



CITY OF CHOCTAW, OKLAHOMA

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

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2020**

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INDEPENDENT AUDITOR'S REPORT

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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, 2020, 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, 2020, 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, budgetary comparison information, 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 supplemental information, consisting of combining statements, budgetary comparison schedules and the debt service coverage schedule 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 supplemental information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information, as listed in the table of contents, 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 (under separate cover) dated March 10, 2021 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, PC

Midwest City, Oklahoma
March 10, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF CHOCTAW, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

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, 2020. 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 \$1,031,877 and the assets of the City exceeded its liabilities \$17,287,598 (net position). Of this amount, the City has an unrestricted net position of \$1,859,923.
- On June 30, 2020, the City's governmental funds reported combined ending fund balances of \$8,028,625. Of this total amount, \$1,917,970 is available for spending at the government's discretion (unassigned fund balance).
- At the end of fiscal year 2020, unassigned fund balance for the General Fund was \$1,917,970, or approximately 47.6% of total General Fund expenditures.
- Sales and use taxes increased by \$915,495 or 12.9% 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, 2020

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, 2020

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, 2020, net position for governmental activities and business-type activities increased to \$17,287,598. 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, 2020

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			
	<u>Activities</u>		% Inc.		<u>Activities</u>		% Inc.	<u>Primary Government</u>
	<u>2020</u>	<u>2019</u>			<u>2020</u>	<u>2019</u>	(Dec.)	<u>2020</u>
Current and other assets	\$ 8,510	6,383	33%	1,903	1,617	18%	10,413	8,000
Capital assets	<u>18,296</u>	<u>20,314</u>	-10%	<u>17,579</u>	<u>15,583</u>	13%	<u>35,875</u>	<u>35,897</u>
Total assets	<u>26,806</u>	<u>26,697</u>	0%	<u>19,482</u>	<u>17,200</u>	13%	<u>46,288</u>	<u>43,897</u>
Deferred outflow of resources	<u>774</u>	<u>863</u>	-10%	-	-		<u>774</u>	<u>863</u>
Long-term debt outstanding	10,341	11,764	-12%	16,311	14,216	15%	26,652	25,980
Other liabilities	<u>1,979</u>	<u>1,780</u>	11%	<u>826</u>	<u>712</u>	16%	<u>2,805</u>	<u>2,492</u>
Total liabilities	<u>12,320</u>	<u>13,544</u>	-9%	<u>17,137</u>	<u>14,928</u>	15%	<u>29,457</u>	<u>28,472</u>
Deferred inflow of resources	<u>317</u>	<u>236</u>	34%	-	-		<u>317</u>	<u>236</u>
Net assets:								
Invested in capital assets, net of debt	8,227	8,819	-7%	1,211	1,445	-16%	9,438	10,264
Restricted	<u>5,808</u>	<u>4,044</u>	44%	<u>182</u>	<u>217</u>	-16%	<u>5,990</u>	<u>4,261</u>
Unrestricted (deficit)	<u>908</u>	<u>917</u>	-1%	<u>952</u>	<u>610</u>	56%	<u>1,860</u>	<u>1,527</u>
Total net assets	<u>\$ 14,943</u>	<u>13,780</u>	8%	<u>2,345</u>	<u>2,272</u>	3%	<u>17,288</u>	<u>16,052</u>

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, \$5,990,277 represents resources that are subject to external restrictions on how they may be used. The remaining balance is an unrestricted net position of \$1,859,923.

CITY OF CHOCTAW, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

Change in Net Position

For the year ended June 30, 2020 net position of the primary government changed as follows:

Table 2
Changes in Net Position (In Thousands)

	Governmental			Business-type			Total		
	<u>Activities</u>		% Inc.	<u>Activities</u>		% Inc.	<u>Primary Government</u>		% Inc.
	2020	2019	(Dec.)	2020	2019	(Dec.)	2020	2019	(Dec.)
Revenues									
Charges for services	\$ 1,641	1,858	-12%	3,083	2,917	6%	4,724	4,775	-1%
Operating grants	274	229	20%	-	-	-	274	229	20%
Capital grants	-	-	-	-	-	-	-	-	-
Sales and use taxes	8,011	7,095	13%	-	-	-	8,011	7,095	13%
Franchise tax (fees)	476	436	9%	-	-	-	476	436	9%
Other taxes	724	710	2%	-	-	-	724	710	2%
Investment income	27	38	-29%	8	10	-	35	48	-27%
Land sales	600	-	0%	-	-	-	600	-	0%
Other	172	155	11%	7	53	0%	179	208	-14%
Total revenues	11,925	10,521	13%	3,098	2,980	4%	15,023	13,501	11%
Expenses									
General government	3,828	2,717	41%	-	-	-	3,828	2,717	41%
Public safety	3,011	2,641	14%	-	-	-	3,011	2,641	14%
Public works	1,781	1,098	62%	-	-	-	1,781	1,098	62%
Cultural & recreation	1,055	1,119	-6%	-	-	-	1,055	1,119	-6%
Water	-	-	-	1,414	1,079	31%	1,414	1,079	31%
Sewer	-	-	-	788	721	9%	788	721	9%
Sanitation	-	-	-	845	806	5%	845	806	5%
Stormwater	-	-	-	208	155	34%	208	155	34%
Golf course	-	-	-	592	601	0%	592	601	0%
Interest on debt	469	340	-	-	-	-	469	340	38%
Total expenses	10,144	7,915	28%	3,847	3,362	14%	13,991	11,277	24%
Increase in net position									
before transfers	1,781	2,606	-32%	(749)	(382)	96%	1,032	2,224	-54%
Transfers	(822)	(1,118)	-26%	822	1,118	-26%	-	-	-
Change in net position	959	1,488	-36%	73	736	-90%	1,032	2,224	-54%
Begininng net position	13,984	12,292	14%	2,272	1,536	48%	16,256	13,828	18%
Ending net position	\$ 14,943	13,780	8%	2,345	2,272	3%	17,288	16,052	8%

CITY OF CHOCTAW, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

The City's governmental activities revenues increase by \$1,405,830 from the prior fiscal period.

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)

	Net Revenue					
	Total Expenses		% Inc. (Dec.)	(Expense)		% Inc. (Dec.)
	of Services 2020	2019		of Services 2020	2019	
General government	\$ 3,828	2,717	41%	(2,570)	(1,574)	63%
Public safety	3,011	2,641	14%	(2,647)	(2,279)	16%
Public works	1,781	1,098	62%	(1,781)	(982)	81%
Cultural & recreation	1,055	1,119	-6%	(762)	(653)	17%
Interest on long-term debt	469	340	38%	(469)	(340)	38%
Total	\$ 10,144	7,915	28%	(8,229)	(5,828)	41%

For the year ended June 30, 2020, total expenses for governmental activities amounted to \$10,143,901 which is a 28% increase from the prior year.

CITY OF CHOCTAW, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

Business-type Activities

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

	Total Expenses		% Inc. (Dec.)	Net Revenue		% Inc. (Dec.)	
	of Services			(Expense)	of Services		
	2020	2019		2020	2019		
Water	\$ 1,414	1,079	31%	(368)	(137)	169%	
Sewer	788	721	9%	(205)	(142)	44%	
Sanitation	845	806	5%	47	44	7%	
Stormwater	208	155	34%	47	81	-42%	
Golf course	592	601	-1%	(285)	(292)	-2%	
Total	\$ 3,847	3,362	14%	(764)	(446)	71%	

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 2020 fiscal year, the governmental funds reported a combined fund balance of \$8,028,625, or 34.0% increase from the prior year. The enterprise funds reported combined net position of \$2,344,771, or 3.2% increase from 2019.

Other Fund Highlights Include:

- For the year ended June 30, 2020, the General Fund's total fund balance increased by \$461,104, no significant change from the prior year.
- The CUA Enterprise Fund reported a net position increase of \$72,624 from the prior fiscal year.

General Fund Budgetary Highlights

For the year ended June 30, 2020, the General Fund reported actual budgetary basis revenues over final estimates by \$825,647 or an 10.5% positive variance. General Fund actual expenditures were under final appropriations by \$35,002 or a 0.1% positive variance.

CITY OF CHOCTAW, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2020, the City had \$35,874,966 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 \$22,008 over last year.

Table 5
Capital Assets

	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Land and in progress	\$ 350	2,868	11,080	8,982	11,430	11,850
Buildings	11,549	8,641	-	-	11,549	8,641
Machinery and equipment	2,335	2,163	982	962	3,317	3,125
Vehicles	2,011	1,760	75	75	2,086	1,835
Infrastructure	58,355	58,590	19,635	19,295	77,990	77,885
Less: Accum. depreciation	(56,304)	(53,708)	(14,193)	(13,731)	(70,497)	(67,439)
Total capital assets, net	\$ 18,296	20,314	17,579	15,583	35,875	35,897

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

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

CITY OF CHOCTAW, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

Long-term Debt

At year-end, the City had \$26,621,456 in long-term debt outstanding, excluding accrued compensated absences, due to depositors and net pension liability, which represents approximately a \$699,552 increase from the prior year.

Table 6
Outstanding Debt

	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
General obligation bonds	405	500	-	-	405	500
Notes payable	120	-	1,026	1,113	1,146	1,113
Tax increment note (TIF)	3,195	4,050	-	-	3,195	4,050
Revenue notes	6,390	6,945	15,486	13,314	21,876	20,259
Total long-term debt	\$ 10,110	11,495	16,512	14,427	26,622	25,922

ECONOMIC OUTLOOK

- The unemployment rate for the Oklahoma City metropolitan area which includes Choctaw is currently 6.7 percent, which is an increase of 4.1 percent from a year ago. This compares favorably to the state's average unemployment rate of 6.6 percent and favorably to the national average rate of 10.2 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 4.8% over the prior year total.

All of these factors were considered in preparing the City's budget for the 2020-2021 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, 2020

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Authority
ASSETS				
Pooled cash and cash equivalents	\$ 2,859,998	938,551	3,798,549	75,402
Restricted cash and investments	3,853,549	632,650	4,486,199	-
Receivables (net of allowance for uncollectible)	89,355	287,264	376,619	-
Due from other governments	1,583,010	-	1,583,010	-
Internal balances	108,944	(108,944)	-	-
Restricted cash and investments	-	153,448	153,448	-
Net pension asset	14,920	-	14,920	-
Capital assets:				
Land, improvements, and construction in progress	349,726	11,080,202	11,429,928	-
Other capital assets, net of depreciation	17,946,254	6,498,784	24,445,038	-
Total assets	26,805,756	19,481,955	46,287,711	75,402
DEFERRED OUTFLOW OF RESOURCES				
Deferred amounts related to pensions	774,139	-	774,139	-
LIABILITIES				
Accounts payable and accrued expenses	100,252	38,330	138,582	-
Accrued interest payable	181,514	130,140	311,654	-
Deferred revenues	-	91,483	91,483	-
Due to bondholders	750	-	750	-
Deposits subject to refund	65,025	-	65,025	-
Current portion of long-term debt	1,631,884	567,365	2,199,249	-
Long-term liabilities:				
Long-term debt and other liabilities	8,653,934	16,309,866	24,963,800	-
Net pension liabilities	1,685,123	-	1,685,123	-
Total liabilities	12,318,482	17,137,184	29,455,666	-
DEFERRED INFLOW OF RESOURCES				
Deferred amounts related to pensions	316,586	-	316,586	-
NET POSITION				
Net investment in capital assets	8,226,843	1,210,555	9,437,398	-
Restricted for:				
Debt service	4,689,005	182,252	4,871,257	-
Capital improvements	383,242	-	383,242	-
Other purposes	735,778	-	735,778	-
Unrestricted (deficit)	907,959	951,964	1,859,923	75,402
Total net position	\$ 14,942,827	2,344,771	17,287,598	75,402

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

City of Choctaw, Oklahoma
Statement of Activities
For the Year Ended June 30, 2020

Functions/Programs	Program Revenues				Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 3,982,803	1,258,734	-	-	(2,724,069)
Public safety	2,965,446	99,713	264,097	-	(2,601,636)
Public works	1,756,501	-	-	-	(1,756,501)
Culture and recreation	970,254	282,593	10,000	-	(677,661)
Interest on long-term debt	468,897	-	-	-	(468,897)
Total government activities	<u>10,143,901</u>	<u>1,641,040</u>	<u>274,097</u>	<u>-</u>	<u>(8,228,764)</u>
Business-type activities:					
Water	1,413,707	1,045,406	-	-	(368,301)
Wastewater	787,794	582,866	-	-	(204,928)
Sanitation	845,282	892,328	-	-	47,046
Stormwater	208,598	255,861	-	-	47,263
Golf course	591,792	306,717	-	-	(285,075)
Total business-type activities	<u>3,847,173</u>	<u>3,083,178</u>	<u>-</u>	<u>-</u>	<u>(763,995)</u>
Total primary government	<u>13,991,074</u>	<u>4,724,218</u>	<u>274,097</u>	<u>-</u>	<u>(8,992,759)</u>
Economic Development	\$ 2,000	-	-	-	(2,000)

City of Choctaw, Oklahoma
Statement of Activities
For the Year Ended June 30, 2020

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Authority
Change in net position:				
Net (expense) revenue	\$ (8,228,764)	(763,995)	(8,992,759)	(2,000)
General revenues:				
Taxes:				
Sales taxes	7,073,465	-	7,073,465	-
Use taxes	937,290	-	937,290	-
Franchise taxes (fees)	476,124	-	476,124	-
Other taxes	723,629	-	723,629	-
Unrestricted investment income	26,531	7,503	34,034	433
Miscellaneous	773,280	6,814	780,094	1,000
Transfers	(822,302)	822,302	-	-
Total general revenues and transfers	9,188,017	836,619	10,024,636	1,433
Change in net position	959,253	72,624	1,031,877	(567)
Net Position - beginning, as restated	13,983,574	2,272,147	16,255,721	75,969
Net Position - ending	\$ 14,942,827	2,344,771	17,287,598	75,402

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

City of Choctaw, Oklahoma
Balance Sheet - Governmental Funds
June 30, 2020

	General Fund	Dedicated Sales Tax Fund	Town Square Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,358,448	32,390	-	1,148,370	2,539,208
Cash - Police fines account	20,586	-	-	-	20,586
Restricted cash and cash equivalents	-	1,915,709	1,937,840	-	3,853,549
Receivables:					
Franchise tax receivable	89,355	-	-	-	89,355
Due from other governments	1,571,277	-	-	11,733	1,583,010
Due from other funds	5,225	674,884	106,250	105,000	891,359
Total assets	<u>3,044,891</u>	<u>2,622,983</u>	<u>2,044,090</u>	<u>1,265,103</u>	<u>8,977,067</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	87,576	-	-	12,676	100,252
Police bonds outstanding	750	-	-	-	750
Deposits subject to refund	65,025	-	-	-	65,025
Due to other funds	670,940	-	-	111,475	782,415
Total liabilities	<u>824,291</u>	<u>-</u>	<u>-</u>	<u>124,151</u>	<u>948,442</u>
Fund balances:					
Restricted	-	2,622,983	2,044,090	1,140,952	5,808,025
Committed	302,630	-	-	-	302,630
Unassigned	1,917,970	-	-	-	1,917,970
Total fund balances	<u>2,220,600</u>	<u>2,622,983</u>	<u>2,044,090</u>	<u>1,140,952</u>	<u>8,028,625</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 3,044,891</u>	<u>2,622,983</u>	<u>2,044,090</u>	<u>1,265,103</u>	

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

Capital assets used in governmental activities are not financial resources
and therefore are not required in the governmental fund statements. 18,295,981

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. 300,203

Other long-term assets are not available to pay for current period expenditures
and therefore are deferred in the funds:

Net pension asset	14,920
Pension related deferred outflows	774,139

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, and capital leases payable	(10,139,367)
Net pension liability	(1,685,123)
Pension related deferred inflows	(316,586)
Accrued interest payable	(181,514)
Accrued compensated absences	(148,451)

Net position of governmental activities	<u>\$ 14,942,827</u>
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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, 2020

	General Fund	Dedicated Sales Tax Fund	Town Square Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 8,486,878	-	500,790	222,840	9,210,508
Intergovernmental	132,121	-	-	10,000	142,121
Licenses and permits	261,542	-	-	-	261,542
Charge for services	-	-	-	328,396	328,396
Fines and forfeitures	99,713	-	-	-	99,713
Interest	7,961	7,899	7,018	2,197	25,075
Land sales	-	-	600,000	-	600,000
Miscellaneous	121,197	-	-	51,766	172,963
Total revenues	9,109,412	7,899	1,107,808	615,199	10,840,318
EXPENDITURES					
Current:					
General government	1,225,970	-	21,918	3,936	1,251,824
Public safety	2,402,981	-	-	17,666	2,420,647
Public works	66,736	-	-	626,212	692,948
Culture and recreation	332,530	-	-	397,635	730,165
Capital outlay	-	715,493	-	302,217	1,017,710
Debt service - Principal	-	559,000	855,000	120,161	1,534,161
Debt service - Interest	-	174,176	111,495	63,587	349,258
Total expenditures	4,028,217	1,448,669	988,413	1,531,414	7,996,713
Excess (deficiency) of revenues over expenditures	5,081,195	(1,440,770)	119,395	(916,215)	2,843,605
OTHER FINANCING SOURCES (USES)					
Transfers in	-	2,597,962	1,198,491	969,030	4,765,483
Transfers out	(4,620,091)	(734,802)	(232,892)	-	(5,587,785)
Total other financing sources and uses	(4,620,091)	1,863,160	965,599	969,030	(822,302)
Net change in fund balances	461,104	422,390	1,084,994	52,815	2,021,303
Fund balances-beginning, as restated	1,759,496	2,200,593	959,096	1,088,137	6,007,322
Fund balances-ending	\$ 2,220,600	2,622,983	2,044,090	1,140,952	8,028,625

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, 2020

Net change in fund balances - total governmental funds	\$ 2,021,303
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital asset additions	812,262
Depreciation expense	(2,595,418)
Capital assets transferred to business-type activities	(17,263)
Book value of capital assets disposed	(234,545)
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.	
	(189,828)
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:	
Issuance of long-term debt	(141,526)
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:	
Long-term debt principal payments	1,526,761
Debt principal and interest payments on business-type activities	(139,724)
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:	
Change in accrued compensated absences	12,265
Change in accrued interest payable	21,887
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.	
	<u>(116,921)</u>
Change in net assets of governmental activities	<u>\$ 959,253</u>

City of Choctaw, Oklahoma
Statement of Net Position - Proprietary Funds
June 30, 2020

	Business-type Activities - Enterprise Funds					Governmental Activities	
	Choctaw Utilities Authority					Total Enterprise Funds	Internal Service Fund
	Operating Fund	Sanitation Fund	Stormwater Fund	Debt Service	Golf Course		
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 623,193	44,632	219,119	-	51,607	938,551	300,203
Restricted:							
Cash and investments	-	-	-	632,650	-	632,650	-
Accounts receivable, net of allowance for uncollectible of \$ 122,083	287,264	-	-	-	-	287,264	-
Due from other funds	20,993	70,185	13,495	-	-	104,673	-
Total current assets	<u>931,450</u>	<u>114,817</u>	<u>232,614</u>	<u>632,650</u>	<u>51,607</u>	<u>1,963,138</u>	<u>300,203</u>
Non-current assets:							
Restricted cash and investments	153,448	-	-	-	-	153,448	-
Capital assets:							
Land and construction in progress	11,080,202	-	-	-	-	11,080,202	-
Other capital assets, net of accumulated depreciation	5,314,622	-	-	-	1,184,162	6,498,784	-
Total non-current assets	<u>16,548,272</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,184,162</u>	<u>17,732,434</u>	<u>-</u>
Total assets	<u>17,479,722</u>	<u>114,817</u>	<u>232,614</u>	<u>632,650</u>	<u>1,235,769</u>	<u>19,695,572</u>	<u>300,203</u>
LIABILITIES							
Current liabilities:							
Accounts payable	17,410	-	4,544	-	15,691	37,645	-
Accrued interest payable	-	-	-	130,140	-	130,140	-
Deferred revenues	91,483	-	-	-	-	91,483	-
Due to other funds	83,680	-	-	129,937	-	213,617	-
Current portion of long-term obligations	2,401	-	-	495,000	69,964	567,365	-
Total current liabilities	<u>194,974</u>	<u>-</u>	<u>4,544</u>	<u>755,077</u>	<u>85,655</u>	<u>1,040,250</u>	<u>-</u>
Non-current liabilities:							
Deposits subject to refund	278,736	-	-	-	683	279,419	-
Notes payable, non-current	-	-	-	15,037,607	957,755	15,995,362	-
Accrued compensated absences, non-current	21,608	-	-	-	14,162	35,770	-
Total non-current liabilities	<u>300,344</u>	<u>-</u>	<u>-</u>	<u>15,037,607</u>	<u>972,600</u>	<u>16,310,551</u>	<u>-</u>
Total liabilities	<u>495,318</u>	<u>-</u>	<u>4,544</u>	<u>15,792,684</u>	<u>1,058,255</u>	<u>17,350,801</u>	<u>-</u>
NET POSITION							
Net investment in capital assets	16,394,824	-	(15,342,286)	-	158,017	1,210,555	-
Restricted for:							
Debt service	-	-	-	182,252	-	182,252	-
Unrestricted	<u>589,580</u>	<u>114,817</u>	<u>228,070</u>	<u>-</u>	<u>19,497</u>	<u>951,964</u>	<u>300,203</u>
Total net position	<u>\$ 16,984,404</u>	<u>114,817</u>	<u>228,070</u>	<u>(15,160,034)</u>	<u>177,514</u>	<u>2,344,771</u>	<u>300,203</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, 2020

	Business-type Activities - Enterprise Funds					Governmental Activities	
	Choctaw Utilities Authority					Total Enterprise Funds	Internal Service Fund
	Operating Fund	Sanitation Fund	Stormwater Fund	Debt Service	Golf Course		
REVENUES							
Water	\$ 962,339	-	-	-	-	962,339	-
Wastewater	582,866	-	-	-	-	582,866	-
Sanitation	-	892,328	-	-	-	892,328	-
Stormwater and drainage fees	-	-	255,861	-	-	255,861	-
Other charges	83,067	-	-	-	-	83,067	-
Golf course	-	-	-	-	306,717	306,717	-
Insurance premiums	-	-	-	-	-	-	828,724
Total operating revenues	1,628,272	892,328	255,861	-	306,717	3,083,178	828,724
OPERATING EXPENSES							
Water	721,098	-	-	-	-	721,098	-
Wastewater	146,890	-	-	229,829	-	376,719	-
Wastewater plant	279,805	-	-	-	-	279,805	-
Sanitation	-	845,282	-	-	-	845,282	-
Stormwater	-	-	208,598	-	-	208,598	-
Golf course	-	-	-	-	491,851	491,851	-
Insurance claims and expense	-	-	-	-	-	-	947,418
Depreciation and amortization	362,769	-	-	-	99,941	462,710	-
Total operating expenses	1,510,562	845,282	208,598	229,829	591,792	3,386,063	947,418
Operating income (loss)	117,710	47,046	47,263	(229,829)	(285,075)	(302,885)	(118,694)
NONOPERATING REVENUES (EXPENSES)							
Interest income	398	-	1,195	5,910	-	7,503	1,456
Miscellaneous income	784	-	-	-	6,030	6,814	317
Interest expense and fiscal charges	-	-	-	(407,760)	(53,350)	(461,110)	-
Total nonoperating revenues (expenses)	1,182	-	1,195	(401,850)	(47,320)	(446,793)	1,773
OPERATING TRANSFERS AND CAPITAL ITEMS							
Transfers in	-	-	-	719,160	302,820	1,021,980	-
Transfer out	(135,431)	(23,082)	(41,165)	-	-	(199,678)	-
Contributed capital - fixed assets	2,438,645	-	-	(2,438,645)	-	-	-
Total operating transfers and capital contributions	2,303,214	(23,082)	(41,165)	(1,719,485)	302,820	822,302	-
Change in net position	2,422,106	23,964	7,293	(2,351,164)	(29,575)	72,624	(116,921)
Net position - beginning	14,562,298	90,853	220,777	(12,808,870)	207,089	2,272,147	417,124
Net position - ending	\$ 16,984,404	114,817	228,070	(15,160,034)	177,514	2,344,771	300,203

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, 2020

	Business-type Activities - Enterprise Funds						Governmental Internal Service Fund
	Choctaw Utilities Authority	Sanitation Fund	Stormwater Fund	Debt Service	Golf Course	Total Enterprise Funds	
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers	\$ 1,571,632	892,329	257,056	-	306,717	3,027,734	
Payments to suppliers and employees	(1,028,509)	(915,468)	(218,744)	(229,829)	(462,665)	(2,855,215)	(118,377)
Other receipts (payments)	-	-	-	128,937	-	128,937	-
Net cash provided (used) by operating activities	<u>543,123</u>	<u>(23,139)</u>	<u>38,312</u>	<u>(100,892)</u>	<u>(155,948)</u>	<u>301,456</u>	<u>(118,377)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Operating transfers in (out)	2,303,214	(23,082)	(41,165)	(1,719,485)	302,820	822,302	-
Net cash provided (used) by noncapital financing activities	<u>2,303,214</u>	<u>(23,082)</u>	<u>(41,165)</u>	<u>(1,719,485)</u>	<u>302,820</u>	<u>822,302</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Proceeds from long-term debt issuance	-	-	-	2,646,161	-	2,646,161	-
Principal paid on long-term debt	-	-	-	(475,000)	(86,374)	(561,374)	-
Interest expense and fiscal charges	-	-	-	(382,520)	(53,350)	(435,870)	-
(Acquisition) disposition of capital assets	(2,438,645)	-	-	-	(19,760)	(2,458,405)	-
Net cash provided (used) by capital and related financing activities	<u>(2,438,645)</u>	<u>-</u>	<u>-</u>	<u>1,788,641</u>	<u>(159,484)</u>	<u>(809,488)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest received	398	-	1,195	5,910	-	7,503	1,456
Net cash provided (used) by investing activities	<u>398</u>	<u>-</u>	<u>1,195</u>	<u>5,910</u>	<u>-</u>	<u>7,503</u>	<u>1,456</u>
Net increase (decrease) in cash and cash equivalents	408,090	(46,221)	(1,658)	(25,826)	(12,612)	321,773	(116,921)
Cash and cash equivalents, beginning of the year	368,551	90,853	220,777	658,476	64,219	1,402,876	417,124
Cash and cash equivalents, end of the year	<u>776,641</u>	<u>44,632</u>	<u>219,119</u>	<u>632,650</u>	<u>51,607</u>	<u>1,724,649</u>	<u>300,203</u>
Reconciliation to Statement of Net Position:							
Cash and cash equivalents	623,193	44,632	219,119	-	51,607	938,551	300,203
Restricted cash and cash equivalents	153,448	-	-	632,650	-	786,098	-
Total cash and cash equivalents, end of year	<u>\$ 776,641</u>	<u>44,632</u>	<u>219,119</u>	<u>632,650</u>	<u>51,607</u>	<u>1,724,649</u>	<u>300,203</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:							
Operating income (loss)	117,710	47,046	47,263	(229,829)	(285,075)	(302,885)	(118,694)
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation and amortization expense	362,769	-	-	-	99,941	462,710	-
Miscellaneous revenue	784	-	-	-	6,030	6,814	317
Change in assets and liabilities:							
(Increase) decrease in receivables	(73,186)	-	-	-	-	(73,186)	-
Increase (decrease) in accounts payable / accrued expenses	25,641	-	4,544	-	23,156	53,341	-
Increase (decrease) in due from/to other funds	63,687	(70,185)	(13,495)	128,937	-	108,944	-
Increase (decrease) in deposits subject to refund	14,421	-	-	-	-	14,421	-
Increase (decrease) in deferred revenues	31,297	-	-	-	-	31,297	-
Total adjustments	<u>425,413</u>	<u>(70,185)</u>	<u>(8,951)</u>	<u>128,937</u>	<u>129,127</u>	<u>604,341</u>	<u>317</u>
Net cash provided by (used in) operating activities	<u>\$ 543,123</u>	<u>(23,139)</u>	<u>38,312</u>	<u>(100,892)</u>	<u>(155,948)</u>	<u>301,456</u>	<u>(118,377)</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, 2020**

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, 2020**

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 precede 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, 2020**

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.

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
- Public Recreation Funds
- Public Safety Fund
- Industrial Park Fund
- Cemetery Perpetual Care 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.

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

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 on June 30, 2020, 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, 2020**

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, 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- g. *Inventory* - The City records parts and fuel inventory as expenses 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 net 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, 2020**

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, 2020**

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, 2020**

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, 2020 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, 2020**

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 Utilities 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 CUA and the CEDA 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 1823€, 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 on June 30, 2020.

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

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, 2020, 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, 2020**

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, 2020:

<u>Requirement</u>	<u>Level of Compliance</u>
<i>Choctaw Utilities 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	
8. 2017C 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, 2020**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

Fund Equity/Net Position Restrictions

Restricted Net Position

Restricted net position at the government-wide financial statements is 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 on June 30, 2020:

Type	Maturities	Credit Rating	Carrying Value
Deposits:			
Demand deposits			\$ 7,803,958
Cash on hand			1,581
			<u>7,805,539</u>
Investments:			
Trustee money market account		AAAm	632,656
Total deposits and investments			\$ 8,438,195
Reconciliation to Statement of Net Position:			
Cash and cash equivalents			\$ 3,798,548
Restricted cash and investment			4,486,199
Restricted cash and investment			<u>153,448</u>
			<u>\$ 8,438,195</u>

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

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.

On June 30, 2020, 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, on June 30, 2020, 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 \$632,656 invested in Federal Treasury Obligations money market accounts at Bank of Oklahoma and \$4,841,226 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, 2020**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

The restricted assets as of June 30, 2020 were as follows:

Sales Tax Revenue Note, Series 2007:

Debt service	\$	6
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Sales Tax Revenue Note, Series 2014:

Project account	70,230
Debt service	265,380
Accounts not held at trustee bank	1,580,094

Tax Increment Revenue Note, Taxable Series 2016:

Debt service	487,013
Accounts not held at trustee bank	1,450,827

Sales Tax Revenue Note, Series 2013A:

Debt service	134,077
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Sales Tax Revenue Note, Series 2013B:

Debt service	39,222
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OWRB Clean Water SRF Note, Series 2017:

Project account	3,955
Debt service	72,593

OWRB Clean Water SRF Note, Series 2017A:

Project account	316,303
Debt service	66,499
Utility customer deposits	153,448

Total restricted assets	\$ <u>4,639,647</u>
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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, 2020

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

	General Fund	Nonmajor Governmental Funds	Choctaw Utilities Authority	<u>Total</u>
Receivables:				
Accounts	\$ 89,355	-	409,347	498,702
Due from other governments	1,571,277	11,733	-	1,583,010
Gross receivables	<u>1,660,632</u>	<u>11,733</u>	<u>409,347</u>	<u>2,081,712</u>
Less: Allowance for uncollectibles	-	-	122,083	122,083
Net total receivables	<u>\$ 1,660,632</u>	<u>11,733</u>	<u>287,264</u>	<u>1,959,629</u>

Capital Assets

Capital asset balances and activities for the year ended June 30, 2020, 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	-	(2,518,643)	-	349,726
Construction in progress	-	-	-	-	-
Total capital assets not being depreciated	<u>2,868,369</u>	<u>-</u>	<u>(2,518,643)</u>	<u>-</u>	<u>349,726</u>
Capital assets being depreciated :					
Buildings and improvements	8,641,393	388,576	2,518,643	-	11,548,612
Machinery and equipment	2,162,680	172,183	-	-	2,334,863
Vehicles	1,759,626	251,503	-	-	2,011,129
Infrastructure	58,590,176	-	-	234,545	58,355,631
Total capital assets being depreciated	<u>71,153,875</u>	<u>812,262</u>	<u>2,518,643</u>	<u>234,545</u>	<u>74,250,235</u>
Less : Accumulated depreciation					
Buildings and improvements	3,215,923	998,067	-		4,213,990
Machinery and equipment	1,627,524	149,023	-	-	1,776,547
Vehicles	1,442,814	99,492	-	-	1,542,306
Infrastructure	47,422,301	1,348,837	-	-	48,771,138
Total capital assets being depreciated	<u>53,708,562</u>	<u>2,595,419</u>	<u>-</u>	<u>-</u>	<u>56,303,981</u>
Net depreciable assets	17,445,313	(1,783,157)	2,518,643	234,545	17,946,254
Governmental activities capital assets, net	<u>\$ 20,313,682</u>	<u>(1,783,157)</u>	<u>-</u>	<u>234,545</u>	<u>18,295,980</u>

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

Governmental activities:

General government	\$ 1,441,375
Public safety	171,440
Public works administration	789,485
Cultural and recreation	193,119
Total depreciation expense - governmental activities	<u>\$ 2,595,419</u>

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Capital asset activity for business-type activities for the year ended June 30, 2020 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	8,959,667	2,098,350	-	-	11,058,017
Total capital assets not being depreciated	<u>8,981,852</u>	<u>2,098,350</u>	<u>-</u>	<u>-</u>	<u>11,080,202</u>
Capital assets being depreciated :					
Building and improvements	-	19,760	-	-	19,760
Machinery and equipment	962,079	-	-	-	962,079
Vehicles	74,651	-	-	-	74,651
Infrastructure	19,295,211	340,295	-	-	19,635,506
Total capital assets being depreciated	<u>20,331,941</u>	<u>360,055</u>	<u>-</u>	<u>-</u>	<u>20,691,996</u>
Less : Accumulated depreciation :					
Building and improvements	-	1,159	-	-	1,159
Machinery and equipment	635,919	56,911	-	-	692,830
Vehicles	67,079	3,367	-	-	70,446
Infrastructure	13,027,503	401,274	-	-	13,428,777
Total capital assets being depreciated	<u>13,730,501</u>	<u>462,711</u>	<u>-</u>	<u>-</u>	<u>14,193,212</u>
Net depreciable assets	6,601,440	(102,656)	-	-	6,498,784
Governmental activities capital assets, net \$	<u>15,583,292</u>	<u>1,995,694</u>	<u>-</u>	<u>-</u>	<u>17,578,986</u>

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

Business-type activities:

Water	\$ 231,102
Sewer	131,270
Golf course	99,941
General government	398
Total depreciation expense - governmental activities	<u>\$ 462,711</u>

Deposit 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, 2020, cash and investments included \$153,448 available for refund of customer deposits, while the liability to customers was \$278,735.

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, 2020, \$750 was being held that was subject to refund.

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

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:

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%.	\$ <u>405,000</u>
Current portion	\$ 95,000
Non-current portion	<u>310,000</u>
	\$ <u>405,000</u>

Notes Payable

\$141,526 note payable to FNB Community Bank; dated August 12, 2019, for the acquisition of three police vehicles and related equipment; due in monthly installments of \$2,594 beginning September 12, 2019 and maturing August 12, 2014; secured by the vehicles; interest included at a rate of 3.75% per annum.	\$ <u>119,765</u>
Total Revenue Notes	\$ <u>119,765</u>
Current portion	\$ 27,039
Non-current portion	<u>92,726</u>
	\$ <u>119,765</u>

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

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. \$ 1,590,000

\$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. 4,800,000

Total Revenue Notes	\$ <u>6,390,000</u>
Current portion	\$ 610,000
Non-current portion	<u>5,780,000</u>
	\$ 6,390,000

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. \$ 3,195,000

Current portion	\$ 855,000
Non-current portion	2,340,000
	\$ 3,195,000

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Business-type Activities Long-term Debt:

On June 30, 2020, 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.	\$ 975,000
\$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.	3,045,000
\$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.	8,785,741
\$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.	1,255,000
\$1,425,000 Clean Water SFR, Series 2017C loan payable to the OWRB dated November 1, 2017, payable in semi-annual principal installments of varying amounts beginning March 15, 2020 and maturing March 15, 2044. The loan has an interest rate of 2.70%; secured by a lien against gross utility revenues and a sales tax pledge.	1,424,806

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

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 Novemebr 15, 2031, inclusive of interest at 5%; secured by a mortgage on the real property.	<u>1,026,145</u>
Total Revenue Notes Payable	<u>\$ 16,511,692</u>
Current portion	\$ 563,390
Non-current portion	<u>15,948,302</u>
	<u>\$ 16,511,692</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>278,735</u>
Total Due to Depositors	<u>\$ 278,735</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	\$ 148,451
Business-type activities	<u>39,745</u>
Total Accrued Compensated Absences	<u>\$ 188,196</u>

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

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, 2020:

					Amounts
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities					
Note Payable	\$ -	141,526	21,761	119,765	27,039
General Obligation Bonds:					
Series 2009 Funding Bonds	500,000	-	95,000	405,000	95,000
Revenue Notes:					
Sales Tax Revenue Note - 2007	1,765,000	-	175,000	1,590,000	185,000
Sales Tax Revenue Note - 2014	5,180,000	-	380,000	4,800,000	425,000
Tax Increment Note (TIF) - 2016	4,050,000	-	855,000	3,195,000	885,000
Accrued compensated absences	160,716	-	12,265	148,451	14,845
Total Governmental Activities	<u>11,655,716</u>	<u>141,526</u>	<u>1,539,026</u>	<u>10,258,216</u>	<u>1,631,884</u>
Unamortized discount/premium				29,602	
Net long-term debt				<u>10,287,818</u>	

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

		Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Business-type activities						
Revenue Notes Payable:						
Utility & Sales Tax - Series 2013A	\$ 1,355,000		-	380,000	975,000	380,000
Utility & Sales Tax - Series 2013B	3,065,000		-	20,000	3,045,000	20,000
OWRB CWSFR Note - Series 2017	1,320,000		-	65,000	1,255,000	75,000
OWRB CWSFR Note - Series 2017A	7,530,044	1,260,696	5,000	8,785,740	10,000	
OWRB CWSFR Note - Series 2017C	44,341	1,385,465	5,000	1,424,806	10,000	
Note Payable - Golf course	1,091,207		-	65,062	1,026,145	68,390
Note Payable - Golf carts	21,312		-	21,312	-	-
Deposits subject to return	264,315	14,420	-	278,735	-	-
Accrued compensated absences	21,800	17,945	-	39,745	3,975	
Total Business-type Activities	<u>14,713,019</u>	<u>2,678,526</u>	<u>561,374</u>	<u>16,830,171</u>	<u>567,365</u>	
Unamortized bond premium/discount					47,060	
Net Long-Term Debt					<u>16,877,231</u>	

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt, with interest rates applicable on June 30, 2020, excluding accrued compensated absences, due to depositors, estimated claims liability, net pension liability and net OPEB obligation are as follows:

Year Ending <u>June 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	Principal	Interest	Principal	Interest
2021	\$ 1,617,039	378,271	563,390	472,493
2022	1,668,086	326,746	576,889	457,695
2023	1,724,173	273,726	595,567	441,909
2024	1,325,304	218,806	599,434	424,200
2025	740,163	182,532	618,498	404,378
2026-2030	3,035,000	396,601	3,446,109	1,679,619
2031-2035	-	-	3,611,257	1,112,835
2036-2040	-	-	3,930,000	625,167
2041-2045	-	-	2,570,547	149,570
Totals	<u>\$ 10,109,765</u>	<u>1,776,682</u>	<u>16,511,691</u>	<u>5,767,866</u>

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

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, 2020, the remaining outstanding defeased bonds were as follows:

2005 Utility System Revenue Bonds	\$ 300,000
2010 Sales Tax Revenue Notes	960,000
2012 Tax Increment Revenue Notes	3,130,000
Total outstanding defeased bonds	<u>\$ 4,390,000</u>

Pledge of Future Revenues

Sales Tax Pledge - The City has entered into a Sales Tax Agreements dated March 10, 2021, 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 and 2017C 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 \$27,577,728. Pledged sales tax received in the current year was \$3,151,666. Scheduled debt service payments on the 2007, 2013A, 2013B, 2014, 2017, 2017A and 2017C Revenue Notes of \$1,585,009 for the current fiscal year were 50.3% 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, 2020**

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 and 2017C 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 \$19,655,936. Water and sewer net revenues received in the current year were \$480,479. Debt service payments of \$856,020 for the current fiscal year were 178% of the pledged water and sewer net revenues. The debt service on the OWRB Series 2017 and 2017C is interest only until March 15, 2020. 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, 2020**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Transfers:

Transfer From	Transfer To	Amount	Purpose of Transfer
General Fund	Public Recreation Fund	142,279	Operating subsidy
General Fund	Capital Improvement Fund	235,668	Operating subsidy
General Fund	Street & Alley Fund	472,750	Operating subsidy
General Fund	Dedicated Sales Tax Fund	2,365,070	Sales tax transfer
General Fund	Golf Course Fund	145,833	Operating subsidy
General Fund	Community Development	60,000	Operating subsidy
General Fund	Town Sq TIF Fund	1,198,491	Debt service payments
Dedicated Sales Tax Fund	CUA Debt Service Fund	519,481	Debt service payments
Dedicated Sales Tax Fund	Golf Course Fund	156,987	Debt service payments
Dedicated Sales Tax Fund	Capital Improvement Fund	58,333	Operating subsidy
Town Sq TIF Fund	Dedicated Sales Tax Fund	232,892	Debt service payments
CUA Stormwater Fund	CUA Debt Service Fund	41,165	Operating subsidy
CUA Sanitation Fund	CUA Debt Service Fund	23,083	Operating subsidy
CUA Operating Fund	CUA Debt Service Fund	135,431	Debt service payments
		<u>5,787,463</u>	

Reconciliation to Fund Financial Statements:

	Transfers In	Transfers Out	Net Transfers
Governmental Funds	4,765,483	(5,587,785)	(822,302)
Proprietary Funds	1,021,980	(199,678)	822,302
	<u>5,787,463</u>	<u>(5,787,463)</u>	<u>-</u>

Reconciliation to Statement of Activities:

Net Transfers **-**

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Balances:

Payable Fund	Receivable Fund	Amount	Nature of Interfund Balance
General Fund	Dedicated Sales Tax Fund	395,947	Sales tax transfer receivable
General Fund	Dedicated Sales Tax Fund	150,000	Internal financing
General Fund	Capital Improvement Fund	35,000	Internal financing
General Fund	Cemetery Fund	50,000	Internal financing
General Fund	Public Safety Fund	20,000	Internal financing
General Fund	CUA General Fund	19,993	Internal financing
Sinking fund	General Fund	5,225	Internal financing
Sinking fund	Town Sq TIF Fund	106,250	Internal financing
CUA General Fund	CUA Sanitation Fund	70,185	Internal financing
CUA General Fund	CUA Stormwater Fund	13,495	Internal financing
CUA Debt Service Fund	CUA General Fund	1,000	Internal financing
CUA Debt Service Fund	Dedicated Sales Tax Fund	128,937	Internal financing
		996,032	

Reconciliation to Fund Financial Statements:

	Due To	Due From	Net Interfund Balance
Governmental Funds	782,415	(891,359)	(108,944)
Proprietary Funds	213,617	(104,673)	108,944
	996,032	(996,032)	-

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Fund Balances and Net Position

Fund Balances

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

	General Fund	Dedicated Sales Tax Fund	Town Square TIF Fund	Other Governmental Funds	Total
Fund Balances:					
Restricted:					
Capital improvements	-	-	-	383,242	383,242
Debt service	-	2,622,983	2,044,090	21,932	4,689,005
Public safety	-	-	-	99,057	99,057
Economic development	-	-	-	46,832	46,832
Street	-	-	-	253,474	253,474
Parks and recreation	-	-	-	167,670	167,670
Cemetery	-	-	-	168,745	168,745
Subtotal Restricted	-	2,622,983	2,044,090	1,140,952	5,808,025
Committed:					
Stabilization reserve	302,630	-	-	-	302,630
Unassigned (deficit):	1,917,970	-	-	-	1,917,970
TOTAL FUND BALANCES	2,220,600	2,622,983	2,044,090	1,140,952	8,028,625

Stabilization Reserve Fund

On June 18, 2019, the City Council adopted an ordinance which established requirements for a stabilization reserve. This ordinance requires that the General Fund (and other funds as deemed appropriate by resolution of the city council) set aside a certain amount each year which will be committed for the purpose of stabilization. Amounts held in the stabilization reserve fund are to be designated by purpose for use only by the fund from which the funds were contributed.

The ordinance also established a minimum and maximum amount that must be set aside for this purpose. The amount committed for stabilization for each fund should be between 10% of the previous year's carry-over balance and \$2,000,000. If the amounts committed for stabilization are less than the minimum required amounts, then 5% of budgeted carryover balance in the General Fund must be set aside each year until such minimum is met. This funding is to be transferred annually from the participating funds to the stabilization reserve fund, as authorized by the City Council.

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Amounts committed for stabilization may be used only in certain limited and unusual circumstances that must be declared to exist by a 4/5ths majority of the City Council. The circumstances differ depending on whether the amounts to be used are in excess of the minimum required balance or below this level.

For amounts in excess of the minimum required balances, one of the following criteria must be declared by the City Council:

- Expenditures for emergency situations for life, health, or public safety issues for which no existing appropriation exists;
- Situations where a significant revenue decline arises that could not have reasonably been foreseen, and for which new revenue is not available and transfers of existing appropriations are not considered feasible or appropriate in maintaining existing service levels.
- Correcting the results of an inaccurate estimate, accounting error, or budgeting error;
- Expenditures where the proposed use is of a non-operational nature involving capital or technical purchases having a useful life of greater than five years that will improve the efficiency of the City government. These efficiency improvements should result in tangible benefits that can be measured financially, through better service to the citizens, or in increased productivity for City employees;
- Expenditures where the proposed use is of a nonrecurring nature, such as a study, start-up costs of a program whose ongoing costs are otherwise funded, or matching funds for a grant. These expenditures should result in tangible benefits that can be measured financially, through better service to the citizens, or in increased productivity for City employees.

For amounts that are below the minimum required balances, one of the following criteria must be declared by the City Council:

- Expenditures for emergency situations for life, health, or public safety issues for which no existing appropriation exists;
- Situations where a significant revenue decline arises that could not have reasonably been foreseen, and for which new revenue is not available and transfers of existing appropriations are not considered feasible or appropriate in maintaining existing service levels.
- Correcting the results of an inaccurate estimate, accounting error, or budgeting error;

As of June 30, 2020, the City has the following balances committed for stabilization:

General Fund	\$302,630
10% of 2019 Carryover balance	\$175,950
Excess over minimum balance	\$126,680

Within the same ordinance, there were requirements established for a capital reserve fund. The fund is to be used only for the purpose of accumulating funds for the purpose of making

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

purchases of capital items. The contributions are to be made by the water operating fund, wastewater operating fund, the sanitation operating fund, and other funds as deemed appropriate by resolution of the City Council.

The funding level will be determined in accordance with a long-term capital plan adopted specific to each participating fund. Funding will be transferred annually from the participating funds. The amounts held in the capital reserve fund are designated by purpose for use only by the fund from which the funds were contributed.

The capital reserve funds can only be expended in accordance with a multi-year capital plan. Certain criteria outlining parameters of acceptable uses outside of the multi-year capital plan are outlined below. These must be approved by a majority vote of the governing body establishing that one or more of these criteria exists:

- Situations in which an unexpected capital need has arisen outside of the bounds of the established multi-year capital plan that could not have reasonably been foreseen;
- Circumstances when amounts included in the capital reserve fund are determined to be in excess of amounts needed to fund the current multi-year capital plan and a need for other capital items outside of the current capital plan exists;
- Expenditures for emergency situations for life, health, or public safety issues that involved public infrastructure for which no existing appropriation exists. Also, under these circumstances, capital reserve balances could be borrowed for a definite period of time for other purposes.

The initial funds required to participate in the capital reserve fund for which no current long-term capital plan exists, must create a long-term capital plan prior to the adoption of the fiscal year 2020-2021 budget. These funds will begin contributing to the capital reserve fund at that time. Funds that are required to participate by a Resolution of the City Council shall be given fifteen months from the adoption of the resolution to create a long-term capital plan and will begin participating in the budget year immediately following the adoption of the capital plan.

Adjustment to Prior Period Financial Statement

During 2020, the City discovered an error in previously reported balance of 2014 Project Account of the Designated Sales Tax Fund. Management has corrected the impact of the error in the 2019 financial statement. The impact to the 2019 financial statements is as follows:

	Governmental Activities	Governmental Funds	Designated Sales Tax Fund
Beginning net position/fund balance as previously reported	\$ 13,780,114	5,803,609	1,996,880
Adjustment to the 2014 Project Account - Designated Sales Tax	203,713	203,713	203,713
Beginning net position/fund balance as restated	<u>\$ 13,983,827</u>	<u>6,007,322</u>	<u>2,200,593</u>

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

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, 2020**

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, 2020 and 2019, the City's net assessed valuation of taxable real and personal property aggregated \$93,986,181 and \$94,324,654 while the property taxes levied per \$1,000 of net assessed valuation were \$1.28 and \$1.23, respectively.

COMMITMENTS AND CONTIGENCIES

Commitments

Operating Leases - Business Activities

The City leases three (3) 2017 Ford trucks and fifty (50) 2020 golf carts under a non-cancelable operating lease. Rental cost for the leases was \$20,816 for the fiscal year ended June 30, 2020. The future minimum lease payments as of June 30, 2020 is as follows:

Year ended June 30:

2021	\$ 38,906
2022	18,090
2023	18,090
2024	<u>18,090</u>
	<u>\$ 93,176</u>

Construction in Progress

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, 2020, the City has received \$11,072,735 in funding with the balance to be drawn as the project progresses. A summary of construction in progress as of June 30, 2020 is as follows:

	Construction In Progress	Total Project	Remaining To Complete
Choctaw Utilities Authority: Wastewater treatment plant	\$ 11,058,017	12,600,000	1,541,983
	<u>\$ 11,058,017</u>	<u>12,600,000</u>	<u>1,541,983</u>

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

NOTE 4. OTHER INFORMATION - Continued

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 ensure 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.

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

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

NOTE 4. OTHER INFORMATION - Continued

Summary of Defined Benefit Plan Balances

	Governmental Activities	Business-Type Activities
Net Pension Asset		
Police Pension System	\$ 14,920	-
Net Pension Liability		
Firefighter's Pension System	\$ 1,685,123	-
Deferred Outflows of Resources		
Police Pension System	\$ 275,540	-
Firefighter's Pension System	498,599	-
Total Deferred Outflow of Resources	<u>\$ 774,139</u>	-
Deferred Inflows of Resources		
Police Pension System	\$ 117,038	-
Firefighter's Pension System	199,548	-
Total Deferred Inflow of Resources	<u>\$ 316,586</u>	-

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 - The Plan provides defined retirement benefits based on members' final average compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon death of eligible members. The Plan's benefits are established and amended by State statute. Retirement provisions are as follows:

- 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. Participants' 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 continued uninterrupted, whichever is later.

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

NOTE 4. OTHER INFORMATION - Continued

- Monthly retirement benefits are calculated at 2.5% of the 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 participants' 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 \$92,154. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$92,454. These on-behalf payments did not meet the criteria of a special funding situation.

Net Pension Liabilities/Asset, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - On June 30, 2020, the City reported an asset of \$14,920 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2019, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2019. The City's proportion of the net pension asset was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2019. Based upon this information, the City's proportion was 0.233713%.

City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 4. OTHER INFORMATION - Continued

For the year ended June 30, 2020, the City recognized pension expense of \$78,887. On June 30, 2020, 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	\$ 8,954	\$ 104,315
Changes of assumptions	38,097	-
Net difference between projected and actual earnings on pension plan investments	136,335	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	4,003
City contributions during measurement period	-	8,720
City contributions subsequent to the measurement date	92,154	-
Total	<u>\$ 275,540</u>	<u>\$ 117,038</u>

\$92,154 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, 2020. 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:

2021	\$ 38,017
2022	(31,582)
2023	30,719
2024	28,331
2025	863
	<u>\$ 66,348</u>

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

NOTE 4. OTHER INFORMATION - Continued

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of July 1, 2019, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	2.75%
Salary increases:	3.5% to 12.0% 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 4 years with fully generational improvement using Scale AA.

The actuarial assumptions used in the July 1, 2019; valuation was based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2017.

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, 2019, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed income	4.79%
Domestic equity	5.74%
International equity	9.19%
Real estate	7.99%
Private equity	10.20%
Commodities	3.50%

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

NOTE 4. OTHER INFORMATION - Continued

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employers' net pension liability(asset) \$	\$ 635,596	\$ (14,920)	\$ (564,940)

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 - In general, the Plan provides defined retirement benefits based on members' final average compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon death of eligible members. The Plan's benefits are established and amended by Oklahoma statute. Retirement provisions are as follows:

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

NOTE 4. OTHER INFORMATION - Continued

Normal Retirement:

Hired Prior to November 1, 2013

Normal retirement is attained upon completing 20 years of service. The normal retirement benefit is equal to 50% of the member's final average compensation. Final average compensation is defined as the monthly average of the highest 30 consecutive months of the last 60 months of participating service. For volunteer firefighters, the monthly pension benefit for normal retirement is \$150.60 per month.

Hired After November 1, 2013

- Normal retirement is attained upon completing 22 years of service. The normal retirement benefit is equal to 55% of the member's final average compensation. Final average compensation is defined as the monthly average of the highest 30 consecutive months of the last 60 months of participating service. Also, participants must be age 50 to begin receiving benefits. For volunteer firefighters, the monthly pension benefit for normal retirement is \$165.66 per month.
- 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 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 service and is \$7.53 per year of service. For volunteer firefighters, the in-the-line-of-duty pension is \$150.60 with less than 20 years of service or \$7.53 per year of service, with a maximum of 30 years.
- 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.

City of Choctaw, Oklahoma
• Notes to Financial Statements
• For the Year Ended June 30, 2020

NOTE 4. OTHER INFORMATION - Continued

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

Contributions - The contributions requirements of the Plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 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 \$70,356. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$162,187. 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 - On June 30, 2020, the City reported a liability of \$1,685,123 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019. 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, 2019. Based upon this information, the City's proportion was 0.159475%.

For the year ended June 30, 2020, the City recognized pension expense of \$264,526. On June 30, 2020, 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	\$ 282,173	\$ 34,276
Changes of assumptions	-	43,290
Net difference between projected and actual earnings on pension plan investments	-	121,982
Changes in proportion and differences between City contributions and proportionate share of contributions	144,346	-
City contributions during measurement date	1,724	-
City contributions subsequent to the measurement date	70,356	-
Total	\$ 498,599	\$ 199,548

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

NOTE 4. OTHER INFORMATION - Continued

\$70,356 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, 2020. 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:

	2021	\$ 130,127
	2022	(15,094)
	2023	93,765
	2024	36,134
	2025	(16,237)
	\$	228,695

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of July 1, 2019, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation: 2.75%

Salary increases: 2.75% to 10.50% 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, 2019; valuation was based on the results of an actuarial experience study for the period July 1, 2013 to June 30, 2018.

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, 2019, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed income	4.90%
Domestic equity	7.09%
International equity	9.19%
Real estate	7.99%
Other assets	5.57%

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

NOTE 4. OTHER INFORMATION - Continued

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, determined by State Statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 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 <u>(6.5%)</u>	Current Discount Rate (7.5%)	1% Increase <u>(8.5%)</u>
Employers' net pension liability	\$ 2,175,968	\$ 1,685,123	\$ 1,146,128

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 Employee Retirement Plan (the DC Plan)

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

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

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

NOTE 4. OTHER INFORMATION - Continued

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, 2020, for employees and employer were \$61,691 and \$146,041, respectively. For the year ended June 30, 2020, the City's covered payroll was \$1,946,668. Covered payroll refers to all compensation paid by the City of Choctaw to active employees covered by the Plan on which contributions are based.

OMRF City Manager Defined Contribution Plan (CMO) -

The City has also provided a defined contribution plan and trust known as the City of Choctaw City Manager Retirement Plan and Trust (CMO Plan). The plan is administered by JP Morgan Chase Bank of Oklahoma City, Oklahoma. According to state law, the authority for establishing or amending the plan's provisions and contribution requirements rests with the city council. This plan is available only to the City Manager. The employee does not contribute to the plan and the employer makes variable contributions to the fund. For the current year, the employer contribution was \$23,664.

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. 84, *Fiduciary Activities*, issued January 2017, will be effective for the City beginning with its fiscal year ending June 30, 2021. This Statement provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. 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.

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

NOTE 4. OTHER INFORMATION - Continued

GASB Statement No. 87, *Leases*, issued June 2017, will be effective for the City beginning with its fiscal year ending June 30, 2022. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB Statement No. 90, *Majority Equity Interests*, issued August 2018, will be effective for the City beginning with its fiscal year ending June 30, 2021. This Statement provides guidance for reporting when a government has majority equity interest in legally separate organizations. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. If government's holding of that equity interest meets the definition of an investment, as defined by GASB No. 72, the equity interest should be reported as an investment and measured using the equity method and not as a component unit of the government. If a government's holding of a majority interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and therefore, the government should report the legally separate organization as a component unit.

GASB Statement No. 91, *Conduit Debt Obligations*, issued May 2019, will be effective for the City beginning with its fiscal year ending June 30, 2022. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

GASB Statement No. 92, *Omnibus 2020*, issued January 2020, will be effective for the City beginning with its fiscal year ending June 30, 2022. This Statement was issued to enhance comparability in accounting and financial reporting and improve the consistency of authoritative literature. The statement address GASB no. 73, 84 and 87 among other topics.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, issued March 2020, will be effective for the City beginning with the fiscal year ending June 30, 2022. This Statement was issued to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR).

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, issued March 2020, will be effective for the City beginning with the fiscal year ending June 30, 2023. This Statement was issued to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). Additionally, this Statement provides guidance for accounting and financial reporting for availability payment arrangements (APAs).

Management has not yet determined the effect these Statements will have on the City's financial statements.

**City of Choctaw, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2020**

NOTE 4. OTHER INFORMATION - Continued

Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through the date of the independent auditor's report which is the date the financial statements were available to be issued.

During the first quarter of 2020, there was a global outbreak of a novel strain of the coronavirus (COVID-19), which resulted in a significant disruption to businesses and individuals throughout the world. This outbreak of COVID-19 could significantly affect the operations and future revenue of the City. At the time these financial statements were issued, the City is unable to full quantify the current and future effects of COVID-19 on its financial position and future revenues and expenses.

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, 2020

	Budget			Variance with Final Budget	
	<u>Original</u>	<u>Revisions</u>	<u>Final</u>	<u>Actual</u>	<u>Over (Under)</u>
REVENUES					
Taxes	\$ 7,425,000	-	7,425,000	8,069,731	644,731
Intergovernmental	126,000	-	126,000	132,121	6,121
Licenses and permits	105,000	(500)	104,500	261,542	157,042
Fines and forfeitures	129,000	-	129,000	99,713	(29,287)
Interest	8,500	-	8,500	7,961	(539)
Miscellaneous	-	73,618	73,618	121,197	47,579
Total revenues	<u>7,793,500</u>	<u>73,118</u>	<u>7,866,618</u>	<u>8,692,265</u>	<u>825,647</u>
EXPENDITURES					
General government:					
Administration	707,728	59,999	767,727	765,947	1,780
General government	127,829	2,643	130,472	136,606	(6,134)
Developmental services	240,256	-	240,256	230,602	9,654
Municipal court	97,795	-	97,795	92,815	4,980
Public safety:					
Police	1,540,834	(1)	1,540,833	1,538,512	2,321
Fire	874,195	-	874,195	864,469	9,726
Public works:					
Fleet	72,443	319	72,762	66,736	6,026
Culture and recreation:					
Parks	327,248	-	327,248	324,998	2,250
Senior center	11,931	-	11,931	7,532	4,399
Total expenditures	<u>4,000,259</u>	<u>62,960</u>	<u>4,063,219</u>	<u>4,028,217</u>	<u>35,002</u>
Excess (deficiency) of revenues over (under) expenditures	3,793,241	10,158	3,803,399	4,664,048	860,649
OTHER FINANCING SOURCES (USES)					
Transfers	<u>(3,814,357)</u>	<u>(56,833)</u>	<u>(3,871,190)</u>	<u>(4,380,912)</u>	<u>(509,722)</u>
Net change in fund balances	(21,116)	(46,675)	(67,791)	283,136	350,927
Fund balances - beginning	129,102	-	129,102	672,152	543,050
Fund balances - ending	<u>\$ 107,986</u>	<u>(46,675)</u>	<u>61,311</u>	<u>955,288</u>	<u>893,977</u>

**City of Choctaw, Oklahoma
Notes to Required Supplemental Information
On Budgetary Accounting and Control
For the Year Ended June 30, 2020**

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, 2020

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, 2020, are as follows:

	General Fund
Fund balances - budgetary basis, June 30, 2020	\$ 955,288
Current year revenue accruals	1,660,632
Current year expenditure accruals	-
Current year sales tax transfer accruals	<u>(395,320)</u>
Fund balances - fund financial statements, June 30, 2020	<u>\$ 2,220,600</u>
Revenues - budgetary basis, June 30, 2020	\$ 8,692,265
Current year revenue accruals	1,660,632
Prior year revenue accruals	<u>(1,243,485)</u>
Revenues - fund financial statements, June 30, 2020	<u>\$ 9,109,412</u>
Expenditures - budgetary basis, June 30, 2020	\$ 4,028,217
Current year expenditure accruals	-
Prior year expenditure accruals	<u>-</u>
Expenditures - fund financial statements, June 30, 2020	<u>\$ 4,028,217</u>

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

	2014	2015	2016	2017	2018	2019
1. Employer's proportion of the net pension liability (asset)	0.174100%	0.216900%	0.205300%	0.211000%	0.223833%	0.233713%
2. Employer's proportionate share of the net pension liability (asset)	\$ (58,617)	\$ 8,842	\$ 314,405	\$ 16,230	\$ (106,623)	\$ (14,920)
3. Employer's covered-employee payroll	\$ 487,054	\$ 611,962	\$ 605,592	\$ 629,208	\$ 682,754	\$ 708,877
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%	2.58%	-15.62%	-2.10%
5. Plan fiduciary net position as a percentage of the total pension liability	101.53%	99.82%	93.50%	99.68%	101.89%	100.24%

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

Data reported is measured as of July 1, 2019.

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

	2014	2015	2016	2017	2018	2019
Statutorily required contribution	\$ 63,317	\$ 79,555	\$ 78,727	\$ 81,797	\$ 88,758	\$ 92,154
Contributions in relation to the statutorily required contribution	\$ (63,317)	\$ (79,555)	\$ (78,727)	\$ (81,797)	\$ (88,758)	\$ (92,154)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 487,054	\$ 611,962	\$ 605,592	\$ 629,208	\$ 682,754	\$ 708,877
Contributions as a percentage of covered-employee payroll	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

Data reported is measured as of July 1, 2019.

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	2017	2018	2019
1. Employer's proportion of the net pension liability (asset)	0.107400%	0.105100%	0.110868%	0.111984%	0.141419%	0.159475%
2. Employer's proportionate share of the net pension liability (asset)	\$ 1,104,620	\$ 1,115,064	\$ 1,354,490	\$ 1,408,450	\$ 1,591,878	\$ 1,685,123
3. Employer's covered-employee payroll	\$ 286,764	\$ 287,036	\$ 310,121	\$ 318,300	\$ 420,607	\$ 502,543
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%	442.49%	378.47%	335.32%
5. Plan fiduciary net position as a percentage of the total pension liability	68.12%	68.27%	64.87%	66.61%	70.73%	72.85%

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

Data reported is measured as of July 1, 2019.

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

	2014	2015	2016	2017	2018	2019
Statutorily required contribution	\$ 40,147	\$ 40,185	\$ 43,417	\$ 44,562	\$ 58,885	\$ 70,356
Contributions in relation to the statutorily required contribution	\$ (40,147)	\$ (40,185)	\$ (43,417)	\$ (44,562)	\$ (58,885)	\$ (70,356)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 286,764	\$ 287,036	\$ 310,121	\$ 318,300	\$ 420,607	\$ 502,543
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%

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

Data reported is measured as of July 1, 2019.

OTHER SUPPLEMENTARY INFORMATION

City of Choctaw, Oklahoma
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2020

ASSETS						Permanent Cemetery	Debt Service	Capital Projects			Total Nonmajor Governmental Funds
	Street & <u>Alley</u>	Public <u>Recreation</u>	Public <u>Safety</u>	Industrial <u>Park</u>	Perpetual <u>Care</u>			Sinking <u>Fund</u>	Capital <u>Projects</u>	Community <u>Development</u>	
Cash and cash equivalents	\$ 249,829	172,258	79,057	46,832	118,745	133,407	297,599		39,456	11,187	1,148,370
Receivables, net	11,733	-	-	-	-	-	-		-	-	11,733
Due from other funds	-	-	20,000	-	50,000	-	35,000		-	-	105,000
TOTAL	261,562	172,258	99,057	46,832	168,745	133,407	332,599		39,456	11,187	1,265,103
LIABILITIES AND FUND BALANCES											
Liabilities:											
Accounts payable	8,088	4,588	-	-	-	-	-		-	-	12,676
Due to other funds	-	-	-	-	-	111,475	-		-	-	111,475
Deposits subject to refund	-	-	-	-	-	-	-		-	-	-
Total liabilities	8,088	4,588				111,475					124,151
Fund balances:											
Reserved for:											
Restricted	253,474	167,670	99,057	46,832	168,745	21,932	332,599		39,456	11,187	1,140,952
Assigned	-	-	-	-	-	-	-		-	-	-
Unassigned	-	-	-	-	-	-	-		-	-	-
Total fund balances	253,474	167,670	99,057	46,832	168,745	21,932	332,599		39,456	11,187	1,140,952
TOTAL	\$ 261,562	172,258	99,057	46,832	168,745	133,407	332,599		39,456	11,187	1,265,103

City of Choctaw, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2020

	Street & Alley	Public Recreation	Public Safety	Industrial Park	Permanent Cemetery Perpetual Care	Debt Service	Capital Projects			Total Nonmajor Governmental Funds
							Sinking Fund	Capital Projects	Community Development	
REVENUES										
Taxes	\$ 109,932	-	-	-	-	112,908	-	-	-	222,840
Intergovernmental	-	-	10,000	-	-	-	-	-	-	10,000
Charge for services	-	242,643	-	7,200	39,950	-	38,603	-	-	328,396
Interest	-	-	-	-	763	39	1,395	-	-	2,197
Miscellaneous	-	4,412	32,173	-	11,646	-	3,535	-	-	51,766
Total revenues	109,932	247,055	42,173	7,200	52,359	112,947	43,533	-	-	615,199
EXPENDITURES										
Current:										
General government	-	-	-	-	-	-	3,936	-	-	3,936
Public safety	-	-	17,666	-	-	-	-	-	-	17,666
Public works	565,317	-	-	-	-	-	-	60,895	-	626,212
Cultural and recreational	-	378,144	-	-	19,491	-	-	-	-	397,635
Capital outlay	7,242	10,510	13,969	-	55,479	-	206,467	6,300	2,250	302,217
Debt service - Principal	-	-	-	-	-	95,000	25,161	-	-	120,161
Debt service - Interest	-	-	-	-	-	24,168	39,419	-	-	63,587
Total expenditures	572,559	388,654	31,635	-	74,970	119,168	274,983	67,195	2,250	1,531,414
Excess (deficiency) of revenues over expenditures	(462,627)	(141,599)	10,538	7,200	(22,611)	(6,221)	(231,450)	(67,195)	(2,250)	(916,215)
OTHER FINANCING SOURCES (USES)										
Transfers in	472,750	142,279	-	-	-	-	294,001	60,000	-	969,030
Transfers out	-	-	-	-	-	-	-	-	-	-
Total other financing sources and uses	472,750	142,279	-	-	-	-	294,001	60,000	-	969,030
Net change in fund balances	10,123	680	10,538	7,200	(22,611)	(6,221)	62,551	(7,195)	(2,250)	52,815
Fund balances-beginning	243,351	166,990	88,519	39,632	191,356	28,153	270,048	46,651	13,437	1,088,137
Fund balances-ending	\$ 253,474	167,670	99,057	46,832	168,745	21,932	332,599	39,456	11,187	1,140,952

City of Choctaw, Oklahoma
Debt Service Coverage Schedule
Series 2013A, 2013B and OWRB Series 2017, 2017A and 2017C
For the Year Ended June 30, 2020

Gross Revenue Available For Debt Service:

Pledged sales tax (2 cents)	\$ 3,151,666
System-wide gross revenues (Water and Sewer)	<u>1,628,272</u>
Total Gross Revenues Available	<u><u>4,779,938</u></u>
System-wide operating expense - Exclusive of capital improvements, debt service and depreciation	<u><u>1,147,793</u></u>
Net Revenues Available for Debt Service	<u><u>\$ 3,632,145</u></u>

Maximum Annual Debt Service Requirements:

Revenue notes - Series 2013A	411,810
Revenue notes - Series 2013B	412,000
Revenue note - OWRB Series 2017	838,734
Revenue note - OWRB Series 2017A	219,380
Revenue note - OWRB Series 2017C	<u>41,027</u>
Maximum annual debt service	<u><u>\$ 1,922,951</u></u>
Coverage	<u><u>1.89</u></u>
Coverage requirement	<u><u>1.25</u></u>

DILLON & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 10, 2021.

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, we consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2020-001 to be material weaknesses. However, other 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, PC

Midwest City, Oklahoma
March 10, 2021

City of Choctaw, Oklahoma
Schedule of Reportable Findings and Responses
Year Ended June 30, 2020

Finding 2020-001 - Internal Control - Financial Reporting

Criteria:

Management is responsible for designing, implementing, and maintaining appropriate internal control over financial reporting and compliance.

Internal control is defined as a process implemented and monitored by the City Council, management, and other personnel. The Internal Control System should be designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting;
- Effectiveness and efficiency of operations;
- Compliance with applicable laws and regulations; and
- Compliance with all grant requirements

The Internal Control Framework would include establishing or enhancing guidance in the following areas:

- *Control environment* sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
- *Risk assessment* is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how risks should be managed.
- *Control activities* are the policies and procedures that help ensure that management directives are carried out.
- *Information and communication* systems support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- *Monitoring* is a process that assesses the quality of internal control performance over time.

Condition:

The City converted to a new accounting system on July 1, 2019. The conversion process has been inadequate to prepare monthly financial reporting and budgetary records for the City's individual funds. Control procedures currently exist over the individual functions of utility billing and collections, accounts payable and disbursements and payroll, but reconciliation of general ledger accounts and monthly bank accounts has been inadequate.

Cause:

There appeared to be a lack of coordination between the City staff and the new software provider in the setup of the fund structure and the City's bank accounts.

Effect or Potential Effect:

A lack of financial internal controls makes the City susceptible to fraud and inaccurate financial and budgetary records.

Recommendation:

We recommend the City establish the financial process and controls to meet the Internal Control Framework objectives listed above. In addition, we would recommend the City adopt a formal month end closeout process including the use of a checklist documenting the completion of each procedure.

View of Responsible Officials:

The City agrees with this finding and is working with an outside consultant to assist in implementing the recommendation.

City of Choctaw, Oklahoma
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2020

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA <u>NUMBER</u>	PASS - THROUGH GRANTOR <u>NUMBER</u>	FEDERAL <u>EXPENDITURES</u>
FEDERAL ASSISTANCE			
<u>U.S. Department of Justice</u>			
Passed through Oklahoma District Attorneys Council: JAG-LLE Bulletproof Vest Program	16.738	JAG-LLE-2020	9,300
Total Federal Assistance		\$	<u>9,300</u>

Footnotes to Schedule of Expenditures of Federal Awards:

1. The Schedule of Expenditures of Federal Awards is prepared on a basis consistent with the measurement of awards expended as defined in Uniform Guidance. This may differ at times from the modified cash basis by accruing certain grant expenditures.

