-term liabilities: | | | | |
| Net pension liability | 1,104,620 | - | 1,104,620 | - |
| Due within one year | 1,195,000 | 368,925 | 1,563,925 | - |
| Due in more than one year | 15,233,389 | 5,623,703 | 20,857,092 | - |
| Total liabilities | <u>18,062,698</u> | <u>6,284,368</u> | <u>24,347,066</u> | <u>-</u> |
| DEFERRED INFLOW OF RESOURCES | | | | |
| Deferred amounts related to pensions | <u>373,238</u> | <u>-</u> | <u>373,238</u> | <u>-</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 8,682,778 | (199,765) | 8,483,013 | - |
| Restricted for: | | | | |
| Debt service | 337,969 | 166,925 | 504,894 | - |
| Capital improvements | 247,721 | - | 247,721 | - |
| Other purposes | 1,003,460 | - | 1,003,460 | - |
| Unrestricted (deficit) | <u>(673,911)</u> | <u>624,572</u> | <u>(49,339)</u> | <u>79,029</u> |
| Total net position | <u>\$ 9,598,017</u> | <u>591,732</u> | <u>10,189,749</u> | <u>79,029</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, 2015

| 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 | \$ 2,908,029 | 1,089,575 | - | - | (1,818,454) |
| Public safety | 1,986,620 | 219,320 | 152,571 | - | (1,614,729) |
| Public works | 1,074,477 | - | 91,004 | - | (983,473) |
| Culture and recreation | 949,744 | - | - | - | (949,744) |
| Interest on long-term debt | 981,945 | - | - | - | (981,945) |
| Total governmental activities | <u>7,900,815</u> | <u>1,308,895</u> | <u>243,575</u> | <u>-</u> | <u>(6,348,345)</u> |
| Business-type activities: | | | | | |
| Water | 1,173,572 | 736,977 | - | - | (436,595) |
| Wastewater | 447,511 | 464,116 | - | - | 16,605 |
| Sanitation | 669,655 | 164,802 | - | - | (504,853) |
| Stormwater | 205,904 | 706,182 | - | - | 500,278 |
| Capital outlays | 2,233,066 | - | - | - | (2,233,066) |
| Total business-type activities | <u>4,729,708</u> | <u>2,072,077</u> | <u>-</u> | <u>-</u> | <u>(2,657,631)</u> |
| Total primary government | <u>12,630,523</u> | <u>3,380,972</u> | <u>243,575</u> | <u>-</u> | <u>(9,005,976)</u> |
| Component Unit: | | | | | |
| Economic Development | \$ <u>5,720</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(5,720)</u> |

City of Choctaw, Oklahoma
Statement of Activities
For the Year Ended June 30, 2015

| | Primary Government | | | Component Unit |
|---|----------------------------|-----------------------------|-------------|--------------------------------------|
| | Governmental Activities | Business-type Activities | Total | Economic Development Authority |
| Change in net position: | | | | |
| Net (expense) revenue | \$ (6,348,345) | (2,657,631) | (9,005,976) | (5,720) |
| General revenues: | | | | |
| Taxes: | | | | |
| Sales taxes | 4,987,596 | - | 4,987,596 | - |
| Use taxes | 261,757 | - | 261,757 | - |
| Franchise taxes (fees) | 468,689 | - | 468,689 | - |
| Other taxes | 484,117 | - | 484,117 | - |
| Unrestricted investment income | 1,036 | 415 | 1,451 | 193 |
| Miscellaneous | 253,831 | 316 | 254,147 | - |
| Transfers | (488,395) | 488,395 | - | - |
| Total general revenues and transfers | 5,968,631 | 489,126 | 6,457,757 | 193 |
| Change in net position | (379,714) | (2,168,505) | (2,548,219) | (5,527) |
| Net Position - beginning, as restated (See Note 3) | 7,768,035 | 2,662,237 | 10,430,272 | 84,556 |
| Contributed capital - fixed assets | 2,209,696 | 98,000 | 2,307,696 | - |
| Net Position - ending | \$ 9,598,017 | 591,732 | 10,189,749 | 79,029 |

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

City of Choctaw, Oklahoma
Balance Sheet - Governmental Funds
June 30, 2015

| | General Fund | Dedicated Sales Tax Fund | Town Square Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------------------|------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 619,704 | - | - | 838,805 | 1,458,509 |
| Cash - Police fines account | 7,713 | - | - | - | 7,713 |
| Restricted cash and cash equivalents | - | 4,874,109 | 587,627 | - | 5,461,736 |
| Receivables: | | | | | |
| Due from other governments | 484,839 | - | - | 5,927 | 490,766 |
| Due from other funds | - | 741,489 | - | 400,000 | 1,141,489 |
| Total assets | <u>1,112,256</u> | <u>5,615,598</u> | <u>587,627</u> | <u>1,244,732</u> | <u>8,560,213</u> |
| LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | 1,413 | - | - | - | 1,413 |
| Police bonds outstanding | 5,990 | - | - | - | 5,990 |
| Deposits subject to refund | 26,906 | - | - | 2,860 | 29,766 |
| Due to other funds | - | - | 1,416,489 | - | 1,416,489 |
| Total liabilities (Note 2) | <u>34,309</u> | <u>-</u> | <u>1,416,489</u> | <u>2,860</u> | <u>1,453,658</u> |
| DEFERRED INFLOW OF RESOURCES | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balances: | | | | | |
| Reserved for: | | | | | |
| Nonspendable | - | 5,615,598 | (828,862) | 1,241,872 | 6,028,608 |
| Unassigned | 1,077,947 | - | - | - | 1,077,947 |
| Total fund balances | <u>1,077,947</u> | <u>5,615,598</u> | <u>(828,862)</u> | <u>1,241,872</u> | <u>7,106,555</u> |
| Total liabilities, deferred inflows and fund balances | <u>\$ 1,112,256</u> | <u>5,615,598</u> | <u>587,627</u> | <u>1,244,732</u> | |

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. | 20,219,414 |
| 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. | 519,330 |
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds: | |
| Net pension asset | 58,617 |
| Pension related deferred outflows | 92,868 |
| Certain liabilities are not due and payable in the current period from current financial resources, and therefore are not reported in the funds: | |
| Bonds and notes payable | (16,196,977) |
| Net pension liability | (1,104,620) |
| Pension related deferred inflows | (373,238) |
| Accrued interest payable | (492,520) |
| Accrued compensated absences | (231,412) |
| Net position of governmental activities | <u>\$ 9,598,017</u> |

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, 2015

| | General Fund | Dedicated Sales Tax Fund | Town Square Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------------------|------------------------|--------------------------------|--------------------------------|
| REVENUES | | | | | |
| Taxes | \$ 5,790,145 | - | 70,894 | 341,120 | 6,202,159 |
| Intergovernmental | 76,542 | - | - | 14,462 | 91,004 |
| Licenses and permits | 175,776 | - | - | - | 175,776 |
| Charge for services | - | - | - | 74,699 | 74,699 |
| Fines and forfeitures | 219,320 | - | - | - | 219,320 |
| Interest | 81 | 759 | 14 | 152 | 1,006 |
| Proceeds from debt issuance | - | 6,203,762 | 858,041 | - | 7,061,803 |
| Miscellaneous | 41,293 | - | - | 188,517 | 229,810 |
| Total revenues | <u>6,303,157</u> | <u>6,204,521</u> | <u>928,949</u> | <u>618,950</u> | <u>14,055,577</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | 1,429,956 | 119,491 | - | 31,006 | 1,580,453 |
| Public safety | 1,733,726 | - | - | 379,131 | 2,112,857 |
| Public works | 52,131 | 92,147 | - | 496,059 | 640,337 |
| Culture and recreation | 148,186 | 1,772,940 | - | 313,743 | 2,234,869 |
| Capital outlay | - | - | 869,791 | - | 869,791 |
| Debt service | - | 157,627 | 1,004,989 | 266,741 | 1,429,357 |
| Total expenditures | <u>3,363,999</u> | <u>2,142,205</u> | <u>1,874,780</u> | <u>1,486,680</u> | <u>8,867,664</u> |
| Excess (deficiency) of revenues over expenditures | <u>2,939,158</u> | <u>4,062,316</u> | <u>(945,831)</u> | <u>(867,730)</u> | <u>5,187,913</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | - | 1,414,616 | 882,797 | 619,317 | 2,916,730 |
| Transfers out | (2,669,131) | (735,994) | - | - | (3,405,125) |
| Total other financing sources and uses | <u>(2,669,131)</u> | <u>678,622</u> | <u>882,797</u> | <u>619,317</u> | <u>(488,395)</u> |
| Net change in fund balances | 270,027 | 4,740,938 | (63,034) | (248,413) | 4,699,518 |
| Fund balances-beginning | 807,920 | 874,660 | (765,828) | 1,490,285 | 2,407,037 |
| Fund balances-ending | <u>\$ 1,077,947</u> | <u>5,615,598</u> | <u>(828,862)</u> | <u>1,241,872</u> | <u>7,106,555</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, 2015

| | |
|--|----------------------------|
| Net change in fund balances - total governmental funds | \$ 4,699,518 |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p> | |
| <p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:</p> | |
| Capital asset purchases capitalized | 2,462,314 |
| Depreciation expense | (1,072,441) |
| <p>In the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as an element of pension expense. The fund financial statements report pension contributions as expenditures.</p> | |
| | 125,645 |
| <p>Issuance of long-term debt is a revenue in the governmental funds, but the gross debt increases long-term liabilities in the Statement of Net Position:</p> | |
| Issuance of long-term debt | (7,313,021) |
| <p>Repayment of debt principal and note issue costs is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:</p> | |
| Long-term debt principal payments | 1,018,109 |
| <p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:</p> | |
| Change in accrued compensated absences | (31,832) |
| Change in accrued interest payable | (288,770) |
| <p>Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The net revenue (expense) of certain internal is reported with governmental activities.</p> | |
| | <u>20,764</u> |
| Change in net assets of governmental activities | \$ <u><u>(379,714)</u></u> |

City of Choctaw, Oklahoma
Statement of Net Position - Proprietary Funds
June 30, 2015

| | Business-type Activities - Enterprise Funds | | | Governmental |
|---|---|--------------------|---------------------|-----------------|
| | Choctaw Utilities Authority | | Total | Internal |
| | Operating Fund | Debt Service | Enterprise Funds | Service Fund |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 433,766 | - | 433,766 | 436,205 |
| Restricted: | | | | |
| Cash and investments | 187,193 | 780,437 | 967,630 | - |
| Accounts receivable, net of allowance for uncollectibles of \$ 94,177 | 175,901 | - | 175,901 | 8,125 |
| Due from other funds | 200,000 | - | 200,000 | 75,000 |
| Total current assets | <u>996,860</u> | <u>780,437</u> | <u>1,777,297</u> | <u>519,330</u> |
| Non-current assets: | | | | |
| Land | 22,185 | - | 22,185 | - |
| Other capital assets, net of accumulated depreciation | 5,076,618 | - | 5,076,618 | - |
| Total non-current assets | <u>5,098,803</u> | <u>-</u> | <u>5,098,803</u> | <u>-</u> |
| Total assets | <u>6,095,663</u> | <u>780,437</u> | <u>6,876,100</u> | <u>519,330</u> |
| DEFERRED OUTFLOW OF RESOURCES | | | | |
| | - | - | - | - |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accrued interest payable | - | 53,580 | 53,580 | - |
| Deferred revenues | 50,967 | - | 50,967 | - |
| Deposits subject to refund | 187,193 | - | 187,193 | - |
| Current portion of long-term obligations | 23,925 | 345,000 | 368,925 | - |
| Total current liabilities | <u>262,085</u> | <u>398,580</u> | <u>660,665</u> | <u>-</u> |
| Non-current liabilities: | | | | |
| Revenue notes payable | - | 5,550,000 | 5,550,000 | - |
| Capital lease | 24,531 | - | 24,531 | - |
| Accrued compensated absences | 49,172 | - | 49,172 | - |
| Total non-current liabilities | <u>73,703</u> | <u>5,550,000</u> | <u>5,623,703</u> | <u>-</u> |
| Total liabilities | <u>335,788</u> | <u>5,948,580</u> | <u>6,284,368</u> | <u>-</u> |
| DEFERRED INFLOW OF RESOURCES | | | | |
| | - | - | - | - |
| NET POSITION | | | | |
| Net investment in capital assets | 5,135,303 | (5,335,068) | (199,765) | - |
| Restricted for: | | | | |
| Debt service | - | 166,925 | 166,925 | - |
| Unrestricted | 624,572 | - | 624,572 | 519,330 |
| Total net position | <u>\$ 5,759,875</u> | <u>(5,168,143)</u> | <u>591,732</u> | <u>519,330</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, 2015

| | Business-type Activities - Enterprise Funds | | | Governmental |
|--|---|--------------------|---------------------|-----------------|
| | Choctaw Utilities Authority | | Total | Internal |
| | Operating Fund | Debt Service | Enterprise Funds | Service Fund |
| REVENUES | | | | |
| Water | \$ 736,977 | - | 736,977 | - |
| Wastewater | 464,116 | - | 464,116 | - |
| Sanitation | 164,802 | - | 164,802 | - |
| Stormwater and drainage fees | 706,182 | - | 706,182 | - |
| Insurance premiums | - | - | - | 839,100 |
| Total operating revenues | <u>2,072,077</u> | <u>-</u> | <u>2,072,077</u> | <u>839,100</u> |
| OPERATING EXPENSES | | | | |
| Water | 803,635 | - | 803,635 | - |
| Wastewater | 100,198 | - | 100,198 | - |
| Wastewater plant | 246,427 | - | 246,427 | - |
| Sanitation | 669,655 | - | 669,655 | - |
| Stormwater | 205,904 | - | 205,904 | - |
| Insurance claims and expense | - | - | - | 842,387 |
| Depreciation and amortization | 307,003 | - | 307,003 | - |
| Total operating expenses | <u>2,332,822</u> | <u>-</u> | <u>2,332,822</u> | <u>842,387</u> |
| Operating income (loss) | <u>(260,745)</u> | <u>-</u> | <u>(260,745)</u> | <u>(3,287)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Miscellaneous revenues | 316 | - | 316 | 24,021 |
| Interest income | - | 415 | 415 | 30 |
| Capital projects | - | (2,233,066) | (2,233,066) | - |
| Interest expense and fiscal charges | - | (163,820) | (163,820) | - |
| Total nonoperating revenues (expenses) | <u>316</u> | <u>(2,396,471)</u> | <u>(2,396,155)</u> | <u>24,051</u> |
| OPERATING TRANSFERS AND CAPITAL ITEMS | | | | |
| Transfers in | - | 503,395 | 503,395 | - |
| Transfers out | (15,000) | - | (15,000) | - |
| Total operating transfers | <u>(15,000)</u> | <u>503,395</u> | <u>488,395</u> | <u>-</u> |
| Change in net position | <u>(275,429)</u> | <u>(1,893,076)</u> | <u>(2,168,505)</u> | <u>20,764</u> |
| Net position - beginning | 5,937,304 | (3,275,067) | 2,662,237 | 498,566 |
| Contributed capital - fixed assets | 98,000 | - | 98,000 | - |
| Net position - ending | <u>\$ 5,759,875</u> | <u>(5,168,143)</u> | <u>591,732</u> | <u>519,330</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, 2015

| | Business-type Activities - Enterprise Funds | | | Governmental |
|---|---|--------------------|------------------------------|-----------------------------|
| | Choctaw Utilities Authority | Debt Service | Total Enterprise Funds | Internal Service Fund |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers | \$ 2,043,051 | - | 2,043,051 | 839,100 |
| Payments to suppliers and employees | (1,983,728) | - | (1,983,728) | (818,254) |
| Other receipts (payments) | - | (2,420) | (2,420) | - |
| Net cash provided (used) by operating activities | <u>59,323</u> | <u>(2,420)</u> | <u>56,903</u> | <u>20,846</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Operating transfers in (out) | <u>(15,000)</u> | <u>503,395</u> | <u>488,395</u> | <u>-</u> |
| Net cash provided (used) by noncapital financing activities | <u>(15,000)</u> | <u>503,395</u> | <u>488,395</u> | <u>-</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Principal paid on long-term debt | - | (330,000) | (330,000) | - |
| Interest expense and fiscal charges | - | (163,820) | (163,820) | - |
| (Acquisition) disposition of capital assets | <u>(147,383)</u> | <u>(2,233,066)</u> | <u>(2,380,449)</u> | <u>-</u> |
| Net cash provided (used) by capital and related financing activities | <u>(147,383)</u> | <u>(2,726,886)</u> | <u>(2,874,269)</u> | <u>-</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Interest received | <u>-</u> | <u>415</u> | <u>415</u> | <u>30</u> |
| Net cash provided (used) by investing activities | <u>-</u> | <u>415</u> | <u>415</u> | <u>30</u> |
| Net increase (decrease) in cash and cash equivalents | (103,060) | (2,225,496) | (2,328,556) | 20,876 |
| Cash and cash equivalents, beginning of the year | <u>724,019</u> | <u>3,005,933</u> | <u>3,729,952</u> | <u>415,329</u> |
| Cash and cash equivalents, end of the year | <u>620,959</u> | <u>780,437</u> | <u>1,401,396</u> | <u>436,205</u> |
| Reconciliation to Statement of Net Position: | | | | |
| Cash and cash equivalents | 433,766 | - | 433,766 | 436,205 |
| Restricted cash and cash equivalents | 187,193 | 780,437 | 967,630 | - |
| Total cash and cash equivalents, end of year | <u>\$ 620,959</u> | <u>780,437</u> | <u>1,401,396</u> | <u>436,205</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | | | |
| Operating income (loss) | (260,745) | - | (260,745) | (3,287) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation and amortization expense | 307,003 | - | 307,003 | - |
| Miscellaneous revenue | 316 | - | 316 | 24,021 |
| Change in assets and liabilities: | | | | |
| (Increase) decrease in receivables | (33,257) | - | (33,257) | 112 |
| Increase (decrease) in accounts payable / accrued expenses | 11,032 | (2,420) | 8,612 | - |
| Increase (decrease) in deposits subject to refund | 30,745 | - | 30,745 | - |
| Increase (decrease) in deferred revenues | 4,229 | - | 4,229 | - |
| Total adjustments | <u>320,068</u> | <u>(2,420)</u> | <u>317,648</u> | <u>24,133</u> |
| Net cash provided by (used in) operating activities | <u>\$ 59,323</u> | <u>(2,420)</u> | <u>56,903</u> | <u>20,846</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, 2015

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, 2015

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 revenues, 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, 2015

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, 2015

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, 2015

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, 2015

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.

- k. *Pensions* - For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflow of resources related to pensions and pension expense, information about the fiduciary net position of the City's multiemployer pension plans and additions to/deductions from the multiemployer pension plans have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
As of and For the Year Ended June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- l. *Fund Equity* - In the government-wide financial statements, equity is classified as net position and displayed in three components:
1. *Net investment in capital assets* - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings attributable to those assets.
 2. *Restricted net position* - Consists of net position with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation. The most significant restriction as of June 30, 2015 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, 2015

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 been 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, 2015 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, 2015

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 - Effective July 1, 2014, the City implemented GASB 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. A prior period adjustment of \$1,452,018 was made to unrestricted net position to account for these items.

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 | \$ 2,336,193 |
| Investments | <u>-</u> |
| Total | <u>\$ 2,336,193</u> |

The local government had the following deposits and investments at June 30, 2015:

| | Credit rating | Fair value | Maturities in Years | | |
|----------------------------------|---------------|---------------------|---------------------|-------------|----------|
| | | | On demand | Less than 1 | 1-5 |
| Demand deposits and cash on hand | (1) | \$ 2,336,193 | 2,336,193 | - | - |
| Time deposits | (1) | - | - | - | - |
| Total | | <u>\$ 2,336,193</u> | <u>2,336,193</u> | <u>-</u> | <u>-</u> |

(1) Not subject to rating

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2015

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Custodial Credit Risk

At June 30, 2015, the City held deposits of approximately \$3,045,525 at financial institutions. The City's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with the securities held by the City or by its agent in the City's name.

Investment Interest Credit Risk

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

Investment Credit Risk

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

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime banker's 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, 2015

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 | \$ - | - | 270,078 | 270,078 |
| Due from other governments | 484,839 | 5,927 | - | 490,766 |
| Gross receivables | 484,839 | 5,927 | 270,078 | 760,844 |
| Less: Allowance for uncollectibles | - | - | 94,177 | 94,177 |
| Net total receivables | <u>\$ 484,839</u> | <u>5,927</u> | <u>175,901</u> | <u>666,667</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 | | 516,623 |
| Accounts not held at trustee bank | | 71,002 |
| Sales Tax Revenue Bonds, Series 2013A: | | |
| Debt service | | 133,802 |
| Sales Tax Revenue Bonds, Series 2013B: | | |
| Project account | | 613,512 |
| Debt service | | 33,123 |
| Sales Tax Revenue Bonds, Series 2014: | | |
| Project account | | 4,269,989 |
| Debt service | | 284,772 |
| Accounts not held at trustee bank | | 319,347 |
| Utility customer deposits | | <u>187,193</u> |
| Total restricted assets | | <u>\$ 6,429,366</u> |

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2015

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Capital Assets

Capital asset balances and activities for the year ended June 30, 2015, 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 | - | - | - | - |
| Total capital assets not being depreciated | <u>2,868,369</u> | <u>-</u> | <u>-</u> | <u>2,868,369</u> |
| Capital assets being depreciated : | | | | |
| Buildings and improvements | 4,074,232 | 2,024,177 | - | 6,098,409 |
| Machinery and equipment | 1,594,268 | 159,816 | - | 1,754,084 |
| Vehicles | 1,297,980 | 264,851 | - | 1,562,831 |
| Infrastructure | 54,966,214 | 2,223,166 | - | 57,189,380 |
| Total capital assets being depreciated | <u>61,932,694</u> | <u>4,672,010</u> | <u>-</u> | <u>66,604,704</u> |
| Less accumulated depreciation for : | | | | |
| Buildings and improvements | (1,788,925) | (228,479) | - | (2,017,404) |
| Machinery and equipment | (1,072,876) | (132,312) | - | (1,205,188) |
| Vehicles | (905,477) | (106,073) | - | (1,011,550) |
| Infrastructure | (44,413,940) | (605,577) | - | (45,019,517) |
| Total accumulated depreciation | <u>(48,181,218)</u> | <u>(1,072,441)</u> | <u>-</u> | <u>(49,253,659)</u> |
| Total capital assets being depreciated, net | <u>13,751,476</u> | <u>3,599,569</u> | <u>-</u> | <u>17,351,045</u> |
| Governmental activities capital assets, net | <u>\$ 16,619,845</u> | <u>3,599,569</u> | <u>-</u> | <u>20,219,414</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 | 650,514 | 15,773 | - | 666,287 |
| Vehicles | 73,147 | 1,504 | - | 74,651 |
| Infrastructure | 16,195,976 | 204,770 | - | 16,400,746 |
| Total capital assets being depreciated | <u>16,919,637</u> | <u>222,047</u> | <u>-</u> | <u>17,141,684</u> |
| Less accumulated depreciation for : | | | | |
| Buildings and improvements | - | - | - | - |
| Machinery and equipment | (365,002) | (40,026) | - | (405,028) |
| Vehicles | (36,387) | (7,473) | - | (43,860) |
| Infrastructure | (11,356,674) | (259,504) | - | (11,616,178) |
| Total accumulated depreciation | <u>(11,758,063)</u> | <u>(307,003)</u> | <u>-</u> | <u>(12,065,066)</u> |
| Total capital assets being depreciated, net | <u>5,161,574</u> | <u>(84,956)</u> | <u>-</u> | <u>5,076,618</u> |
| Business-type activities capital assets, net | <u>\$ 5,183,759</u> | <u>(84,956)</u> | <u>-</u> | <u>5,098,803</u> |

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2015

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Depreciation expense was charged to functions/programs as follows:

| | |
|---|---------------------|
| Governmental activities: | |
| General government | \$ 453,357 |
| Public safety | 206,429 |
| Public works | 273,001 |
| Cultural and recreation | 139,654 |
| Total depreciation expense - governmental activities | <u>\$ 1,072,441</u> |
| Business-type activities: | |
| Water | \$ 206,117 |
| Sewer | 100,886 |
| Total depreciation expense - business-type activities | <u>\$ 307,003</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, 2015, cash and investments included \$187,193 available for refund of customer deposits, while the liability to customers was \$187,193.

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, 2015, \$5,990 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. | \$ 2,597 |
| Total governmental activities capital lease obligations | <u>\$ 2,597</u> |

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2015

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 | 37,584 |
| Net capital asset cost | \$ 52,616 |

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2015, are as follows:

| | |
|-----------------------------|----------|
| <u>Year Ending June 30,</u> | |
| 2016 | 2,597 |
| Total required payments | 2,597 |
| Less: Interest expense | 5 |
| Total principal payments | \$ 2,592 |

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 | 20,102 |
| Net capital asset cost | \$ 51,690 |

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2015, are as follows:

| | |
|-----------------------------|-----------|
| <u>Year Ending June 30,</u> | |
| 2016 | \$ 24,864 |
| 2017 | 24,864 |
| Total required payments | 49,728 |
| Less: Interest expense | 1,271 |
| Total principal payments | \$ 48,457 |

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2015

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Long-term Debt

Long-term liabilities of the City of Choctaw as of June 30, 2015, are as summarized as follows:

Governmental activities:

General obligation bonds:

\$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%. \$ 880,000

Net general obligation bonds 880,000

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. 2,365,000

\$6,455,000 Choctaw Utilities Authority Sales Tax Revenue Notes, Subordinate Series 2014 dated July 3, 2014, secured by a pledge of sales tax to provide revenues for water system, sewer system and park improvements, due in semi-annual principal and interest payments beginning July 1, 2015 and maturing July 1, 2029, initial interest at 2.25% per annum and adjusting every 5 years to the 5-year Constant Maturity Treasury rate plus 50 basis points. 6,455,000

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. 6,427,784

Total governmental activities \$ 16,127,784

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2015

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.

\$ 2,790,000

\$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

\$ 5,895,000

Long-term liabilities transactions for the year ended June 30, 2015, 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 | \$ 110,000 | - | 110,000 | - | - |
| Series 2009 Funding Bonds | 975,000 | - | 95,000 | 880,000 | 95,000 |
| Sales Tax Revenue Notes-2007 | 2,490,000 | - | 125,000 | 2,365,000 | 135,000 |
| Sales Tax Revenue Notes-2014 | - | 6,455,000 | - | 6,455,000 | 290,000 |
| Tax Increment Note (TIF)-2012 | 6,219,763 | 858,021 | 650,000 | 6,427,784 | 675,000 |
| Total governmental activities | <u>9,794,763</u> | <u>7,313,021</u> | <u>980,000</u> | <u>16,127,784</u> | <u>1,195,000</u> |
| Business-type activities | | | | | |
| Revenue notes payable: | | | | | |
| Series 2013A | 3,120,000 | - | 330,000 | 2,790,000 | 345,000 |
| Series 2013B | 3,105,000 | - | - | 3,105,000 | - |
| Total business-type activities | <u>\$ 6,225,000</u> | <u>-</u> | <u>330,000</u> | <u>5,895,000</u> | <u>345,000</u> |

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2015

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, 2015 are as follows:

| Year Ending June 30, | Governmental Activities | | Business-type Activities | |
|-------------------------|-------------------------|------------------|-----------------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| | 2016 | \$ 1,195,000 | 824,505 | 345,000 |
| 2017 | 1,265,000 | 626,553 | 360,000 | 151,170 |
| 2018 | 1,315,000 | 569,184 | 380,000 | 143,090 |
| 2019 | 1,375,000 | 511,772 | 390,000 | 134,475 |
| 2020 | 1,460,000 | 451,926 | 400,000 | 125,640 |
| 2021-2025 | 6,482,784 | 2,481,766 | 1,820,000 | 489,010 |
| 2026-2030 | 3,035,000 | 396,601 | 1,805,000 | 226,240 |
| 2031-2035 | - | - | 395,000 | 9,520 |
| Totals | \$ <u>16,127,784</u> | <u>5,862,307</u> | <u>5,895,000</u> | <u>1,438,015</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, 2015, the remaining outstanding defeased bonds were as follows:

| | |
|-----------------------------------|---------------------|
| 2005 Utility System Revenue Bonds | \$ 540,000 |
| 2010 Sales Tax Revenue Notes | <u>2,280,000</u> |
| Total outstanding defeased bonds | <u>\$ 2,820,000</u> |

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2015

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, June 1, 2013 and July 1, 2014 of future sales tax revenues to repay the 2007, 2013 and 2014 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 \$14,233,194. Pledged sales tax received in the current year was \$2,493,798. Scheduled debt service payments on the 2007 and 2013 Revenue Notes of \$663,882 for the current fiscal year were 26.6% of pledged sales tax. The 2014 Subordinated Sales Tax Revenue Notes have their first payment due July, 2015 and the annual debt service for the next year is \$718,713. 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 \$7,333,015. Water and sewer revenues received in the current year were \$1,201,093. Debt service payments of \$496,240 for the current fiscal year were 41.3% of the pledged water and sewer revenues.

Compensated Absences

Compensated absences of the City of Choctaw as of June 30, 2015, are as summarized as follows:

| | | |
|----------------------------|----|---------|
| Governmental activities | \$ | 231,413 |
| Business-type activities | | 49,172 |
| Total compensated absences | \$ | 280,585 |

Interfund Receivables, Payables, and Transfers

Interfund transactions:

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

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2015

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

| | Transfers In | | | | |
|-------------------|-----------------|---------------------------|------------------------|--------------------------------|-----------------------------------|
| | General Fund | Dedicated Sales Tax | Town Square Fund | Other Governmental Funds | Choctaw Utilities Authority |
| Transfer out: | | | | | |
| General fund | \$ - | 1,414,616 | 882,797 | 371,718 | - |
| Ded. sales tax | - | - | - | 232,599 | 503,395 |
| Other govt. funds | - | - | - | - | - |
| CUA fund | - | - | - | 15,000 | - |
| Totals | \$ - | 1,414,616 | 882,797 | 619,317 | 503,395 |

Prior Period Adjustments

Beginning fund balance/net position were restated as of June 30, 2015 as follows:

| | Government-Wide Governmental Activities |
|---|---|
| Beginning fund/balance/net position, as previously reported | \$ 9,220,053 |
| Implementation of GASB Statements No. 68 & 71 | (1,452,018) |
| Beginning fund/balance/net position, as restated | \$ 7,768,035 |

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.

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2015

NOTE 4 - OTHER INFORMATION - Continued

Risk Management

- **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.

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.

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2015

NOTE 4 - OTHER INFORMATION - Continued

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, 2015, the City did not have deficits in any funds.

Employee Retirement Systems and Pension Plans

The City participates in three employee pension systems as follows:

| <u>Names of Plan/System</u> | <u>Type of Plan</u> |
|---|---|
| Oklahoma Police Pension and Retirement Fund | Cost Sharing Multiple Employer - Defined Benefit Plan |
| Oklahoma Firefighters Pension and Retirement Fund | Cost Sharing Multiple Employer - Defined Benefit Plan |
| City of Choctaw, Oklahoma Employee Retirement Plan | Single Employer - Defined Contribution Money Purchase Plan |

Oklahoma Police Pension and Retirement System (OPPRS)

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

Benefits Provided - OPPRS provides retirement, disability, and death benefits to members of the Plan.

The normal retirement date under the Plan is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service as a contributing participant of the Plan. No vesting occurs prior to completing 10 years of credited service. Participant's contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed 10 years of credited service may elect a vested benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the participant is entitled to a monthly retirement benefit commencing on the date the participant reaches 50 years of age or the date the participant would have had 20 years of credited service had employment had continued uninterrupted, whichever is later.

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
As of and for the Year Ended June 30, 2015

NOTE 4. OTHER INFORMATION - Continued

Monthly retirement benefits are calculated based on two and a half percent (2.5%) of final average salary (defined as the average paid base salary of the officer over the highest 30 consecutive months of the last 60 months of credited service) multiplied by the years of credited service, with a maximum of 30 years of credited service considered.

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

Survivor's benefits are payable in full to the participant's beneficiary upon the death of a retired participant. The beneficiary of any active participant killed in the line of duty is entitled to a pension benefit. Effective July 1, 1999, a \$5,000 death benefit is also paid, in addition to any survivor's pension benefits under the Plan, to the participant's beneficiary or estate for active or retired members.

Contributions - The contributions requirements of the Plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute eight percent (8%) of their annual pay. Participating cities are required to contribute thirteen percent (13%) of the employees' annual pay. Contributions to the pension plan from the City were \$79,555. The State of Oklahoma also made on-behalf contributions to OPPRS in the amount of \$54,543; these on-behalf payments did not meet the criteria of a special funding situation.

Pension Liabilities/Asset, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the City reported an asset of \$58,617 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2014. The City's proportion of the net pension asset was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2014. Based upon this information, the City's proportion was 0.10%.

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
As of and for the Year Ended June 30, 2015

NOTE 4. OTHER INFORMATION - Continued

For the year ended June 30, 2015, the City recognized pension expense of \$21,486. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ - | \$ 26,335 |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 206,029 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | - | - |
| City contributions subsequent to the measurement date | <u>79,555</u> | <u>-</u> |
| Total | \$ <u>79,555</u> | \$ <u>232,364</u> |

\$79,555 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

| | | |
|------|----|----------------|
| 2016 | \$ | 56,954 |
| 2017 | | 56,954 |
| 2018 | | 56,954 |
| 2019 | | 56,955 |
| 2020 | | <u>4,547</u> |
| | \$ | <u>232,364</u> |

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
As of and for the Year Ended June 30, 2015

NOTE 4. OTHER INFORMATION - Continued

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of July 1, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

| | |
|----------------------------|---|
| Inflation: | 3% |
| Salary increases: | 4.5% to 17.0% averages, including inflation |
| Investment rate of return: | 7.5% net of pension plan investment expense |

Mortality rates were based on the RP2000 combined healthy with blue collar adjustment as appropriate, with adjustments for generational mortality improvement using scale AA for healthy lives and no mortality improvement for disabled lives.

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------|-------------------|--|
| Fixed income | 25% | 2.83% |
| Domestic equity | 45% | 6.47% |
| International equity | 10% | 6.98% |
| Real estate | 5% | 5.50% |
| Private equity | 10% | 5.96% |
| Commodities | 5% | 3.08% |

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
As of and for the Year Ended June 30, 2015

NOTE 4. OTHER INFORMATION - Continued

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

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate - The following presents the net position liability(asset) of the employers calculated using the discount rate of 7.5%, as well as what the Plan's net pension liability(asset) would be if it were calculated using a discount rate that is one percentage point lower - (6.5%) or one percentage point higher - (8.5%) than the current rate:

| | 1% Decrease 6.5% | | Current Discount Rate (7.5%) | | 1% Increase 8.5% |
|--|---------------------|----|---------------------------------|----|---------------------|
| Employers' net pension liability(asset) \$ | 348,762 | \$ | (58,617) | \$ | (401,947) |

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the OFPRS; which can be located at www.ok.gov/fprs.

Payables to the Pension Plan - There are no payables to the pension plan for the year ended June 30, 2015.

Oklahoma Firefighters' Pension and Retirement System (OFPRS)

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

Benefits Provided - OFPRS provides retirement, disability, and death benefits to members of the Plan.

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

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
As of and for the Year Ended June 30, 2015

NOTE 4. OTHER INFORMATION - Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the City reported a liability of \$1,104,620 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2014. Based upon this information, the City's proportion was 0.11%.

For the year ended June 30, 2015, the City recognized pension expense of \$99,210. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 26,319 | \$ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 167,209 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | - | - |
| City contributions subsequent to the measurement date | 39,648 | - |
| Total | <u>\$ 65,967</u> | <u>\$ 167,209</u> |

\$39,648 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
As of and for the Year Ended June 30, 2015

NOTE 4. OTHER INFORMATION - Continued

| | |
|------------|--------------|
| 2016 \$ | (36,885) |
| 2017 | (36,885) |
| 2018 | (36,886) |
| 2019 | (36,886) |
| 2020 | 4,899 |
| Thereafter | 1,753 |
| | \$ (140,890) |

Benefits for members hired after November 1, 2013 are determined as 2.5% of the employee's final average compensation times the employee's years of service and have reached the age of 50 or have completed 22 years of service, whichever is later. Benefits vest with 11 years or more of service.

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

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

Contributions - The contributions requirements of the Plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute nine percent (9%) of their annual pay. Participating cities are required to contribute fourteen percent (14%) of the employees' annual pay. Contributions to the pension plan from the City were \$39,648. The State of Oklahoma also made on-behalf contributions to OFPRS in the amount of \$98,028; these on-behalf payments did not meet the criteria of a special funding situation.

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
As of and for the Year Ended June 30, 2015

NOTE 4. OTHER INFORMATION - Continued

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of July 1, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

| | |
|----------------------------|---|
| Inflation: | 3% |
| Salary increases: | 3.5% to 9.0% averages, including inflation |
| Investment rate of return: | 7.5% net of pension plan investment expense |

Mortality rates were based on the RP2000 combined healthy with blue collar adjustment as appropriate, with adjustments for generational mortality improvement using scale AA for healthy lives and no mortality improvement for disabled lives.

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|--------------------------|---|
| Fixed income | 20% | 5.48% |
| Domestic equity | 37% | 9.61% |
| International equity | 20% | 9.24% |
| Real estate | 10% | 7.76% |
| Other assets | 13% | 6.88% |

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

City of Choctaw, Oklahoma
Notes to Basic Financial Statements
As of and for the Year Ended June 30, 2015

NOTE 4. OTHER INFORMATION - Continued

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net position liability of the employers calculated using the discount rate of 7.5%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower - (6.5%) or one percentage point higher - (8.5%) than the current rate:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|----------------------------------|-----------------------|---------------------------------|-----------------------|
| Employers' net pension liability | \$ 1,442,390 | \$ 1,104,620 | \$ 821,429 |

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the OFPRS; which can be located at www.ok.gov/fprs.

Payables to the Pension Plan - There are no payables to the pension plan for the year ended June 30, 2015.

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:

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

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

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2015

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, 2015, for employees and employer were \$34,525 and \$92,067, respectively. For the year ended June 30, 2015, the City's covered payroll was \$1,150,836. 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, 2015 and 2014, the City's net assessed valuation of taxable real and personal property aggregated \$76,689,695 and \$71,818,601 while the property taxes levied per \$1,000 of net assessed valuation were \$3.66 and \$1.81, 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, 2015, approximately no retired employees are receiving benefits under this plan.

Funding Policy. The contribution requirement of the City is an implicit subsidy. The implicit subsidy is not a direct payment from the employer on behalf of the member but rather stems from retiree contribution levels that are less than the claims cost at retiree ages. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured

City of Choctaw, Oklahoma
Notes to the Basic Financial Statements
As of and For the Year Ended June 30, 2015

NOTE 4 - OTHER INFORMATION - Continued

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 2015, 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, 2015 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.

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. 72, *Fair Value Measurement and Application* was issued in February 2015 to enhance transparency and comparability of fair value measurements and disclosures in financial statement of state and local governments. The Standard establishes principles related to the measurement of fair value and the accounting for and financial reporting of assets and liabilities measured at fair value. The provisions of this Statement are effective for reporting periods beginning after June 15, 2015. The City has not yet evaluated the effects that GASB NO. 72 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, 2015

NOTE 4 - OTHER INFORMATION - Continued

Subsequent Events

Management has evaluated subsequent events through October 1, 2015, which is the date the financial statements were available to be issued.

On September 4, 2015 the Choctaw Utilities Authority received an administrative compliance order from the Oklahoma Department of Environmental Quality regarding potential violations related to their wastewater treatment facility. The Authority is in the early stages of evaluating the potential need for plant upgrades and has contested the assessed penalties of \$207,750.

The City of Choctaw entered into a lease purchase agreement in the amount of \$82,571 on July 15, 2015 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, 2015

| | Budget | | Actual | Variance with Final Budget Over (Under) |
|--|--------------------|--------------------|--------------------|--|
| | Original | Final | | (Under) |
| REVENUES | | | | |
| Taxes | \$ 6,127,790 | 5,554,304 | 5,790,145 | 235,841 |
| Intergovernmental | 148,000 | 147,006 | 76,542 | (70,464) |
| Licenses and permits | 95,500 | 149,787 | 175,776 | 25,989 |
| Fines and forfeitures | 244,000 | 217,000 | 219,320 | 2,320 |
| Interest | 500 | 81 | 81 | - |
| Miscellaneous | 45,989 | 41,114 | 41,293 | 179 |
| Total revenues | <u>6,661,779</u> | <u>6,109,292</u> | <u>6,303,157</u> | <u>193,865</u> |
| EXPENDITURES | | | | |
| General government: | | | | |
| Administration | 608,162 | 523,589 | 519,562 | 4,027 |
| General government | 694,824 | 678,320 | 680,962 | (2,642) |
| Developmental services | 148,047 | 163,933 | 161,661 | 2,272 |
| Municipal court | 101,405 | 66,947 | 67,771 | (824) |
| Public safety: | | | | |
| Police | 1,217,370 | 1,216,833 | 1,195,306 | 21,527 |
| Fire | 552,937 | 556,082 | 538,420 | 17,662 |
| Public works: | | | | |
| Fleet | 50,928 | 53,037 | 52,131 | 906 |
| Culture and recreation: | | | | |
| Parks | 139,054 | 145,245 | 142,389 | 2,856 |
| Senior center | 4,719 | 6,183 | 5,797 | 386 |
| Total expenditures | <u>3,517,446</u> | <u>3,410,169</u> | <u>3,363,999</u> | <u>46,170</u> |
| Excess (deficiency) of revenues over (under) expenditures | 3,144,333 | 2,699,123 | 2,939,158 | 240,035 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers | <u>(3,143,789)</u> | <u>(2,156,627)</u> | <u>(2,669,131)</u> | <u>(512,504)</u> |
| Net change in fund balances | 544 | 542,496 | 270,027 | (272,469) |
| Fund balances - beginning | 150,306 | 111,837 | 807,920 | 696,083 |
| Fund balances - ending | <u>\$ 150,850</u> | <u>654,333</u> | <u>1,077,947</u> | <u>423,614</u> |

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, 2015

| | Budget | | Actual | Variance with Final Budget Over (Under) |
|--|-------------------|------------------|------------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Proceeds from debt issuance | \$ 1,500,000 | 6,455,043 | 6,203,762 | (251,281) |
| Interest | 275 | 518 | 759 | 241 |
| Miscellaneous | - | - | - | - |
| Total revenues | <u>1,500,275</u> | <u>6,455,561</u> | <u>6,204,521</u> | <u>(251,040)</u> |
| EXPENDITURES | | | | |
| General government: | | | | |
| General government | - | 40,000 | 119,491 | (79,491) |
| Public works: | | | | |
| Streets | 1,500,000 | 775,000 | 4,498 | 770,502 |
| Parks and recreation | | | 1,772,940 | (1,772,940) |
| CUA - Water improvements | 30,000 | 150,000 | 21,595 | 128,405 |
| CUA - Wastewater improvements | 60,000 | 500,000 | 66,054 | 433,946 |
| Debt service | <u>543,550</u> | <u>949,017</u> | <u>157,627</u> | <u>791,390</u> |
| Total expenditures | <u>2,133,550</u> | <u>2,414,017</u> | <u>2,142,205</u> | <u>271,812</u> |
| Excess (deficiency) of revenues over (under) expenditures | (633,275) | 4,041,544 | 4,062,316 | 20,772 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers | <u>997,550</u> | <u>1,185,350</u> | <u>678,622</u> | <u>(506,728)</u> |
| Net change in fund balances | 364,275 | 5,226,894 | 4,740,938 | (485,956) |
| Fund balances - beginning | 296,955 | 533,561 | 874,660 | 341,099 |
| Fund balances - ending | <u>\$ 661,230</u> | <u>5,760,455</u> | <u>5,615,598</u> | <u>(144,857)</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, 2015

| | Budget | | Actual | Variance with Final Budget Over (Under) |
|--|-------------------|------------------|------------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Ad Valorem taxes | \$ 75,000 | 70,894 | 70,894 | - |
| Proceeds from debt issuance | 566,800 | 858,041 | 858,041 | - |
| Interest | - | - | 14 | 14 |
| Miscellaneous | - | - | - | - |
| Total revenues | <u>641,800</u> | <u>928,935</u> | <u>928,949</u> | <u>14</u> |
| EXPENDITURES | | | | |
| Capital outlays | 566,800 | - | 869,791 | (869,791) |
| Debt service | 1,035,231 | 1,035,231 | 1,004,989 | 30,242 |
| Total expenditures | <u>1,602,031</u> | <u>1,035,231</u> | <u>1,874,780</u> | <u>(839,549)</u> |
| Excess (deficiency) of revenues over (under) expenditures | (960,231) | (106,296) | (945,831) | (839,535) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers | <u>1,105,500</u> | <u>869,791</u> | <u>882,797</u> | <u>13,006</u> |
| Net change in fund balances | 145,269 | 763,495 | (63,034) | (826,529) |
| Fund balances - beginning | 700,633 | 411,283 | (765,828) | (1,177,111) |
| Fund balances - ending | <u>\$ 845,902</u> | <u>1,174,778</u> | <u>(828,862)</u> | <u>(2,003,640)</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, 2015

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 - | |
| General government | \$ 2,642 |
| Municipal court | 824 |

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, 2015

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.

**City of Choctaw, Oklahoma
Schedule of Employer's Share of Net Pension Liability
Oklahoma Police Pension and Retirement System
Last 10 Fiscal Years***

| | <u>2014</u> |
|--|-------------|
| 1. Employer's proportion of the net pension liability (asset) | 0.174100% |
| 2. Employer's proporationate share of the net pension liability (asset) | \$ (58,617) |
| 3. Employer's covered-employee payroll | \$ 450,900 |
| 4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | -13.00% |
| 5. Plan fiduciary net position as a percentage of the total pension liability | 101.53% |

* Complete data for this schedule is not available prior to 2014.

Data is reported is measured as of July 1, 2014.

**City of Choctaw, Oklahoma
Schedule of Employer Contributions
Oklahoma Police Pension and Retirement System
Last 10 Fiscal Years***

| | <u>2014</u> |
|--|-------------|
| Statutorily required contribution | \$ 63,317 |
| Contributions in relation to the statutorily required contribution | \$ (63,317) |
| Contribution deficiency (excess) | \$ - |
| City's covered-employee payroll | \$ 493,500 |
| Contributions as a percentage of covered-employee payroll | 12.83% |

* Complete data for this schedule is not available prior to 2014.

Data is reported is measured as of July 1, 2014.

City of Choctaw, Oklahoma
Schedule of Employer's Share of Net Pension Liability
Oklahoma Firefighters' Pension and Retirement System
Last 10 Fiscal Years*

| | <u>2014</u> |
|--|--------------|
| 1. Employer's proportion of the net pension liability (asset) | 0.107400% |
| 2. Employer's proportionate share of the net pension liability (asset) | \$ 1,104,620 |
| 3. Employer's covered-employee payroll | \$ 555,259 |
| 4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 198.94% |
| 5. Plan fiduciary net position as a percentage of the total pension liability | 68.12% |

* Complete data for this schedule is not available prior to 2014.

Data is reported is measured as of July 1, 2014.

City of Choctaw, Oklahoma
Schedule of Employer Contributions
Oklahoma Firefighters' Pension and Retirement System
Last 10 Fiscal Years*

| | <u>2014</u> |
|--|-------------|
| Statutorily required contribution | \$ 73,549 |
| Contributions in relation to the statutorily required contribution | \$ (73,549) |
| Contribution deficiency (excess) | \$ - |
| City's covered-employee payroll | \$ 555,259 |
| Contributions as a percentage of covered-employee payroll | 13.25% |

* Complete data for this schedule is not available prior to 2014.

Data is reported is measured as of July 1, 2014.

**OTHER SUPPLEMENTARY
INFORMATION**

City of Choctaw, Oklahoma
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2015

| | Special Revenue | | | | | Permanent | Debt | Capital Projects | | | Total |
|--------------------------------------|-------------------|-------------------------|------------------|-------------------------|--------------------|-------------------------------|----------------------------|---------------------|--------------------------|-------------------------|-----------------------------------|
| | Street & Alley | Parks and Tourism | Public Safety | Emergency Management | Industrial Park | Cemetery Perpetual Care | Service Sinking Fund | Capital Projects | Community Development | Library Construction | Nonmajor Governmental Funds |
| ASSETS | | | | | | | | | | | |
| Cash and cash equivalents | \$ 248,807 | 64,037 | 57,049 | 38,015 | 16,232 | 137,850 | 29,094 | 175,632 | 31,808 | 40,281 | 838,805 |
| Receivables, net | 5,927 | - | - | - | - | - | - | - | - | - | 5,927 |
| Due from other funds | 100,000 | - | - | 200,000 | - | - | - | 100,000 | - | - | 400,000 |
| TOTAL | <u>354,734</u> | <u>64,037</u> | <u>57,049</u> | <u>238,015</u> | <u>16,232</u> | <u>137,850</u> | <u>29,094</u> | <u>275,632</u> | <u>31,808</u> | <u>40,281</u> | <u>1,244,732</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | | | | | |
| Liabilities: | | | | | | | | | | | |
| Accounts payable | - | - | - | - | - | - | - | - | - | - | - |
| Deposits subject to refund | - | 2,860 | - | - | - | - | - | - | - | - | 2,860 |
| Total liabilities | <u>-</u> | <u>2,860</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,860</u> |
| Fund balances: | | | | | | | | | | | |
| Reserved for: | | | | | | | | | | | |
| Restricted | 354,734 | 61,177 | 57,049 | 238,015 | 16,232 | 137,850 | 29,094 | 275,632 | 31,808 | 40,281 | 1,241,872 |
| Assigned | - | - | - | - | - | - | - | - | - | - | - |
| Unassigned | - | - | - | - | - | - | - | - | - | - | - |
| Total fund balances | <u>354,734</u> | <u>61,177</u> | <u>57,049</u> | <u>238,015</u> | <u>16,232</u> | <u>137,850</u> | <u>29,094</u> | <u>275,632</u> | <u>31,808</u> | <u>40,281</u> | <u>1,241,872</u> |
| TOTAL | <u>\$ 354,734</u> | <u>64,037</u> | <u>57,049</u> | <u>238,015</u> | <u>16,232</u> | <u>137,850</u> | <u>29,094</u> | <u>275,632</u> | <u>31,808</u> | <u>40,281</u> | <u>1,244,732</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, 2015

| | Special Revenue | | | | | Permanent | Debt | Capital Projects | | | Total |
|--|-------------------|-------------------------|------------------|-------------------------|--------------------|-------------------------------|----------------------------|---------------------|--------------------------|-------------------------|-----------------------------------|
| | Street & Alley | Parks and Tourism | Public Safety | Emergency Management | Industrial Park | Cemetery Perpetual Care | Service Sinking Fund | Capital Projects | Community Development | Library Construction | Nonmajor Governmental Funds |
| REVENUES | | | | | | | | | | | |
| Taxes | \$ 111,470 | - | - | - | - | - | 229,650 | - | - | - | 341,120 |
| Intergovernmental | - | - | 14,462 | - | - | - | - | - | - | - | 14,462 |
| Charge for services | - | 7,630 | 3,348 | - | 3,600 | 24,275 | - | 26,940 | 8,906 | - | 74,699 |
| Interest | - | - | - | - | - | 17 | 112 | - | - | 23 | 152 |
| Miscellaneous | 2,022 | 4,205 | 29,407 | - | - | - | - | 152,883 | - | - | 188,517 |
| Total revenues | 113,492 | 11,835 | 47,217 | - | 3,600 | 24,292 | 229,762 | 179,823 | 8,906 | 23 | 618,950 |
| EXPENDITURES | | | | | | | | | | | |
| Current: | | | | | | | | | | | |
| General government | - | - | - | - | - | - | - | 31,006 | - | - | 31,006 |
| Public safety | - | - | 36,857 | - | - | - | - | 342,274 | - | - | 379,131 |
| Public works | 391,947 | - | - | - | - | - | - | 40,669 | 63,443 | - | 496,059 |
| Cultural and recreational | - | 79,592 | - | - | - | 2,813 | - | 231,338 | - | - | 313,743 |
| Debt service | - | - | - | - | - | - | 266,741 | - | - | - | 266,741 |
| Total expenditures | 391,947 | 79,592 | 36,857 | - | - | 2,813 | 266,741 | 645,287 | 63,443 | - | 1,486,680 |
| Excess (deficiency) of revenues over expenditures | (278,455) | (67,757) | 10,360 | - | 3,600 | 21,479 | (36,979) | (465,464) | (54,537) | 23 | (867,730) |
| OTHER FINANCING SOURCES (USES) | | | | | | | | | | | |
| Transfers in | 303,771 | 64,335 | - | - | - | - | - | 176,211 | 75,000 | - | 619,317 |
| Transfers out | - | - | - | - | - | - | - | - | - | - | - |
| Total other financing sources and uses | 303,771 | 64,335 | - | - | - | - | - | 176,211 | 75,000 | - | 619,317 |
| Net change in fund balances | 25,316 | (3,422) | 10,360 | - | 3,600 | 21,479 | (36,979) | (289,253) | 20,463 | 23 | (248,413) |
| Fund balances-beginning | 329,418 | 64,599 | 46,689 | 238,015 | 12,632 | 116,371 | 66,073 | 564,885 | 11,345 | 40,258 | 1,490,285 |
| Fund balances-ending | \$ 354,734 | 61,177 | 57,049 | 238,015 | 16,232 | 137,850 | 29,094 | 275,632 | 31,808 | 40,281 | 1,241,872 |

See accompanying notes to the basic financial statement.

City of Choctaw, Oklahoma
Debt Service Coverage Schedule
For the Year Ended June 30, 2015

Gross Revenue Available For Debt Service:

| | |
|--|--------------------------------|
| Pledged sales tax - Two cents | \$ 2,493,798 |
| System-wide gross revenues - Water and wastewater | <u>1,201,093</u> |
| Total Gross Revenues Available | <u>3,694,891</u> |
| System-wide operating expense - Exclusive of capital improvement and debt service | <u>1,150,260</u> |
| Net Revenues Available for Debt Service | <u><u>\$ 2,544,631</u></u> |

Debt Service Requirements:

| | |
|------------------------------|------------------------------|
| Revenue notes - Series 2014 | 718,713 |
| Revenue notes - Series 2013A | 407,720 |
| Revenue notes - Series 2013B | 406,880 |
| Revenue notes - Series 2007A | <u>155,627</u> |
| Annual debt service | <u><u>\$ 970,227</u></u> |
| Coverage | <u><u>2.62</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 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, 2015, 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, 2015.

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, 2015

City of Choctaw, Oklahoma
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

| FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE | FEDERAL CFDA NUMBER | PASS - THROUGH GRANTOR NUMBER | FEDERAL EXPENDITURES |
|--|---------------------------|-------------------------------------|-------------------------|
| FEDERAL ASSISTANCE | | | |
| <u>U.S. Department of Transportation</u> | | | |
| Passed through Oklahoma Highway Safety Department: | | | |
| Oklahoma Highway Safety Office | 20.600 | FFY2014 | 565 |
| Oklahoma Highway Safety Office | 20.600 | FFY2015 | 4,846 |
| | | | 5,411 |
| <u>U.S. Department of Justice</u> | | | |
| Passed through the Oklahoma District Attorneys Council: | | | |
| Bullet-proof Vests | 16.607 | FY 2014 | 5,700 |
| Total U.S. Department of Justice | | | 5,700 |
| Total Federal Assistance | | | \$ 11,111 |

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.