



CITY OF CHOCTAW, OKLAHOMA

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

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2017**

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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

To the Honorable Mayor and Members of the City Council
City of Choctaw, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Choctaw, Oklahoma (the "City"), as of and for the year ended June 30, 2017, 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 unit, and each major fund and the aggregate remaining fund information of the City, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information and pension plan information, as listed in the table of contents, 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's basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as listed in the table of contents is the responsibility of management and was derived from and relate 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 other supplementary information 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 November 8, 2017 on our consideration of the City'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's internal control over financial reporting and compliance.

Dillon & Associates, P.C.

Midwest City, Oklahoma
November 8, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CITY OF CHOCTAW, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

As management of the City of Choctaw, we offer readers this narrative overview and analysis of the financial activities of the City of Choctaw for the fiscal year ended June 30, 2017. We encourage readers to use this information in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The City's total net position increased by \$2,335,178 and the assets of the City exceeded its liabilities \$10,879,749 (net position). Of this amount, the City has an unrestricted net deficit of \$623,892.
- At June 30, 2017, the City's governmental funds reported combined ending fund balances of \$5,497,455. Of this total amount, \$1,523,915 is available for spending at the government's discretion (unassigned fund balance).
- At the end of fiscal year 2017, unassigned fund balance for the General Fund was \$1,523,915, or approximately 42.11% of total General Fund expenditures.
- Sales and use taxes increased by \$511,414 or 8.7% over the prior fiscal year.

Overview of the Financial Statements

The financial statements presented herein include all 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 two categories of activities - governmental and business-type along with one discretely-presented component unit, the Choctaw Economic Development Authority (CEDA).

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 of activities separately and combined. For governmental activities, these statements tell how these 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 the assets of the City (including infrastructure capital assets) as well as all liabilities (including all long-term debt), along with any inflows and outflows that are deferred.

**CITY OF CHOCTAW, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

This discussion and analysis is intended to serve as an introduction to the City'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, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting. All 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, solid waste collections 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.

CITY OF CHOCTAW, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

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. The City uses enterprise funds to account for its water and sewer operations and solid waste and disposal services.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

For the year ended June 30, 2017, net position for governmental activities and business-type activities increased \$10,879,749. The results indicate the City, as a whole, incurred an increase in its financial condition from the prior year.

**CITY OF CHOCTAW, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

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

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

	Governmental			Business-type			Total		
	Activities		% Inc.	Activities		% Inc.	Primary Government		% Inc.
	2017	2016	(Dec.)	2017	2016	(Dec.)	2017	2016	(Dec.)
Current and other assets	\$ 5,970	4,484	33%	1,631	829	97%	7,601	5,313	43%
Capital assets	21,664	22,307	-3%	7,698	5,791	33%	29,362	28,098	4%
Total assets	<u>27,634</u>	<u>26,791</u>	3%	<u>9,329</u>	<u>6,620</u>	41%	<u>36,963</u>	<u>33,411</u>	11%
Deferred outflow of resources	<u>630</u>	<u>255</u>		<u>-</u>	<u>-</u>		<u>630</u>	<u>255</u>	
Long-term debt outstanding	15,285	18,513	-17%	8,133	5,692	43%	23,418	24,205	-3%
Other liabilities	2,441	209	1068%	612	320	91%	3,053	529	477%
Total liabilities	<u>17,726</u>	<u>18,722</u>	-5%	<u>8,745</u>	<u>6,012</u>	45%	<u>26,471</u>	<u>24,734</u>	7%
Deferred inflow of resources	<u>243</u>	<u>387</u>		<u>-</u>	<u>-</u>		<u>243</u>	<u>387</u>	
Net assets:									
Invested in capital assets, net of debt	6,732	8,687	-23%	(444)	194	-329%	6,288	8,881	-29%
Restricted	3,812	3,077	24%	155	118	31%	3,967	3,195	24%
Unrestricted (deficit)	<u>(249)</u>	<u>(3,827)</u>	-93%	<u>873</u>	<u>296</u>	195%	<u>624</u>	<u>(3,531)</u>	-118%
Total net assets	\$ <u>10,295</u>	<u>7,937</u>	30%	<u>584</u>	<u>608</u>	-4%	<u>10,879</u>	<u>8,545</u>	27%

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.

A portion of the City's net position, \$3,967,577 represents resources that are subject to external restrictions on how they may be used. The remaining balance is an unrestricted net position of \$623,892.

**CITY OF CHOCTAW, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

Change in Net Position

For the year ended June 30, 2017 net position of the primary government changed as follows:

Table 2
Changes in Net Position (In Thousands)

	Governmental			Business-type			Total		
	Activities		% Inc.	Activities		% Inc.	Primary Government		% Inc.
	2017	2016	(Dec.)	2017	2016	(Dec.)	2017	2016	(Dec.)
Revenues									
Charges for services	\$ 1,426	1,442	-1%	2,552	2,149	19%	3,978	3,591	11%
Operating grants	176	267	-34%	-	-	-	176	267	-34%
Capital grants	-	-	-	-	-	-	-	-	-
Sales and use taxes	6,392	5,880	9%	-	-	-	6,392	5,880	9%
Franchise tax (fees)	468	438	7%	-	-	-	468	438	7%
Other taxes	748	708	6%	-	-	-	748	708	6%
Investment income	3	1	200%	1	1	-	4	2	100%
Land sales	1,381	-	0%	-	-	-	1,381	-	0%
Other	171	191	-10%	-	2	-100%	171	193	-11%
Total revenues	10,765	8,927	21%	2,553	2,152	19%	13,318	11,079	20%
Expenses									
General government	2,639	6,087	-57%	-	-	-	2,639	6,087	-57%
Public safety	2,579	2,245	15%	-	-	-	2,579	2,245	15%
Public works	1,639	1,228	33%	-	-	-	1,639	1,228	33%
Cultural & recreation	693	561	24%	-	-	-	693	561	24%
Water	-	-	-	830	1,597	-48%	830	1,597	-48%
Sewer	-	-	-	1,715	769	123%	1,715	769	123%
Sanitation	-	-	-	731	703	4%	731	703	4%
Stormwater	-	-	-	98	166	-41%	98	166	-41%
Golf course	-	-	-	258	-	0%	258	-	0%
Interest on debt	627	514	-	-	-	-	627	514	22%
Total expenses	8,177	10,635	-23%	3,632	3,235	12%	11,809	13,870	-15%
Increase in net position									
before transfers	2,588	(1,708)	-252%	(1,079)	(1,083)	0%	1,509	(2,791)	-154%
Transfers	(230)	(528)	-56%	230	528	-56%	-	-	
Change in net position	2,358	(2,236)	-205%	(849)	(555)	53%	1,509	(2,791)	-154%
Beginning net position	7,937	10,173	-22%	608	592	3%	8,545	10,765	-21%
Contributed capital	-	-	-	825	571	44%	825	571	44%
Ending net position	\$ 10,295	7,937	30%	584	608	-4%	10,879	8,545	27%

**CITY OF CHOCTAW, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

The City's governmental activities tax revenues increase by \$581,144 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		
	<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>	
General government	\$ 2,639	6,088	-57%	(1,486)	(4,830)	-69%
Public safety	2,579	2,245	15%	(2,262)	(1,846)	23%
Public works	1,639	1,228	33%	(1,639)	(1,176)	39%
Cultural & recreation	693	560	24%	(561)	(561)	0%
Interest on long-term debt	627	514	22%	(627)	(514)	22%
Total	<u>\$ 8,177</u>	<u>10,635</u>	-23%	<u>(6,575)</u>	<u>(8,927)</u>	-26%

For the year ended June 30, 2017, total expenses for governmental activities amounted to \$8,177,018 which is a 23.12% decrease from the prior year.

**CITY OF CHOCTAW, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

Business-type Activities

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

	Total Expenses		% Inc. (Dec.)	Net Revenue (Expense)		% Inc. (Dec.)
	of Services			of Services		
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>		
Water	\$ 830	1,597	-48%	79	(825)	-110%
Sewer	1,715	769	123%	(1,173)	(297)	295%
Sanitation	731	703	4%	31	38	-18%
Stormwater	98	166	-41%	124	(1)	0%
Golf course	258	-	0%	(140)	-	-
Total	\$ 3,632	3,235	12%	(1,079)	(1,085)	-1%

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

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2017 fiscal year, the governmental funds reported a combined fund balance of \$10,295,772, or 29.7% increase from the prior year. The enterprise funds reported combined net position of \$583,977, or 3.9% decrease from 2016.

Other Fund Highlights Include:

- For the year ended June 30, 2017, the General Fund's total fund balance increased by \$109,574, or 7.7%, due to a decrease in expenses and purchases of capital assets.
- The CUA Enterprise Fund reported a net position decrease before contributions and transfers of \$123,603.

General Fund Budgetary Highlights

For the year ended June 30, 2017, the General Fund reported actual budgetary basis revenues under final estimates by \$185,554 or an 2.6% positive variance. General Fund actual expenditures were under final appropriations by \$188,182 or a 4.9% positive variance.

**CITY OF CHOCTAW, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2017, the City had \$29,362,283 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 \$1,264,300 over last year.

Table 5
Capital Assets

	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land and in progress	\$ 2,868	2,868	22	371	2,890	3,239
Buildings	8,414	8,411	-	-	8,414	8,411
Machinery and equipment	1,804	1,782	853	681	2,657	2,463
Vehicles	1,743	1,738	75	75	1,818	1,813
Infrastructure	58,303	57,811	19,601	17,041	77,904	74,852
Less: Accum. depreciation	(51,468)	(50,303)	(12,853)	(12,377)	(64,321)	(62,680)
Total capital assets, net	\$ 21,664	22,307	7,698	5,791	29,362	28,098

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.
- Purchase of golf course.

**CITY OF CHOCTAW, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

Long-term Debt

At year-end, the City had \$23,918,461 in long-term debt outstanding, excluding accrued compensated absences, due to depositors and net pension liability, which represents approximately a \$993,434 increase from the prior year.

Table 6
Outstanding Debt

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Capital lease obligation	\$ 33	60	-	25	33	85
General obligation bonds	690	785	-	-		
Settlement payable	400	1,150	-	-	400	1,150
Notes payable	750	610	1,330	-	2,080	610
Tax increment note (TIF)	5,700	6,095	-	-	5,700	6,095
Revenue notes	7,987	8,395	7,029	5,630	15,016	14,025
Total long-term debt	\$ 15,560	17,095	8,359	5,655	23,229	21,965

ECONOMIC OUTLOOK

- The unemployment rate for the Oklahoma City metropolitan area which includes Choctaw is currently 4.4 percent, which is a decrease of 0.3 percent from a year ago. This compares favorably to the state's average unemployment rate of 4.3 percent and favorably to the national average rate of 4.5 percent.
- Inflationary trends in the region compare favorably to national indices.
- The City's major source of revenue is sales and use tax revenue. Sales and use tax revenue increased 8.7% over the prior year total.

All of these factors were considered in preparing the City's budget for the 2018 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, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Authority
ASSETS				
Pooled cash and cash equivalents	\$ 1,560,834	333,169	1,894,003	512
Restricted cash and investments	2,664,292	957,667	3,621,959	-
Investments	-	-	-	75,000
Receivables (net of allowance for uncollectible)	599,084	261,777	860,861	-
Due from other governments	1,145,909	-	1,145,909	-
Restricted cash and investments	-	78,270	78,270	-
Capital assets:				
Land, improvements, and construction in progress	2,868,369	22,185	2,890,554	-
Other capital assets, net of depreciation	18,795,764	7,675,965	26,471,729	-
Total assets	<u>27,634,252</u>	<u>9,329,033</u>	<u>36,963,285</u>	<u>75,512</u>
DEFERRED OUTFLOW OF RESOURCES				
Deferred amounts related to pensions	630,152	-	630,152	-
LIABILITIES				
Accounts payable and accrued expenses	1,597	2,212	3,809	-
Accrued interest payable	250,062	68,446	318,508	-
Deferred revenues	-	52,186	52,186	-
Due to bondholders	3,020	-	3,020	-
Deposits subject to refund	30,335	-	30,335	-
Current portion of long-term debt	2,155,948	489,360	2,645,308	-
Long-term liabilities:				
Long-term debt and other liabilities	15,284,547	8,132,852	23,417,399	-
Total liabilities	<u>17,725,509</u>	<u>8,745,056</u>	<u>26,470,565</u>	<u>-</u>
DEFERRED INFLOW OF RESOURCES				
Deferred amounts related to pensions	243,123	-	243,123	-
NET POSITION				
Net investment in capital assets	6,731,837	(443,557)	6,288,280	-
Restricted for:				
Debt service	3,002,137	155,048	3,157,185	-
Capital improvements	334,854	-	334,854	-
Other purposes	475,538	-	475,538	-
Unrestricted (deficit)	(248,594)	872,486	623,892	75,512
Total net position	<u>\$ 10,295,772</u>	<u>583,977</u>	<u>10,879,749</u>	<u>75,512</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, 2017

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	\$ 2,638,794	1,152,742	-	-	(1,486,052)
Public safety	2,578,564	140,805	176,098	-	(2,261,661)
Public works	1,639,326	-	-	-	(1,639,326)
Culture and recreation	693,390	132,517	-	-	(560,873)
Interest on long-term debt	626,944	-	-	-	(626,944)
Total government activities	<u>8,177,018</u>	<u>1,426,064</u>	<u>176,098</u>	<u>-</u>	<u>(6,574,856)</u>
Business-type activities:					
Water	829,588	908,116	-	-	78,528
Wastewater	1,714,669	541,434	-	-	(1,173,235)
Sanitation	730,594	761,476	-	-	30,882
Stormwater	98,210	222,326	-	-	124,116
Golf course	258,884	119,108	-	-	(139,776)
Total business-type activities	<u>3,631,945</u>	<u>2,552,460</u>	<u>-</u>	<u>-</u>	<u>(1,079,485)</u>
Total primary government	<u>11,808,963</u>	<u>3,978,524</u>	<u>176,098</u>	<u>-</u>	<u>(7,654,341)</u>
Component Unit:					
Economic Development	\$ <u>1,760</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,760)</u>

City of Choctaw, Oklahoma
Statement of Activities
For the Year Ended June 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Authority
Change in net position:				
Net (expense) revenue	\$ (6,574,856)	(1,079,485)	(7,654,341)	(1,760)
General revenues:				
Taxes:				
Sales taxes	6,066,353	-	6,066,353	-
Use taxes	325,289	-	325,289	-
Franchise taxes (fees)	468,312	-	468,312	-
Other taxes	747,719	-	747,719	-
Unrestricted investment income	3,416	848	4,264	302
Miscellaneous	172,164	-	172,164	-
Land sales	1,380,585	-	1,380,585	-
Transfers	(230,073)	230,073	-	-
Total general revenues and transfers	8,933,765	230,921	9,164,686	302
Change in net position	2,358,909	(848,564)	1,510,345	(1,458)
Net Position - beginning	7,936,863	607,708	8,544,571	76,970
Contributed capital - fixed assets	-	824,833	824,833	-
Net Position - ending	\$ 10,295,772	583,977	10,879,749	75,512

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

City of Choctaw, Oklahoma
Balance Sheet - Governmental Funds
June 30, 2017

	General Fund	Dedicated Sales Tax Fund	Town Square Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 134,987	-	-	964,657	1,099,644
Cash - Police fines account	4,617	-	-	-	4,617
Restricted cash and cash equivalents	-	972,157	1,692,135	-	2,664,292
Receivables:					
Franchise tax receivable	587,945	-	-	-	587,945
Due from other governments	1,139,982	-	-	5,927	1,145,909
Due from other funds	-	1,052,293	-	-	1,052,293
Total assets	1,867,531	2,024,450	1,692,135	970,584	6,554,700
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	1,597	-	-	-	1,597
Police bonds outstanding	3,020	-	-	-	3,020
Deposits subject to refund	28,195	-	-	2,140	30,335
Due to other funds	310,804	-	741,489	-	1,052,293
Total liabilities	343,616	-	741,489	2,140	1,087,245
Fund balances:					
Reserved for:					
Nonspendable	-	2,024,450	950,646	968,444	3,943,540
Unassigned	1,523,915	-	-	-	1,523,915
Total fund balances	1,523,915	2,024,450	950,646	968,444	5,467,455
Total liabilities, deferred inflows and fund balances	\$ 1,867,531	2,024,450	1,692,135	970,584	

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.	21,664,133
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.	467,712
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds: Pension related deferred outflows	630,152
Certain liabilities are not due and payable in the current period from current financial resources, and therefore are not reported in the funds: Bonds, notes, settlement and capital leases payable	(15,559,558)
Net pension liability	(1,668,895)
Pension related deferred inflows	(243,123)
Accrued interest payable	(250,062)
Accrued compensated absences	(212,042)
Net position of governmental activities	\$ 10,295,772

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, 2017

	General Fund	Dedicated Sales Tax Fund	Town Square Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 6,963,541	-	406,854	237,278	7,607,673
Intergovernmental	49,601	-	-	10,758	60,359
Licenses and permits	190,980	-	-	-	190,980
Charge for services	-	-	-	132,517	132,517
Fines and forfeitures	140,805	-	-	-	140,805
Interest	-	3,309	103	4	3,416
Proceeds from debt issuance	-	750,000	-	-	750,000
Land sales	-	-	1,380,585	-	1,380,585
Miscellaneous	88,897	326	-	76,709	165,932
Total revenues	<u>7,433,824</u>	<u>753,635</u>	<u>1,787,542</u>	<u>457,266</u>	<u>10,432,267</u>
EXPENDITURES					
Current:					
General government	1,278,271	9,071	8,053	20,137	1,315,532
Public safety	1,961,749	-	-	252,025	2,213,774
Public works	57,443	802,394	-	761,419	1,621,256
Culture and recreation	321,066	219,716	-	152,627	693,409
Capital outlay	-	-	-	-	-
Debt service	-	2,237,982	491,202	133,735	2,862,919
Total expenditures	<u>3,618,529</u>	<u>3,269,163</u>	<u>499,255</u>	<u>1,319,943</u>	<u>8,706,890</u>
Excess (deficiency) of revenues over expenditures	<u>3,815,295</u>	<u>(2,515,528)</u>	<u>1,288,287</u>	<u>(862,677)</u>	<u>1,725,377</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	200,000	2,343,406	955,588	576,727	4,075,721
Transfers out	(3,905,721)	(175,210)	(200,000)	(24,864)	(4,305,795)
Total other financing sources and uses	<u>(3,705,721)</u>	<u>2,168,196</u>	<u>755,588</u>	<u>551,863</u>	<u>(230,074)</u>
Net change in fund balances	109,574	(347,332)	2,043,875	(310,814)	1,495,303
Fund balances-beginning	1,414,341	2,371,782	(1,093,229)	1,279,258	3,972,152
Fund balances-ending	<u>\$ 1,523,915</u>	<u>2,024,450</u>	<u>950,646</u>	<u>968,444</u>	<u>5,467,455</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, 2017

Net change in fund balances - total governmental funds	\$ 1,495,303
<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	521,948
Depreciation expense	(1,164,382)
<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>	
	(26,184)
<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	(750,000)
<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	2,344,819
<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	22,328
Change in accrued interest payable	(81,425)
<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>	
	(3,498)
Change in net assets of governmental activities	\$ 2,358,909

City of Choctaw, Oklahoma
Statement of Net Position - Proprietary Funds
June 30, 2017

	Business-type Activities - Enterprise Funds				Governmental
	<u>Choctaw Utilities Authority</u>			Total	Internal
	<u>Operating</u>	<u>Debt</u>	<u>Golf</u>	Enterprise	Service
	<u>Fund</u>	<u>Service</u>	<u>Course</u>	<u>Funds</u>	<u>Fund</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 328,921	-	4,248	333,169	456,573
Restricted:					
Cash and investments	-	957,667	-	957,667	-
Accounts receivable, net of allowance for uncollectible of \$ 104,354	261,777	-	-	261,777	11,139
Due from other funds	1,000	-	-	1,000	-
Total current assets	<u>591,698</u>	<u>957,667</u>	<u>4,248</u>	<u>1,553,613</u>	<u>467,712</u>
Non-current assets:					
Restricted cash and investments	78,270	-	-	78,270	-
Capital assets:					
Land and construction in progress	22,185	-	-	22,185	-
Other capital assets, net of accumulated depreciation	6,336,471	-	1,339,494	7,675,965	-
Total non-current assets	<u>6,436,926</u>	<u>-</u>	<u>1,339,494</u>	<u>7,776,420</u>	<u>-</u>
Total assets	<u><u>7,028,624</u></u>	<u><u>957,667</u></u>	<u><u>1,343,742</u></u>	<u><u>9,330,033</u></u>	<u><u>467,712</u></u>
LIABILITIES					
Current liabilities:					
Accounts payable	-	-	2,212	2,212	-
Accrued interest payable	-	68,446	-	68,446	-
Deferred revenues	52,186	-	-	52,186	-
Due to other funds	-	1,000	-	1,000	-
Current portion of long-term obligations	3,504	380,000	105,856	489,360	-
Total current liabilities	<u>55,690</u>	<u>449,446</u>	<u>108,068</u>	<u>613,204</u>	<u>-</u>
Non-current liabilities:					
Deposits subject to refund	228,269	-	-	228,269	-
Notes payable, non-current	-	6,649,257	1,223,790	7,873,047	-
Accrued compensated absences, non-current	31,536	-	-	31,536	-
Total non-current liabilities	<u>259,805</u>	<u>6,649,257</u>	<u>1,223,790</u>	<u>8,132,852</u>	<u>-</u>
Total liabilities	<u>315,495</u>	<u>7,098,703</u>	<u>1,331,858</u>	<u>8,746,056</u>	<u>-</u>
NET POSITION					
Net investment in capital assets	5,766,885	(6,220,290)	9,848	(443,557)	-
Restricted for:					
Debt service	-	155,048	-	155,048	-
Unrestricted	946,244	(75,794)	2,036	872,486	467,712
Total net position	<u><u>\$ 6,713,129</u></u>	<u><u>(6,141,036)</u></u>	<u><u>11,884</u></u>	<u><u>583,977</u></u>	<u><u>467,712</u></u>

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

City of Choctaw, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds
For the Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds				Governmental
	<u>Choctaw Utilities Authority</u>			Total	Internal
	Operating <u>Fund</u>	Debt <u>Service</u>	Golf <u>Course</u>	Enterprise <u>Funds</u>	Service <u>Fund</u>
REVENUES					
Water	\$ 908,116	-	-	908,116	-
Wastewater	541,434	-	-	541,434	-
Sanitation	761,476	-	-	761,476	-
Stormwater and drainage fees	222,326	-	-	222,326	-
Golf course	-	-	119,108	119,108	-
Insurance premiums	-	-	-	-	901,403
Total operating revenues	<u>2,433,352</u>	<u>-</u>	<u>119,108</u>	<u>2,552,460</u>	<u>901,403</u>
OPERATING EXPENSES					
Water	592,477	-	-	592,477	-
Wastewater	190,592	-	-	190,592	-
Wastewater plant	530,148	-	-	530,148	-
Sanitation	730,594	-	-	730,594	-
Stormwater	98,210	-	-	98,210	-
Golf course	-	-	158,050	158,050	-
Insurance claims and expense	-	-	-	-	911,134
Depreciation and amortization	414,934	-	61,059	475,993	-
Total operating expenses	<u>2,556,955</u>	<u>-</u>	<u>219,109</u>	<u>2,776,064</u>	<u>911,134</u>
Operating income (loss)	<u>(123,603)</u>	<u>-</u>	<u>(100,001)</u>	<u>(223,604)</u>	<u>(9,731)</u>
NONOPERATING REVENUES (EXPENSES)					
Miscellaneous revenues	-	-	-	-	6,233
Interest income	-	848	-	848	-
Capital projects	-	(363,450)	-	(363,450)	-
Debt issuance costs	-	(257,250)	-	(257,250)	-
Interest expense and fiscal charges	-	(195,306)	(39,775)	(235,081)	-
Total nonoperating revenues (expenses)	<u>-</u>	<u>(815,158)</u>	<u>(39,775)</u>	<u>(854,933)</u>	<u>6,233</u>
OPERATING TRANSFERS AND CAPITAL ITEMS					
Transfers in	24,864	128,820	151,660	305,344	-
Transfers out	(75,271)	-	-	(75,271)	-
Total operating transfers	<u>(50,407)</u>	<u>128,820</u>	<u>151,660</u>	<u>230,073</u>	<u>-</u>
Change in net position	<u>(174,010)</u>	<u>(686,338)</u>	<u>11,884</u>	<u>(848,464)</u>	<u>(3,498)</u>
Net position - beginning	6,062,306	(5,454,698)	-	607,608	471,210
Contributed capital - fixed assets	824,833	-	-	824,833	-
Net position - ending	<u>\$ 6,713,129</u>	<u>(6,141,036)</u>	<u>11,884</u>	<u>583,977</u>	<u>467,712</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, 2017

	Business-type Activities - Enterprise Funds				Governmental
	Choctaw			Total	Internal
	Utilities <u>Authority</u>	Debt <u>Service</u>	Golf <u>Course</u>	Enterprise <u>Funds</u>	Service <u>Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 2,389,147	-	119,108	2,508,255	901,403
Payments to suppliers and employees	(2,058,064)	-	(155,838)	(2,213,902)	(829,581)
Other receipts (payments)	-	17,396	-	17,396	-
Net cash provided (used) by operating activities	<u>331,083</u>	<u>17,396</u>	<u>(36,730)</u>	<u>311,749</u>	<u>71,822</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating transfers in (out)	(50,407)	128,820	151,660	230,073	-
Net cash provided (used) by noncapital financing activities	<u>(50,407)</u>	<u>128,820</u>	<u>151,660</u>	<u>230,073</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from long-term debt issuance	-	1,841,839	1,389,000	3,230,839	-
Principal paid on long-term debt	-	(442,434)	(59,354)	(501,788)	-
Interest expense and fiscal charges	-	(452,556)	(39,775)	(492,331)	-
(Acquisition) disposition of capital assets	(157,341)	(363,550)	(1,400,553)	(1,921,444)	-
Net cash provided (used) by capital and related financing activities	<u>(157,341)</u>	<u>583,299</u>	<u>(110,682)</u>	<u>315,276</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	-	848	-	848	-
Net cash provided (used) by investing activities	<u>-</u>	<u>848</u>	<u>-</u>	<u>848</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	123,335	730,363	4,248	857,946	71,822
Cash and cash equivalents, beginning of the year	283,856	227,304	-	511,160	384,751
Cash and cash equivalents, end of the year	<u>407,191</u>	<u>957,667</u>	<u>4,248</u>	<u>1,369,106</u>	<u>456,573</u>
Reconciliation to Statement of Net Position:					
Cash and cash equivalents	328,921	-	-	328,921	456,573
Restricted cash and cash equivalents	78,270	957,667	4,248	1,040,185	-
Total cash and cash equivalents, end of year	<u>\$ 407,191</u>	<u>957,667</u>	<u>4,248</u>	<u>1,369,106</u>	<u>456,573</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	(123,603)	-	(100,001)	(223,604)	(9,731)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization expense	414,934	-	61,059	414,934	-
Miscellaneous revenue	-	-	-	-	6,233
Change in assets and liabilities:					
(Increase) decrease in receivables	(44,205)	-	-	(44,205)	640
Increase (decrease) in accounts payable / accrued expenses	(27,112)	16,396	2,212	(10,716)	-
Increase (decrease) in deposits subject to refund	16,465	-	-	16,465	-
Increase (decrease) in due to other funds	99,000	1,000	-	100,000	75,000
Increase (decrease) in deferred revenues	(4,396)	-	-	(4,396)	-
Total adjustments	<u>454,686</u>	<u>17,396</u>	<u>63,271</u>	<u>472,082</u>	<u>81,873</u>
Net cash provided by (used in) operating activities	<u>\$ 331,083</u>	<u>17,396</u>	<u>(36,730)</u>	<u>248,478</u>	<u>72,142</u>

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

**NOTES TO BASIC
FINANCIAL STATEMENTS**

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the City of Choctaw, Oklahoma (the “City”) conform to accounting principles generally accepted in the United States of America for state and local governments. Generally accepted accounting principles for municipalities are defined as those principles promulgated by the Governmental Accounting Standards Board (“GASB”). The following represent the more significant accounting and reporting policies and practices of the City.

Financial Reporting Entity - The accompanying financial statements present the government and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City’s operations and therefore data from these units are combined with the data of the City. Each blended component unit has a June 30 year end.

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, and GASB Statement 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and includes all component units for which the City is financially accountable.

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.

Separate financial statements have not been prepared for the blended component units.

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.

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of presentation:

The City follows Governmental Accounting Standards Board (“GASB”) statements in the preparation of its financial statements. Additional information regarding the basis of accounting and the differences in presentation are contained in the Management’s Discussion and Analysis, which proceed the financial statements.

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

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds.

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

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

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Sales taxes, excise taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures driven grants are recognized as revenues when qualifying expenditures have been incurred and all eligibility requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the City.

The following are the City's major governmental funds:

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

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

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

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

The following are the City's 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.

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 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 and golf course.

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.

Accounting Policies -

Assets, Liabilities, and Fund Equity

- a. *Cash and Cash Equivalents* - The City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.
- b. *Investments* - Investments are stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The City considers quoted market price at June 30, 2017, to be the fair value of its investments.

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

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- c. *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.

- d. *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.”
- e. *Restricted Assets* - Restricted assets include cash and investments of both governmental activities and business-type activities that are legally restricted as to their use. The restricted assets are primarily related to debt trustee accounts and guaranty deposits.
- f. *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 more than 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 Financial Statements
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- g. *Inventory* - The City records parts and fuel inventory within the General Fund. Parts inventory is recorded using actual cost.
- h. *Long-term Debt* - Accounting treatment of long-term debt varies depending upon the source of repayment and the measurement focus applied, and whether the debt is reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental activities, business-type activities and proprietary funds are reported as liabilities as incurred. The long-term debt presently is primarily comprised of revenue bonds payable, net pension liability, and accrued compensated absences. This long-term debt is reported not of unamortized discounts and premiums.

Long-term debt of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures.

- i. *Claims and Judgments Payable* - Under state law, judgments against the City can be paid over three years or can be paid immediately. The Risk Management 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.
- j. *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' service as contained in the City's personnel manual. Upon retirement, one-third of accumulated sick leave is converted to cash, subject to the above limitation for maximum compensation for unused compensated absences.
- 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 Financial Statements
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- g. *Inventory* - The City records parts and fuel inventory within the General Fund. Parts inventory is recorded using actual cost.
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- 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 Financial Statements
For the Year Ended June 30, 2017

NOTE 1 - 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.
 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 positions 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 and based on the nature of any limitations requiring the use of resources for specific purposes.

- 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. The City Council is the highest level of decision making authority that can, by adoption of an Ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by ordinance remains in place until a similar action by City Council is taken (the adoption of another ordinance) to remove or revise the limitation.
- d) *Assigned* - Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The City Council may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- e) *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.

When both restricted and unrestricted sources (the total of committed, assigned, and unassigned fund balance) are available for use, generally it is the City's policy to use restricted resources first. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Cost Sharing Defined Benefit Pension Plans

The City participates in two cost-sharing multiple-employer defined benefit pension plans, the Oklahoma Firefighters Pension & Retirement System (OFPRS) and the Oklahoma Police Pension & Retirement System (OPPRS) (the Plans). For purposes of measuring the net pension asset, liability, deferred outflows of resources and deferred inflows of resources related to the pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. 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.

Deferred Outflows/inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The City has deferred outflows related to pensions, with one being the amount of contributions made to pension plans after the measurement date, and the other the difference in investment experience between actual earnings and projected earnings on pension plan investments and the difference in assumption changes. Deferred outflows related to contributions made after the measurement date will be recognized as a reduction of pension liability in the following year. The remaining amounts will be amortized to pension expense over future periods. See Note 4 for additional information.

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has deferred inflows related to pensions. This consists of the difference between expected and actual experience related to pension plans as well as the difference in assumption changes. These amounts are amortized over future periods to pension expense.

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenues, Expenditures and Expenses

- a. *Property Tax Revenue* - Property taxes attach an enforceable lien on property as of January 1. Taxes are levied annually on November 1 and are due one-half by December 31 and one-half by March 31. The Tax Assessor's office bills and collects the property taxes and remits to the City its portion. Property taxes not paid prior to April are considered delinquent. Such delinquent tax payments have not historically been material. Delinquent tax payments are received throughout the year and are recognized as revenue in the year received, except those received within 60 days of year end, which are recognized as revenues as of June 30, 2017 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 Risk Management Fund for services such as self-insurance 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 Financial Statements
For the Year Ended June 30, 2017**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Compliance

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.
- b. Public hearings are conducted to obtain citizen comments. At least one public hearing is 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.

The legal level of control at which expenditures may not legally exceed appropriations is the department level within a fund.

All fund decreases of appropriation and supplemental appropriations require City Council approval. The City Manager may transfer appropriations between departments within a fund without City Council approval. Supplemental appropriations must also be filed with the Office of the State Auditor and Inspector.

In accordance with Title 60 of the Oklahoma State Statutes, the Choctaw Public Works Authority and the Choctaw Economic Development Authority are 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 level of control; and, therefore, no budget and actual financial presentation for the MPWA and the MEDA funds are included in this report.

Deposits and Investment Laws and Regulations

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at no more than market value. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations, surety bonds or certain letters of credit. As required by 12 U.S.C.A., Section 1823e, all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or the loan committee. As reflected in Note 3, the City's uninsured deposited were sufficiently collateralized in accordance with these provisions for the year ended in June 30, 2017.

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

Investments of a City (excluding Public Trusts) are limited by State Law to the following:

- 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 of Oklahoma is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable pledged 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 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 or 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 the Federal Housing Administrator, and in 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 paragraphs a., b., c., and d.

Public trusts created under O.S. Title 60, are not subject to the above noted investment limitations and are primarily governed by restrictions in their trust or bond indentures.

Debt Restrictions and Covenants

General Obligation Debt

Article 10, Sections 26 and 27 of the Oklahoma Constitution limits the amount of certain outstanding general obligation bonded debt of the municipality for non-utility or non-street purposes to no more than 10% of the net assessed valuation. For the year ended June 30, 2017, the City complied with this restriction.

Other Long-term Debt

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

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

Revenue Note Debt

The note indentures relating to the revenue note issues of the Choctaw Utilities Authority and contain a number of restrictions or covenants that are financial related. These include covenants such as a required flow of funds through special accounts, debt service coverage requirements and required reserve account balances.

The following schedule presents a brief summary of the most significant requirements and the Authority's level of compliance, thereon, as of June 30, 2017:

<u>Requirement</u>	<u>Level of Compliance</u>
<i>Choctaw Public Works Authority</i>	
a. Flow of Funds	
1. 2007 Revenue Note	The Authority maintained all required accounts and made the required payments into such accounts.
- Debt service fund	
2. 2013a Revenue Note	The Authority maintained all required accounts and made the required payments into such accounts.
- Debt service fund	
3. 2013b Revenue Note	The Authority maintained all required accounts and made the required payments into such accounts.
- Construction fund	
- Debt service fund	
4. 2014 Revenue Note	The Authority maintained all required accounts and made the required payments into such accounts.
- Construction fund	
- Debt service fund	
5. 2016 TIF Revenue Note	The Authority maintained all required accounts and made the required payments into such accounts.
- Construction fund	
- Debt service fund	
6. 2017 OWRB Revenue Note	The Authority maintained all required accounts and made the required payments into such accounts.
- Construction fund	
- Debt service fund	
7. 2017a OWRB Revenue Note	The Authority maintained all required accounts and made the required payments into such accounts.
- Construction fund	
- Debt service fund	
b. Revenue Note Coverage	
Refer to Note 3 - Pledge of Future Revenues and the Debt Service Coverage Schedule	

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

Fund Equity/Net Position Restrictions

Restricted Net Position

Restricted net position at the government-wide financial statements are required to restrict funds in accordance with various laws and regulations, specifically those laws and regulations dealing with debt service and the use of restricted revenues. See Note 3 for details of restricted net position.

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, equity, revenues and expenditures/expenses.

Deposits and Investment Risks

The City of Choctaw, including its blended component units, held the following deposits and investments at June 30, 2017:

<u>Type</u>	<u>Maturities</u>	<u>Credit Rating</u>	<u>Carrying Value</u>
Deposits:			
Demand deposits			\$ 3,327,095
Cash on hand			1,181
			<u>3,328,276</u>
Investments:			
Trustee money market account		AAAm	<u>2,265,956</u>
Total deposits and investments			\$ <u><u>5,594,232</u></u>
Reconciliation to Statement of Net Position:			
Cash and cash equivalents			\$ 1,894,003
Restricted cash and investment			3,621,959
Restricted cash and investment			<u>78,270</u>
			\$ <u><u>5,594,232</u></u>

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS

Custodial Credit Risk

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

The City's policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100% of the uninsured deposits and accrued interest thereon. The investment policy also limits acceptable collateral to U.S. Treasury securities and direct debt obligations of municipalities, counties, and school districts in the state of Oklahoma. As required by Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee.

At June 30, 2017, the City was not exposed to custodial credit risk as defined above.

Investment Interest Credit Risk

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

As noted in the schedule of deposits and investments above, at June 30, 2017, the investments held by the City mature at various times.

Concentration of Investment Credit Risk

Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City places no limit on the amount it may invest with any one issuer. The City has the following concentration of credit risk: 100% or \$1,776,870 invested in Federal Treasury Obligations money market accounts at Bank of Oklahoma and \$489,086 invested in Federal Treasury Obligations money market accounts at BancFirst.

Restricted Assets

The amounts reported as restricted assets on the Statement of Net Position are comprised of cash and investments held by the trustee bank on behalf of the public trusts (Authorities) related to its required revenue bond accounts as described in Note 2 and amounts due to depositors related to utility deposits.

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

The restricted assets as of June 30, 2017 were as follows:

Sales Tax Revenue Note, Series 2014:	
Project account	\$ 627,202
Debt service	226,038
Accounts not held at trustee bank	118,917
Tax Increment Revenue Note, Taxable Series 2016:	
Project account	60
Debt service	489,026
Accounts not held at trustee bank	1,203,049
Sales Tax Revenue Note, Series 2013A:	
Debt service	135,326
Sales Tax Revenue Note, Series 2013B:	
Project account	51,897
Debt service	39,797
OWRB Clean Water SRF Note, Series 2017:	
Project account	503
Debt service	33,555
OWRB Clean Water SRF Note, Series 2017A:	
Project account	681,775
Debt service	14,814
Utility customer deposits	<u>78,270</u>
Total restricted assets	<u>\$ 3,700,229</u>

Receivables and Uncollectible Accounts

Accounts receivable of governmental and business-type activities consist of sales tax, franchise tax and fees, property tax, grants funds due, customer utilities services provided, both billed and unbilled, all reported net of allowance for uncollectible amounts are as follows:

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

	General Fund	Nonmajor Governmental Funds	Choctaw Utilities Authority	Total
Receivables:				
Accounts	\$ 587,945	-	366,131	954,076
Due from other governments	1,139,982	5,927	-	1,145,909
Gross receivables	<u>1,727,927</u>	<u>5,927</u>	<u>366,131</u>	<u>2,099,985</u>
Less: Allowance for uncollectibles	-	-	104,354	104,354
Net total receivables	<u>\$ 1,727,927</u>	<u>5,927</u>	<u>261,777</u>	<u>1,995,631</u>

Capital Assets

Capital asset balances and activities for the year ended June 30, 2017, were as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Transfers</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>-</u>	<u>2,868,369</u>
Capital assets being depreciated :					
Buildings and improvements	8,410,710	3,262	-	-	8,413,972
Machinery and equipment	1,782,087	21,374	-	-	1,803,461
Vehicles	1,737,532	5,414	-	-	1,742,946
Infrastructure	57,811,286	491,899	-	-	58,303,185
Total capital assets being depreciated	<u>69,741,615</u>	<u>521,949</u>	<u>-</u>	<u>-</u>	<u>70,263,564</u>
Less : Accumulated depreciation	<u>50,303,417</u>	<u>1,164,382</u>	<u>-</u>	<u>-</u>	<u>51,467,799</u>
Governmental activities capital assets \$	<u>22,306,567</u>	<u>(642,433)</u>	<u>-</u>	<u>-</u>	<u>21,664,134</u>

Depreciation expense for governmental activities is charged to functions as follows:

Governmental activities:

General government	\$ 452,749
Public safety	193,370
Public works administration	270,007
Cultural and recreation	248,256
Total depreciation expense - governmental activities	<u>\$ 1,164,382</u>

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Capital asset activity for business-type activities for the year ended June 30, 2017 was as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Ending</u>
<i>Business-type activities</i>					
Capital assets not being depreciated :					
Land	\$ 22,185	-	-	-	22,185
Construction in progress	348,346	-	(348,346)	-	-
Total capital assets not being depreciated	<u>370,531</u>	<u>-</u>	<u>(348,346)</u>	<u>-</u>	<u>22,185</u>
Capital assets being depreciated :					
Buildings and improvements	-	-	-	-	-
Machinery and equipment	681,426	171,336	-	-	852,762
Vehicles	74,651	-	-	-	74,651
Infrastructure	17,041,712	2,211,392	348,346	-	19,601,450
Total capital assets being depreciated	<u>17,797,789</u>	<u>2,382,728</u>	<u>348,346</u>	<u>-</u>	<u>20,528,863</u>
Less : Accumulated depreciation	<u>12,376,904</u>	<u>475,993</u>	<u>-</u>	<u>-</u>	<u>12,852,897</u>
Business-type activities capital assets \$	<u><u>5,791,416</u></u>	<u><u>1,906,735</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>7,698,151</u></u>

Depreciation expense for business-type activities is charged to functions as follows:

Business-type activities:

Water	\$ 236,711
Sewer	177,823
Golf course	61,059
General government	400
Total depreciation expense - business-type activities	<u><u>\$ 475,993</u></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, 2017, cash and investments included \$78,269 available for refund of customer deposits, while the liability to customers was \$228,269.

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, 2017, \$3,020 was being held that was subject to refund.

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Long-term Debt

The reporting entity's long-term debt is segregated by the amounts involving governmental activities and business activities.

Governmental Activities:

At June 30, 2017, the governmental activities long-term debt consisted of the following:

Capital Leases

Lease purchase agreement for the purchase of various vehicles for the Police Department dated July 15, 2015, payable in monthly installments of \$2,372, including interest at 2.19%, through August 1, 2018.

\$ 32,756

Total governmental activities capital lease obligations

\$ 32,756

Current portion

\$ 32,756

Non-current portion

-

\$ 32,756

General Obligation Bonds

General obligation bonds have been approved by the voters and issued by the City for various municipal improvements. These bonds are required to be fully paid within 25 years from the date of issue and are backed by the full faith and credit of the City.

\$1,450,000 Funding Bonds, Series 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 4.50% to 10.00%.

\$ 690,000

Current portion

\$ 95,000

Non-current portion

595,000

\$ 690,000

Note Payable - Bank

\$750,000 note to a local bank due in a single installment on March 13, 2018; with interest at 5.00%.

\$ 750,000

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Revenue Notes

Revenue notes outstanding consist of debt issued by the Choctaw Utilities Authority. The notes are not the indebtedness of the State of Oklahoma or the City, but are obligations payable solely from the resources of the Choctaw Utilities Authority.

\$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 funding for the 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 6.50% per annum and converting to LIBOR rate plus 1.00% in 2012. \$ 2,085,000

\$6,455,000 Choctaw Utilities Authority Sales Tax Revenue Notes, Subordinated Series 2014; dated July 3, 2014, secured by a pledge of sales tax to provide funding 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. 5,850,000

Total Revenue Notes \$ 7,935,000

Current portion \$ 480,000

Non-current portion 7,455,000

\$ 7,935,000

Tax Increment Revenue Note

\$6,095,000 Choctaw Utilities Authority Tax Increment Revenue Note, Series 2016; dated July 1, 2016. Proceeds are drawn as needed to pay project costs to finance economic development. Note matures on July 1, 2023 and bears interest at 2.90% per annum. The note will be paid by the incremental increase in ad valorem tax and sales tax revenues generated by the development within Increment District No.1 of the City of Choctaw, a subordinate lien on 1.00% sales tax pledged to the CUA 2007 Note and proceeds received from property sales within District No. 1. \$ 5,700,000

Current portion \$ 325,000

Non-current portion 5,375,000

\$ 5,700,000

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Structured Settlement Payable

Legal settlement due to a private party due in two installments; \$750,000 payable on March 17, 2017 and \$400,000 due on March 16, 2018. No interest is due on the outstanding liability.	\$ <u>400,000</u>
Current portion	\$ 400,000
Non-current portion	-
	\$ 400,000

Business-type Activities Long-term Debt:

At June 30, 2017, the long-term debt payable from enterprise fund resources consisted of the following:

Revenue Notes Payable

\$3,185,000 Choctaw Utilities Authority Utilities 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.	\$ 2,085,000
\$3,105,000 Choctaw Utilities Authority Utilities System and Sales Tax Revenue Note, Refunding Series 2013B; dated June 1, 2013; due in semi-annual principal installments of \$10,000 to \$200,000 through September 1, 2031 with interest at a fixed rate of 3.20% until March 1, 2028, converting to a variable rate of LIBOR plus 2.50%; secured by a lien against gross utility revenues and a sales tax pledge.	3,105,000
\$9,775,000 Clean Water SFR, Series 2017 loan payable to the OWRB dated January 19, 2017, payable in semi-annual principal installments of varying amounts beginning March 15, 2020 and maturing March 15, 2043. The loan has an interest rate of 2.12% and an administrative fee of 0.5%; secured by a lien against gross utility revenues and a sales tax pledge.	366,464
\$1,400,000 Clean Water SFR, Series 2017A loan payable to the OWRB dated February 23, 2017, payable in semi-annual principal installments of varying amounts beginning September 15, 2018 and maturing September 15, 2027. The loan has an interest rate of 2.20%; secured by a lien against gross utility revenues and a sales tax pledge.	1,400,000

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

\$1,245,000 Non-Recourse Promissory note to an Oklahoma company dated November 18, 2016 for the purchase of golf course, payable in monthly of \$9,845, with the initial payment due December 15, 2016 and maturing November 15, 2031, inclusive of interest at 5%; secured by a mortgage on the real property. 1,211,984

\$144,000 Non-Recourse Promissory note to an Oklahoma corporation dated November 18, 2016 for the purchase of golf carts, payable in monthly of \$4,316, with the initial payment due December 15, 2016 and maturing November 15, 2019, inclusive of interest at 5%; secured by the golf carts. 117,662

Total Revenue Notes Payable	\$	<u>8,286,110</u>
Current portion	\$	485,856
Non-current portion		<u>7,800,254</u>
	\$	<u>8,286,110</u>

Due to Depositors

Outstanding deposits for utility services, refundable only upon termination of services, amounted to the following:

Current portion	\$	-
Non-current portion		<u>228,269</u>
Total Due to Depositors	\$	<u>228,269</u>

Accrued Compensated Absences

Accrued compensated absences reported in the governmental activities are comprised of accrued vacation leave, sick leave and compensatory time.

Governmental activities	\$	212,042
Business-type activities		<u>35,039</u>
Total Accrued Compensated Absences	\$	<u>247,081</u>

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2017:

	Beginning			Ending	Amounts
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>	<u>Due Within</u>
					<u>One Year</u>
Governmental activities					
Capital Lease Obligations	\$ 60,175	-	27,419	32,756	4,744
General Obligation Bonds:					
Seires 2009 Funding Bonds	785,000	-	95,000	690,000	95,000
Revenue Notes:					
Sales Tax Revenue Note - 2007	2,230,000	-	145,000	2,085,000	155,000
Sales Tax Revenue Note - 2014	6,165,000	-	315,000	5,850,000	325,000
Tax Increment Note (TIF) - 2016	6,095,000	-	395,000	5,700,000	405,000
Note Payable - BancFirst	610,000	750,000	610,000	750,000	750,000
Settlement Payable	1,150,000	-	750,000	400,000	400,000
Accrued compensated absences	234,370	-	22,328	212,042	21,204
Net Pension Liability	1,123,906	544,989	-	1,668,895	-
Total Governmental Activities	<u>18,453,451</u>	<u>1,294,989</u>	<u>2,359,747</u>	17,388,693	<u>2,155,948</u>
Unamortized discount/premium				<u>51,802</u>	
Net long-term debt				<u>17,440,495</u>	

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

	Beginning			Ending	Amounts
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>	<u>Due Within</u>
					<u>One Year</u>
Business-type activities					
Capital Lease Obligations	24,531	-	24,531	-	-
Revenue Notes Payable:					
Utility & Sales Tax - Series 2013A	\$ 2,445,000	-	360,000	2,085,000	360,000
Utility & Sales Tax - Series 2013B	3,105,000	-	-	3,105,000	20,000
Utility & Sales Tax - Series 2016	79,852	-	79,852	-	-
OWRB CWSFR Note - Series 2017	-	1,400,000	-	1,400,000	-
OWRB CWSFR Note - Series 2017A	-	366,464	-	366,464	-
Note Payable - Golf course	-	1,245,000	33,016	1,211,984	58,883
Note Payable - Golf carts	-	144,000	26,338	117,662	46,973
Deposits subject to return	211,804	16,465	-	228,269	-
Accrued compensated absences	37,621	-	2,582	35,039	3,504
Total Business-type Activities	<u>5,879,277</u>	<u>3,171,929</u>	<u>501,788</u>	<u>8,549,418</u>	<u>489,360</u>
Unamortized bond premium/discount				<u>72,793</u>	
Net Long-Term Debt				<u>8,622,211</u>	

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt, with interest rates applicable at June 30, 2017, excluding accrued compensated absences, due to depositors, estimated claims liability, net pension liability and net OPEB obligation are as follows:

Year Ending	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		
	<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$	2,540,000	536,502	485,856	254,486
2019		1,440,000	460,271	581,272	235,058
2020		1,505,000	420,914	624,667	219,315
2021		1,590,000	374,181	616,683	205,179
2022		1,640,000	323,703	630,182	190,975
2023-2027		5,320,000	937,311	3,160,114	516,210
2028-2032		1,440,000	131,550	2,187,337	116,450
Totals	\$	<u>15,475,000</u>	<u>3,184,432</u>	<u>8,286,111</u>	<u>1,737,673</u>

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

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.

Debt Defeasement

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, 2017, the remaining outstanding defeased bonds were as follows:

2005 Utility System Revenue Bonds	\$ 450,000
2010 Sales Tax Revenue Notes	1,790,000
2012 Tax Increment Revenue Notes	5,413,025
Total outstanding defeased bonds	<u>\$ 7,653,025</u>

Pledge of Future Revenues

Sales Tax Pledge - The City has entered into a Sales Tax Agreements dated November 8, 2006, June 1, 2007, June 1, 2013 and July 1, 2014 of future sales tax revenues to repay the Series 2007, 2013A, 2013B, and 2014 Revenue Notes, the Series 2017, Series 2017A Oklahoma Water Resource Board Notes and the Series 2014 Subordinate Revenue Note which are payable through 2044. Proceeds from the notes provided financing for construction of various capital projects. The total principal and interest payable for the current remaining life of the notes is \$18,781,808. Pledged sales tax received in the current year was \$4,282,131. Scheduled debt service payments on the 2007, 2013A, 2013B, 2014 and 2017A Revenue Notes of \$1,369,563 for the current fiscal year were 31.9% of pledged sales tax. The 2016 Tax Increment Revenue Note created a subordinate lien of the sales tax pledged to the 2007 Series Revenue Note. The 2014 Subordinate Series Revenue Note created a third lien of the sales tax pledged to the 2007 Series Revenue Note.

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Utility Net Revenue Pledge - The City has pledged future net revenues from the water and sanitary sewer systems to repay the Series 2013A, Series 2013B and Series 2017, Series 2017A SRF Oklahoma Water Resource Board Revenue Notes. Proceeds from the notes provided funding for improvements and expansion of the water and sanitary sewer systems. The total current principal and interest payable for the remainder of the life of the notes is \$8,422,037. Water and sewer net revenues received in the current year were \$666,481. Debt service payments of \$591,865 for the current fiscal year were 88.9% of the pledged water and sewer net revenues. The debt service on Series 2013B is interest only until September 1, 2017. The debt service on the Series 2017 is interest only until May 1, 2018. The debt service related to the construction of a new wastewater treatment plant as described in the footnote on Commitments will also be subject to the net utility revenue pledge.

Interfund Receivables, Payables, and Transfers

The City's policy is to eliminate interfund transfers and balances in the statement of activities and net position to avoid grossing up balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances and then offset in the total column in the government-wide statements. Interfund transfers and balances between funds are not eliminated in the fund financial statements.

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Transfers:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
General Fund	Parks & Tourism Fund	89,180	Operating subsidy
General Fund	Capital Projects Fund	163,347	Operating subsidy
General Fund	Street & Alley Fund	249,200	Operating subsidy
General Fund	Dedicated Sales Tax Fund	2,343,406	Sales tax transfer
General Fund	Golf Course Fund	45,000	Operating subsidy
General Fund	Community Development	60,000	Operating subsidy
General Fund	Town Sq TIF Fund	955,587	Debt service payments
Dedicated Sales Tax Fund	Golf Course Fund	106,660	Debt service payments
Dedicated Sales Tax Fund	CUA Debt Service Fund	68,550	Debt service payments
Town Sq TIF Fund	General fund	200,000	Internal repayment
CUA Operating Fund	Community Development	15,000	Operating subsidy
CUA Operating Fund	CUA Debt Service Fund	60,271	Debt service payments
Capital Projects Fund	CUA Operating Fund	24,864	Operating subsidy
		<u>4,381,065</u>	

Reconciliation to Fund Financial Statements:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	4,075,721	(4,305,794)	(230,073)
Proprietary Funds	305,344	(75,271)	230,073
	<u>4,381,065</u>	<u>(4,381,065)</u>	<u>-</u>

Reconciliation to Statement of Activities:

Net Transfers	<u>-</u>
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**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Balances:

<u>Payable Fund</u>	<u>Receivable Fund</u>	<u>Amount</u>	<u>Nature of Interfund Balance</u>
General Fund	Dedicated Sales Tax Fund	310,804	Sales tax transfer receivable
Dedicated Sales Tax Fund	Town Sq TIF Fund	741,489	Internal financing
		<u>1,052,293</u>	
Reconciliation to Fund Financial Statements:			
	<u>Due To</u>	<u>Due From</u>	<u>Net Interfund Balance</u>
Governmental Funds	1,052,293	(1,052,293)	-
Proprietary Funds	-	-	-
	<u>1,052,293</u>	<u>(1,052,293)</u>	<u>-</u>

Fund Balances and Net Position

Fund Balances

The following table shows the fund balance classifications as shown on the Governmental Funds Balance Sheet:

	<u>General Fund</u>	<u>Dedicated Sales Tax Fund</u>	<u>Town Square TIF Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Fund Balances:					
Nonspendable:					
Capital improvements	-	-	-	334,854	334,854
Debt service	-	2,024,450	950,646	27,041	3,002,137
Public safety	-	-	-	187,810	187,810
Economic development	-	-	-	26,132	26,132
Street	-	-	-	82,617	82,617
Parks and recreation	-	-	-	131,011	131,011
Cemetery	-	-	-	178,979	178,979
Subtotal Nonspendable	-	2,024,450	950,646	968,444	3,943,540
Unassigned (deficit):	<u>1,523,915</u>	-	-	-	<u>1,523,915</u>
TOTAL FUND BALANCES	<u>1,523,915</u>	<u>2,024,450</u>	<u>950,646</u>	<u>968,444</u>	<u>5,467,455</u>

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 4 - OTHER INFORMATION

Sales Tax

Sales tax revenue represents a 4.25 cents tax on each dollar of taxable sales of which is recorded as follows:

- 3 cents are recorded in the General Fund for general operational purposes,
- 1 cent is recorded in the General Fund and then transferred to the Dedicated Sales Tax Fund for capital expenditures and for the payment of debt service in connection with obligations issued to finance specified capital expenditures.
- 1/4 cent is record in the General Fund and then transferred to the Dedicated Sales Tax Fund for park and recreation related capital expenditures and for payment of debt service in connection with obligations issued to finance specified capital expenditures.

Risk Management

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

- General Liability - Covered through purchased insurance with no deductible.
- Physical Property - Covered through purchased insurance with a \$2,000 deductible, per occurrence.
- Workers' Compensation - The City is a member of the Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the Plan year. As a matter of the Plan, the City is required to pay fees set by the Plan according to an established payment schedule. The City is responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. A loss Fund has been established from the proceeds of the fees paid by the City. The City expensed these fees when paid. The State Insurance Fund provides coverage in excess of the Loss Fund so the City's Liability for claim loss is limited to the balance of that fund. However, failure of the State Insurance Fund to honor its obligations could result in losses to the Plan.
- Employee's Group Medical - Covered through purchased insurance with a deductible of \$2,000 per employee and \$6,000 per family.

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 4 - OTHER INFORMATION - Continued

Property Taxes

Property taxes levied by the City are billed and collected by the county treasurer's office and remitted to the City in the month following collection. Property taxes are levied annually in October and are due in equal installments on December 31 and March 31. Property taxes unpaid for the fiscal year are attached by an enforceable lien on the property in the following October. The City recognizes the tax in the year it is collected, which is not considered to be materially different from the year earned. For years ended June 30, 2017 and 2016, the City's net assessed valuation of taxable real and personal property aggregated \$86,556,605 and \$80,828,115 while the property taxes levied per \$1,000 of net assessed valuation were \$1.47 and \$1.62, respectively.

COMMITMENTS AND CONTIGENCIES

Commitments

Wastewater Treatment Plant

The City is in the preliminary stage of financing and constructing a new wastewater treatment facility. The estimated cost of construction is approximately \$12,600,000. The project is being funded by the issuance of Oklahoma Water Resource Board Clean Water SFR Notes Series 2017, 2017A and 2017C. As of June 30, 2017, the City has received \$1,766,464 in funding with the balance to be drawn as the project progresses.

Contingencies

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

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

Federal Grants - In the normal course of operations, the City receives grant funds from various federal agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to insure compliance with conditions precedent to the granting of funds. Management does not believe any liability for reimbursement which may arise as the result of these audits will be material.

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017**

NOTE 4. OTHER INFORMATION - Continued

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 (PPRS)

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 (PPRS). Title 11 of the Oklahoma State Statutes grants the authority to establish and amend the benefit terms to the PPRS. PPRS issues a publicly available financial report that can be obtained at www.ok.gov/pprs.

Benefits Provided - PPRS 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 Financial Statements
For the Year Ended June 30, 2017

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.

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 \$85,488. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$73,733. 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, 2017, the City reported a liability of \$314,405 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. 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, 2016. Based upon this information, the City's proportion was 0.2053%.

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 4. OTHER INFORMATION - Continued

For the year ended June 30, 2017, the City recognized pension expense of \$117,784. At June 30, 2017, 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	\$ 1,009	\$ 35,317
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	302,089	-
Changes in proportion and differences between City contributions and proportionate share of contributions	27,882	4,045
City contributions during measurement period	-	5,099
City contributions subsequent to the measurement date	85,488	-
	\$ 416,468	\$ 44,461
Total	\$ 416,468	\$ 44,461

\$85,488 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, 2017. 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:				
	2018	\$	48,963	
	2019		48,963	
	2020		110,794	
	2021		78,275	
	2022		(476)	
		\$	286,519	

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017**

NOTE 4. OTHER INFORMATION - Continued

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of July 1, 2016, 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:	Active employees (pre-retirement) RP-2000 Blue Collar Healthy Combined table with age set back 4 years with fully generational improvement using Scale AA. Active employees (post retirement) and nondisabled pensioners: RP-2000 Blue Collar Healthy Combined table with fully generational improvement using Scale AA. Disabled pensioners: RP-2000 Blue Collar Healthy Combined table with age set forward 4years with fully generational improvement using Scale AA.

The actuarial assumptions used in the July 1, 2016, valuation was 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, 2016, are summarized in the following table:

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 4. OTHER INFORMATION - Continued

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	3.27%
Domestic equity	5.16%
International equity	8.61%
Real estate	4.97%
Private equity	8.32%
Commodities	2.42%

The current allocation policy is that approximately 60% of assets in equity instruments, including public equity, long-short hedge, venture capital, and private equity strategies; approximately 25% of assets in fixed income to include investment grade bonds; high yield and non-dollar denominated bonds, convertible bonds, and low volatility hedge fund strategies; and 15% of assets in real assets to include real estate, commodities, and other strategies.

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 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:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Employers' net pension liability(asset) \$	824,895 \$	314,405 \$	(116,627)

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 4. OTHER INFORMATION - Continued

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 PPRS; which can be located at www.ok.gov/PPRS.

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 (FPRS). Title 11 of the Oklahoma State Statutes grants the authority to establish and amend the benefit terms to the FPRS. FPRS issues a publicly available financial report that can be obtained at www.ok.gov/fprs.

Benefits Provided - FPRS 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.

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.

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 4. OTHER INFORMATION - Continued

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 9% of their annual pay. Participating cities are required to contribute 14% of the employees' annual pay. Contributions to the pension plan from the City were \$44,344. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$102,365. These on-behalf payments did not meet the criteria of a special funding situation.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2017, the City reported a liability of \$1,354,490 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. 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, 2016. Based upon this information, the City's proportion was 0.110868%.

For the year ended June 30, 2017, the City recognized pension expense of \$145,419. At June 30, 2017, 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	\$ 36,310	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	82,873	-
Changes in proportion and differences between City contributions and proportionate share of contributions	54,676	18,705
City contributions during measurement date	-	2,727
City contributions subsequent to the measurement date	44,344	-
Total	\$ <u>218,203</u>	\$ <u>21,432</u>

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017**

NOTE 4. OTHER INFORMATION - Continued

\$44,344 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, 2017. 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:

2018 \$	16,049
2019	16,049
2020	59,194
2021	45,578
2022	12,083
Thereafter	3,474
\$	152,427

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of July 1, 2015, 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, 2015, valuation was 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, 2015, are summarized in the following table:

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 4. OTHER INFORMATION - Continued

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	20%	5.13%
Domestic equity	37%	8.02%
International equity	20%	9.94%
Real estate	10%	7.47%
Other assets	13%	6.25%

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.

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	\$ 1,447,794	\$ 1,115,064	\$ 836,002

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 FPRS; which can be located at www.ok.gov/fprs.

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017**

NOTE 4. OTHER INFORMATION - Continued

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

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

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

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

Funding Policy - The employee contributes 3% of compensation to the Plan, and the employer contributes 8% of employee compensation. Contributions to the Plan for the year ended June 30, 2017, for employees and employer were \$40,800 and \$108,801, respectively. For the year ended June 30, 2017, the City's covered payroll was \$1,360,016. Covered payroll refers to all compensation paid by the City of Choctaw to active employees covered by the Plan on which contributions are based.

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 4. OTHER INFORMATION - Continued

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, 2017, approximately no retired employees are receiving benefits under this plan.

Funding Policy. The contribution requirement of the City is an implicit subsidy. The implicit subsidy is not a direct payment from the employer on behalf of the member but rather stems from retiree contribution levels that are less than the claims cost at retiree ages. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retiree. The amount required to fund the implicit rate is based on projected pay-as-you-go financing requirements. For fiscal year 2017, 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, 2017 since no one is participating at this time.

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 4. OTHER INFORMATION - Continued

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

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

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:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local government employers. GASB Statement No. 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures. For defined benefit OPEB, GASB Statement No. 75 identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This standard is effective for financial reporting periods beginning after June 15, 2017. Earlier application is encouraged. The City has not yet determined the potential impact, if any, this statement could have on its financial statements.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement provides recognition and measurement guidance for situations in which the government is a beneficiary of an irrevocable split-interest agreement. This standard is effective for financial reporting periods beginning after December 15, 2016 and should be applied retroactively. The City does not currently have any irrevocable split-interest agreements and, therefore, does not believe that this statement will have any potential impact on its financial statements.

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2017

GASB Statement No. 82, *Pensions Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selections of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes and classification of payment made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for periods beginning after June 15, 2017, except the application date to the first reporting period in which the measurement date of the pension liability is on or after June 15, 2018. The City has not yet determined the potential impact, if any, this statement could have on its financial statements.

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible asset. A government that has legal obligations to perform future asset retirement activities related to its tangible assets should recognize a liability based on the guidance in the Statement. This Statement is effective for periods beginning after June 15, 2018. The City has not yet determined the potential impact, if any, this statement could have on its financial statements.

GASB Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement is effective for periods beginning after December 15, 2018. The City has not yet determined the potential impact, if any, this statement could have on its financial statements.

GASB Statement No. 85, *Omnibus*. This Statement addresses accounting practice issues that have been identified during implementation and application of certain GASB Statements. The Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits related to pensions and other postemployment benefits. This Statement is effective for periods beginning after June 15, 2017. The City has not yet determined the potential impact, if any, this statement could have on its financial statements.

**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, 2017

	Budget			Actual	Variance with Final Budget Over (Under)
	Original	Revisions	Final		
REVENUES					
Taxes	\$ 6,580,197	102,048	6,682,245	6,963,541	281,296
Intergovernmental	129,700	8,111	137,811	49,601	(88,210)
Licenses and permits	188,225	17,000	205,225	190,980	(14,245)
Fines and forfeitures	166,000	(29,000)	137,000	140,805	3,805
Interest	-	-	-	-	-
Miscellaneous	38,926	47,063	85,989	88,897	2,908
Total revenues	<u>7,103,048</u>	<u>145,222</u>	<u>7,248,270</u>	<u>7,433,824</u>	<u>185,554</u>
EXPENDITURES					
General government:					
Administration	526,873	(2,152)	524,721	471,067	53,654
General government	432,953	-	432,953	389,042	43,911
Developmental services	377,962	(31,193)	346,769	325,950	20,819
Municipal court	99,813	9	99,822	92,212	7,610
Public safety:					
Police	1,399,992	(31,516)	1,368,476	1,350,534	17,942
Fire	645,187	(8,892)	636,295	611,215	25,080
Public works:					
Fleet	57,050	-	57,050	57,443	(393)
Culture and recreation:					
Parks	334,551	-	334,551	315,889	18,662
Senior center	4,049	2,025	6,074	5,177	897
Total expenditures	<u>3,878,430</u>	<u>(71,719)</u>	<u>3,806,711</u>	<u>3,618,529</u>	<u>188,182</u>
Excess (deficiency) of revenues over (under) expenditures	3,224,618	216,941	3,441,559	3,815,295	373,736
OTHER FINANCING SOURCES (USES)					
Transfers	(3,096,889)	(507,427)	(3,604,316)	(3,705,721)	(101,405)
Net change in fund balances	127,729	(290,486)	(162,757)	109,574	272,331
Fund balances - beginning	214,016	-	214,016	1,414,341	1,200,325
Fund balances - ending	<u>\$ 341,745</u>	<u>(290,486)</u>	<u>51,259</u>	<u>1,523,915</u>	<u>1,472,656</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, 2017

	Budget			Actual	Variance with Final Budget Over (Under)
	Original	Revisions	Final		
REVENUES					
Proceeds from debt issuance	\$ 1,795,000	(583,424)	1,211,576	750,000	(461,576)
Interest	681	-	681	3,309	2,628
Miscellaneous	-	-		326	326
Total revenues	<u>1,795,681</u>	<u>(583,424)</u>	<u>1,212,257</u>	<u>753,635</u>	<u>(458,622)</u>
EXPENDITURES					
General government:					
General government	40,000	(20,004)	19,996	9,071	10,925
Public works:		-			
Streets	750,000	222,961	972,961	5,347	967,614
Parks and recreation	296,192	(71,426)	224,766	219,716	5,050
CUA - Water improvements	203,719	(65,594)	138,125	258,658	(120,533)
CUA - Wastewater improvements	1,000,000	(205,071)	794,929	538,389	256,540
Road Improvements	-	5,347	5,347	-	5,347
Debt service	<u>1,771,677</u>	<u>269,325</u>	<u>2,041,002</u>	<u>2,237,982</u>	<u>(196,980)</u>
Total expenditures	<u>4,061,588</u>	<u>135,538</u>	<u>4,197,126</u>	<u>3,269,163</u>	<u>927,963</u>
Excess (deficiency) of revenues over (under) expenditures	(2,265,907)	(718,962)	(2,984,869)	(2,515,528)	469,341
OTHER FINANCING SOURCES (USES)					
Transfers	<u>1,782,999</u>	<u>240,000</u>	<u>2,022,999</u>	<u>2,168,196</u>	<u>145,197</u>
Net change in fund balances	(482,908)	(478,962)	(961,870)	(347,332)	614,538
Fund balances - beginning	9,160,875	-	9,160,875	2,371,782	(6,789,093)
Fund balances - ending	<u>\$ 8,677,967</u>	<u>(478,962)</u>	<u>8,199,005</u>	<u>2,024,450</u>	<u>(6,174,555)</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, 2017

	Budget			Actual	Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Revisions</u>	<u>Final</u>		
REVENUES					
Ad Valorem taxes	\$ 249,000	(174,000)	75,000	406,854	331,854
Interest	21	(21)	-	103	103
Miscellaneous	250,000	1,130,648	1,380,648	1,380,585	(63)
Total revenues	<u>499,021</u>	<u>956,627</u>	<u>1,455,648</u>	<u>1,787,542</u>	<u>331,894</u>
EXPENDITURES					
General government	-		10,427	8,053	2,374
Debt service	1,040,900	(84,439)	956,461	491,202	465,259
Total expenditures	<u>1,040,900</u>	<u>(84,439)</u>	<u>966,888</u>	<u>499,255</u>	<u>467,633</u>
Excess (deficiency) of revenues over (under) expenditures	(541,879)	1,041,066	488,760	1,288,287	799,527
OTHER FINANCING SOURCES (USES)					
Transfers	1,026,937	(59,941)	966,996	755,588	(211,408)
Net change in fund balances	485,058	981,125	1,455,756	2,043,875	588,119
Fund balances - beginning	299,359	245,602	544,961	(1,093,229)	(1,638,190)
Fund balances - ending	<u>\$ 784,417</u>	<u>1,226,727</u>	<u>2,000,717</u>	<u>950,646</u>	<u>(1,050,071)</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, 2017

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.
- b. Public hearings are conducted to obtain taxpayer comments. At least one public hearing must be held no later than 15 days prior to July 1.
- 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. By July 1, the adopted budget is filed with the office of the State Auditor and Inspector.

Per State law, the legal level of control at which expenditures may not legally exceed appropriations is the department level within a fund. All transfers of appropriations between departments and supplemental appropriations require City Council approval. The City Manager may transfer appropriations between object categories within a department without City Council approval. Supplemental appropriations must also be filed with the Office of State Auditor and Inspector. No departments exceeded appropriations.

Budgetary Accounting

The annual operating budgets 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. Encumbrances outstanding at year-end are not considered expenditures for budgetary purposes since the City intends to honor the commitments and provide for supplemental appropriations in the following budget year. All appropriations lapse at year-end.

City of Choctaw, Oklahoma
Notes to Required Supplemental Information
Budgetary Comparison Schedule
For the Year Ended June 30, 2017

Budget Reconciliations - Items required to adjust actual revenues, expenditures, and fund balances reported on the budgetary basis to those reported within the fund financial statements as of and for the year ended June 30, 2017, are as follows:

	General Fund	Dedicated Sales Tax Fund	Town Square Fund
Fund balances - budgetary basis, June 30, 2017	\$ 635,942	1,713,646	950,646
Current year revenue accruals	1,198,777	-	-
Current year expenditure accruals	-	-	-
Current year sales tax transfer accruals	(310,804)	310,804	-
Fund balances - fund financial statements, June 30, 2017	<u>\$ 1,523,915</u>	<u>2,024,450</u>	<u>950,646</u>
Revenues - budgetary basis, June 30, 2017	\$ 7,322,117	753,635	1,787,542
Current year revenue accruals	1,198,777	-	-
Prior year revenue accruals	(1,087,070)	-	-
Revenues - fund financial statements, June 30, 2017	<u>\$ 7,433,824</u>	<u>753,635</u>	<u>1,787,542</u>
Expenditures - budgetary basis, June 30, 2017	\$ 3,618,295	3,269,163	499,255
Current year expenditure accruals	-	-	-
Prior year expenditure accruals	-	-	-
Expenditures - fund financial statements, June 30, 2017	<u>\$ 3,618,295</u>	<u>3,269,163</u>	<u>499,255</u>

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

	2014	2015	2016
1. Employer's proportion of the net pension liability (asset)	0.174100%	0.216900%	0.205300%
2. Employer's proportionate share of the net pension liability (asset)	\$ (58,617)	\$ 8,842	\$ 314,405
3. Employer's covered-employee payroll	\$ 487,054	\$ 611,962	\$ 605,592
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-12.04%	1.44%	51.92%
5. Plan fiduciary net position as a percentage of the total pension liability	101.53%	99.82%	93.50%

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

Data is reported is measured as of July 1, 2016.

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

	2014	2015	2016
Statutorily required contribution	\$ 63,317	\$ 79,555	\$ 78,727
Contributions in relation to the statutorily required contribution	\$ (63,317)	\$ (79,555)	\$ (78,727)
Contribution deficiency (excess)	\$ -	\$ -	\$ (0)
City's covered-employee payroll	\$ 487,054	\$ 611,962	\$ 605,592
Contributions as a percentage of covered-employee payroll	13.00%	13.00%	13.00%

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

Data is reported is measured as of July 1, 2016.

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

	2014	2015	2016
1. Employer's proportion of the net pension liability (asset)	0.107400%	0.105100%	0.110868%
2. Employer's proportionate share of the net pension liability (asset)	\$ 1,104,620	\$ 1,115,064	\$ 1,354,490
3. Employer's covered-employee payroll	\$ 286,764	\$ 287,036	\$ 310,121
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	385.20%	388.48%	436.76%
5. Plan fiduciary net position as a percentage of the total pension liability	68.12%	68.27%	64.87%

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

Data is reported is measured as of July 1, 2016.

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

	2014	2015	2016
Statutorily required contribution	\$ 40,147	\$ 40,185	\$ 43,417
Contributions in relation to the statutorily required contribution	\$ (40,147)	\$ (40,185)	\$ (43,417)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 286,764	\$ 287,036	\$ 310,121
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%

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

Data is reported is measured as of July 1, 2016.

**OTHER SUPPLEMENTARY
INFORMATION**

City of Choctaw, Oklahoma
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2017

	Special Revenue					Permanent Cemetery Perpetual Care	Debt	Capital Projects			Total Nonmajor Governmental Funds
	Street & Alley	Parks and Tourism	Public Safety	Emergency Management	Industrial Park		Service Sinking Fund	Capital Projects	Community Development	Library Construction	
ASSETS											
Cash and cash equivalents	\$ 76,690	133,151	58,185	129,625	26,132	178,979	27,041	268,991	40,982	24,881	964,657
Receivables, net	5,927	-	-	-	-	-	-	-	-	-	5,927
Due from other funds	-	-	-	-	-	-	-	-	-	-	-
TOTAL	82,617	133,151	58,185	129,625	26,132	178,979	27,041	268,991	40,982	24,881	970,584
LIABILITIES AND FUND BALANCES											
Liabilities:											
Accounts payable	-	-	-	-	-	-	-	-	-	-	-
Deposits subject to refund	-	2,140	-	-	-	-	-	-	-	-	2,140
Total liabilities	-	2,140	-	-	-	-	-	-	-	-	2,140
Fund balances:											
Reserved for:											
Restricted	82,617	131,011	58,185	129,625	26,132	178,979	27,041	268,991	40,982	24,881	968,444
Assigned	-	-	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-	-	-	-
Total fund balances	82,617	131,011	58,185	129,625	26,132	178,979	27,041	268,991	40,982	24,881	968,444
TOTAL	\$ 82,617	133,151	58,185	129,625	26,132	178,979	27,041	268,991	40,982	24,881	970,584

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, 2017

	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	\$ 105,746	-	-	-	-	-	131,532	-	-	-	237,278
Intergovernmental	-	-	10,758	-	-	-	-	-	-	-	10,758
Charge for services	-	70,631	285	-	3,600	26,925	-	31,076	-	-	132,517
Interest	-	-	-	-	-	-	4	-	-	-	4
Miscellaneous	36,349	5,891	32,261	-	-	1,000	-	1,208	-	-	76,709
Total revenues	142,095	76,522	43,304	-	3,600	27,925	131,536	32,284	-	-	457,266
EXPENDITURES											
Current:											
General government	-	-	-	-	-	-	-	20,137	-	-	20,137
Public safety	-	-	59,527	108,390	-	-	-	84,108	-	-	252,025
Public works	674,990	-	-	-	-	-	-	25,534	60,895	-	761,419
Cultural and recreational	-	109,523	-	-	-	15,147	-	27,957	-	-	152,627
Debt service	-	-	-	-	-	-	133,735	-	-	-	133,735
Total expenditures	674,990	109,523	59,527	108,390	-	15,147	133,735	157,736	60,895	-	1,319,943
Excess (deficiency) of revenues over expenditures	(532,895)	(33,001)	(16,223)	(108,390)	3,600	12,778	(2,199)	(125,452)	(60,895)	-	(862,677)
OTHER FINANCING SOURCES (USES)											
Transfers in	249,200	89,180	-	-	-	-	-	163,347	75,000	-	576,727
Transfers out	-	-	-	-	-	-	-	(24,864)	-	-	(24,864)
Total other financing sources and uses	249,200	89,180	-	-	-	-	-	138,483	75,000	-	551,863
Net change in fund balances	(283,695)	56,179	(16,223)	(108,390)	3,600	12,778	(2,199)	13,031	14,105	-	(310,814)
Fund balances-beginning	366,312	74,832	74,408	238,015	22,532	166,201	29,240	255,960	26,877	24,881	1,279,258
Fund balances-ending	\$ 82,617	131,011	58,185	129,625	26,132	178,979	27,041	268,991	40,982	24,881	968,444

See accompanying notes to the basic financial statement.

City of Choctaw, Oklahoma
Debt Service Coverage Schedule
Series 2013A, 2013B and OWRB Series 2017, 2017A
For the Year Ended June 30, 2017

Gross Revenue Available For Debt Service:

Pledged sales tax (2 cents)	\$	2,854,754
System-wide gross revenues (Water and Sewer)		1,449,550
Total Gross Revenues Available		4,304,304
System-wide operating expense - Exclusive of capital improvements, debt service and depreciation		783,069
Net Revenues Available for Debt Service	\$	3,521,235

Maximum Annual Debt Service Requirements:

Revenue notes - Series 2013A		411,810
Revenue notes - Series 2013B		412,000
Revenue note - OWRB Series 2017A		219,380
Maximum annual debt service	\$	1,043,190
Coverage		3.38
Coverage requirement		1.25

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, discretely component unit, each major fund, and the aggregate remaining fund information of the City of Choctaw, Oklahoma (the "City") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 8, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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'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
November 8, 2017

City of Choctaw, Oklahoma
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

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	OHSO-FFY2017	12,000
Total Federal Assistance			\$ <u><u>12,000</u></u>

Footnotes to Schedule of Expenditures of Federal Awards:

1. The Schedule of Expenditures of Federal Awards is prepared on an accrual basis of accounting. The expenditures are recorded when the liability is incurred regardless of when the award proceeds are received.
2. The City has not been notified of any noncompliance with federal award requirements. Any liability for reimbursement which may arise as a result of these audits can not be reasonably determined at this time, although it is believed the amount, if any, would not be material.